USAA®

LIMITED

Solvency & Financial Condition Report

For the year ending 31 December 2018

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.

2018 Solvency and Financial Condition

Economic conditions in 2018 are still proving to be challenging for the UK with low interest rates, a weak pound, global growth slowdown and the uncertainty on the outcome of the UK's exit deal from the European Union.

Considering the challenging environment in which the Company operates the Company's underwriting operations have produced strong financial results for 2018. Premium income boosted by a strong US Dollar, and favourable loss development in its prior year motor liability claims provisions resulted in an underwrting gain of £13.8m (2017: £18.9m). The profit before tax was £15.9m (2017: £21.8m). The decrease in profit before tax in 2018 was expected as the prior year had been an exceptional year for favourable loss development in its motor claims provisions and a high level of reinsurance recoverables. The Company's investment income was also impacted by volatilty in investment markets in the fourth quarter of 2018.

During the year the Company was restructured to reallocate its European insurance business to newly established companies in Luxembourg to enable the continuation of European business after the UK leaves the EU. This included the transfer of investments and assets in the form of a dividend in specie. Further details of the restructure are disclosed in the section on Significant Events during the Period on page 7.

The Company ended the financial year 31 December 2018 maintaining its strong financial position with available capital under Solvency II of £86,983k (2017: £95,050k), a Solvency Capital Requirement of £42,806k (2017; £43,422k) and a Solvency II capital ratio of 203.2% (2017: 218.9%).

During the year the Board has continued to focus on corporate governance, strengthening its three lines of defence model for the new structure. The Board is committed to maintaining its strong financial position by assessing risk and prudently managing anticipated capital to adequately reflect its 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
26 April 2019

A. BUSINESS AND PERFORMANCE

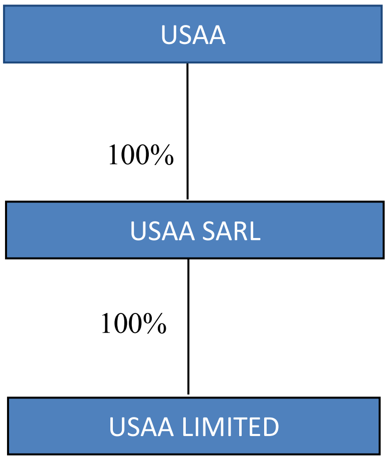
A.1 BUSINESS

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 USAA International Services SARL with a 100% voting interest, domiciled in Luxembourg.

Its ultimate parent company is USAA, 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 ultimate parent company and direct parent company as at 31 December 2018.



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 2018 are:

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

USAA Limited qualifies for an exemption from the audit requirement in respect of the public Solvency II reporting for smaller insurers. The USAA Limited Audit Committee on behalf of the Board of Directors has decided to take advantage of this exemption. Therefore, the SFCR has not been audited for the financial year ending 31 December 2018.

Material Lines of Business and Geographical Areas

The principal activity of the Company in 2018 is the provision of motor and property insurance in the European Union (EU) 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 as follows:

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

Significant Events During the Period

Given that the majority of the Company's portfolio is written in the EU on a freedom of services basis, the result of the UK referendum conducted in June 2016 has significant negative implications for USAA Limited. Given the ongoing political uncertainty surrounding the United Kingdom's withdrawal from the EU, the Board decided that it was prudent to restructure the business to ensure that policyholders' needs could be served whatever the political outcome of the Brexit negotiations. A new intermediate holding company, USAA International Services SARL, was established in Luxembourg and ownership of USAA Limited was transferred from United Services Automobile Association (USAA) to the new company with effect from 25 October 2018. A new insurance authorised Luxembourg subsidiary of USAA International Services SARL, USAA SA, was established to write new and renewal EU based business effective from 1 January 2019. USAA Limited will only be writing UK business from 1 January 2019.

Given the predominately short tail nature of USAA Limited's EU portfolio and cognisant of the regulatory positions taken by the FCA in the UK, the BaFin in Germany and other EU regulators, it is not intended to conduct a Part VII portfolio transfer of all EU based outstanding USAA Limited liabilities at this stage.

Following the restructure, USAA Limited transferred some of its investments, fixed assets, renewal rights, workforce and part of its German pension scheme to USAA's subsidiaries in Luxembourg on 1 November 2018. The transfer of the investment portfolio at fair value of £11,986k being it’s carrying amount, was recognised in the 2018 accounts as a dividend in specie. The fixed assets and the net pension scheme obligation, with a carrying amount of £159k and £109k respectively, along with the workforce and relevant renewal rights were transferred via a business transfer agreement for a consideration of 1 Euro. This resulted in a loss on the transfer of assets amounting to £99k. Both the workforce and renewal rights have a deemed value for tax purposes. Accordingly, a tax charge of £800k has resulted upon the transfer.

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 31 December 2018

Lines of Business	Net Premium Written	Net Premium Earned	Net Claims Incurred	Expenses Incurred	Underwriting Performance
Motor Vehicle	32,370	31,023	(18,700)	(10,903)	1,420
Other Motor	41,604	39,880	(19,046)	(12,521)	8,313
Fire and other damage to property	6,361	6,523	(2,528)	(1,935)	2,060
General liability	2,554	2,632	(42)	(598)	1,992
Total	82,889	80,058	(40,316)	(25,957)	13,785

Underwriting performance by Solvency II lines of business in £'000 31 December 2017

Lines of Business	Net Premium Written	Net Premium Earned	Net Claims Incurred	Expenses Incurred	Underwriting Performance
Motor Vehicle	32,301	31,785	(15,737)	(11,594)	4,454
Other Motor	40,137	38,667	(16,187)	(11,641)	10,839
Fire and other damage to property	6,857	6,692	(2,508)	(1,948)	2,236
General liability	2,786	2,776	(664)	(727)	1,385
Total	82,081	79,920	(35,096)	(25,910)	18,914

Underwriting performance for the top six countries £'000 31 December 2018

Lines of Business	Net Premium Written	Net Premium Earned	Net Claims Incurred	Expenses Incurred	Underwriting Performance
Germany	46,819	45,005	(25,168)	(14,964)	4,873
Italy	16,040	15,592	(8,973)	(5,313)	1,306
United Kingdom	14,317	13,803	(3,868)	(3,994)	5,941
Belgium	2,025	2,045	(1,081)	(669)	295
Spain	2,229	2,182	(622)	(621)	939
Netherlands	834	811	(342)	(250)	219
Total	82,264	79,438	(40,054)	(25,811)	13,573

Underwriting performance for the top six countries £'000 31 December 2017

Lines of Business	Net Premium Written	Net Premium Earned	Net Claims Incurred	Expenses Incurred	Underwriting Performance
Germany	45,795	44,114	(23,484)	(15,686)	4,944
Italy	16,183	16,242	(5,817)	(4,762)	5,663
United Kingdom	14,315	13,892	(3,727)	(3,803)	6,362
Belgium	2,114	2,093	(720)	(602)	771
Spain	2,235	2,198	(868)	(660)	670
Netherlands	830	788	(309)	(235)	244
Total	81,472	79,327	(34,925)	(25,748)	18,654

All four Solvency II lines of business were profitable in 2018. Premiums are written in US dollars and a strong US Dollar against Sterling has continued to boost Sterling premium income. Total net written premiums increased by £808k with total net earned premiums increasing by £138k.

Total net incurred losses increased by £5.2m over the prior year, with increases in both motor lines of business. At a country level the increases in net claims costs occurred mainly in Germany, £1.7m and Italy £3.2m. Although Germany, Italy and the UK benefitted from favourable loss development on prior year's bodily injury claims provisions, the favourable loss development was significantly lower than the prior year, which had experienced exceptionally high favourable loss development. New large bodily injury losses in 2018 and an upward adjustment in reinsurance excess limits on reinsurance recoverable reserves significantly contributed to the £5.2m increase in total net incurred losses.

Total expenses incurred increased slightly by £57k in 2018 with the Company continuing to incur additional legal and consultancy costs related to the Brexit restructure. Overall underwriting performance for 2018 was £13.6m, £5.1m lower than the 2017.

A.3 INVESTMENT PERFORMANCE

At 31 December 2018, the Company's investment portfolio comprised the following asset classes:

Investment Portfolio			Investment Return
Asset Class	Amount £'000	% of Portfolio	Amount £'000
Government Bonds	49,893	33%	202
Corporate Bonds	80,274	54%	1,977
Collateralised Securities	1,537	1%	56
Short Term Deposits	45	<1%	-
Cash & Cash Equivalents	17,911	12%	23
Total Investments & Cash Equivalents	149,660		2,258
Investment Management Expenses			409

At 31 December 2017, the Company's investment portfolio comprised the following asset classes:

Investment Portfolio			Investment Return
Asset Class	Amount £'000	% of Portfolio	Amount £'000
Government Bonds	59,581	38%	303
Corporate Bonds	81,806	52%	4298
Collateralised Securities	2,140	1%	74
Short Term Deposits	44	<1%	13
Cash & Cash Equivalents	14,276	9%	27
Total Investments & Cash Equivalents	157,847		4,715
Investment Management Expenses			399

The investment portfolio produced an annual return of 1.28% against a benchmark of 1.58% in 2018. The underperformance against the benchmark occurred in the last quarter of 2018 from volatility in investment markets. Global growth slowdown, Brexit and other economic factors impacted credit spreads causing an underperformance in the Company's investment portfolio. Over a rolling three-year period, the portfolio returned an annualised return of 5.01% versus a benchmark of 4.48%. This is higher than the three-year annualised return of 4.68%, benchmark 3.90% reported in 2017.

The total investment return of £2.26m is £2.46m lower than 2017. The decrease in 2018 arises from unrealised and realised market value losses relating to the underperformance of the investment portfolio.

The total value of investment bonds decreased in 2018 by £11,823k. The decrease is primarily a result of the restructure, where the Company transferred investment bonds at a fair value of £11,986k as a dividend in specie to USAA international SARL. The £3,680k increase in cash and cash equivalents held at 31 December 2018 resulted in an overall decrease in total investments & cash equivalents of £8,187k.

In addition to measuring investment performance against the benchmark in its investment strategy the Company 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 two operating leases, a UK office lease expiring in March 2026 and a German office lease expiring in December 2022. The operating lease expenses for the financial year 2018 amounted to £880k. This consisted of £653k for the UK office lease and £227k for the German office lease.

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

  The company is committed to the future minimum operating lease payments on office leases as follows:

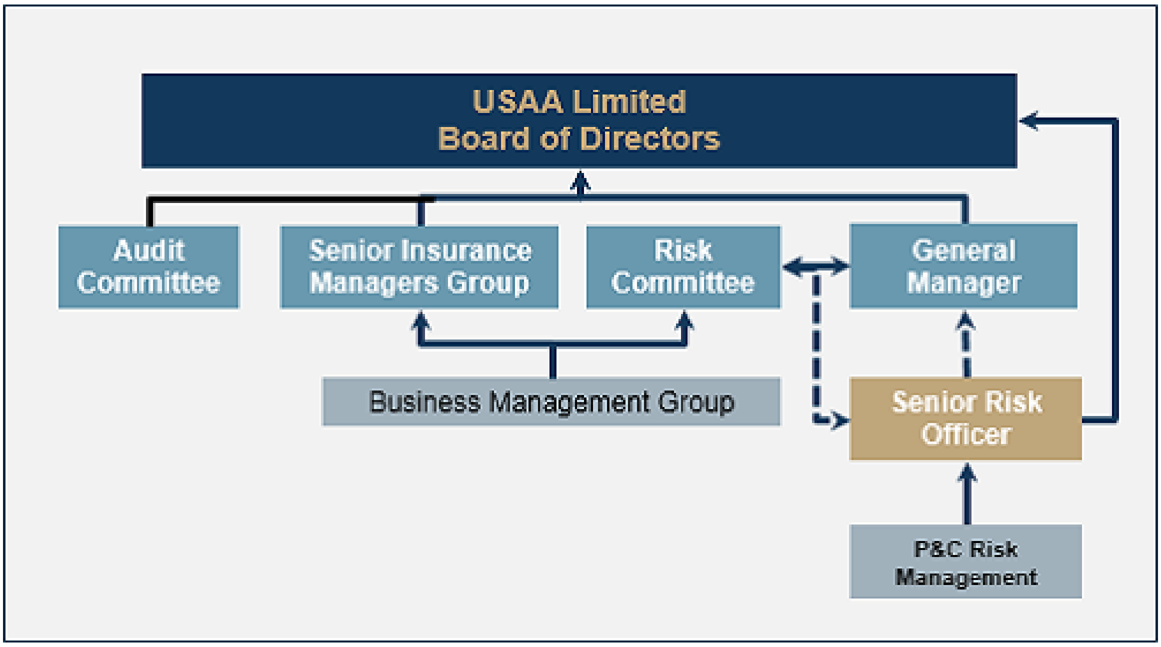
	2018	2017
Not later than one year	£880k	£837k
Later than one year not later than five years	£3,244k	£3,386k
Later than five years	£2,007k	£2,637k

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.

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 reviews the ORSA Process and ensures 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 Managers Regime (SMR).

Audit Committee

The USAA Limited Audit Committee consists of the Non-Executive Directors. 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 reviews and monitors:

- 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 formal 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 escalates 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 a formal management-led group, the Business Management Group (BMG).

The BMG meets on a bi-monthly basis, at a 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 systems for 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 submits the business strategy and plan to the Board for approval, and reports to the Board on the progress against 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 defence to P&C Risk Management within the ultimate 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 Management Function 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 Management Function with the PRA reports into the USAA Limited Audit Committee.

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 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 are, therefore, 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 ultimate 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 Management Function 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 Manager, and receives support from USAA Compliance. The Compliance Oversight Function is in the process of completing the necessary applications for senior management approval. The Compliance Manager 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. On a quarterly basis, the Compliance Manager will provide updates on the Company's continued compliance with applicable regulations to the Senior Insurance Managers Group. The Compliance Manager will also facilitate annual compliance monitoring programs and provide ad-hoc reports on internal reviews. 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. The 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. Above 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 Audit Committee 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 and 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

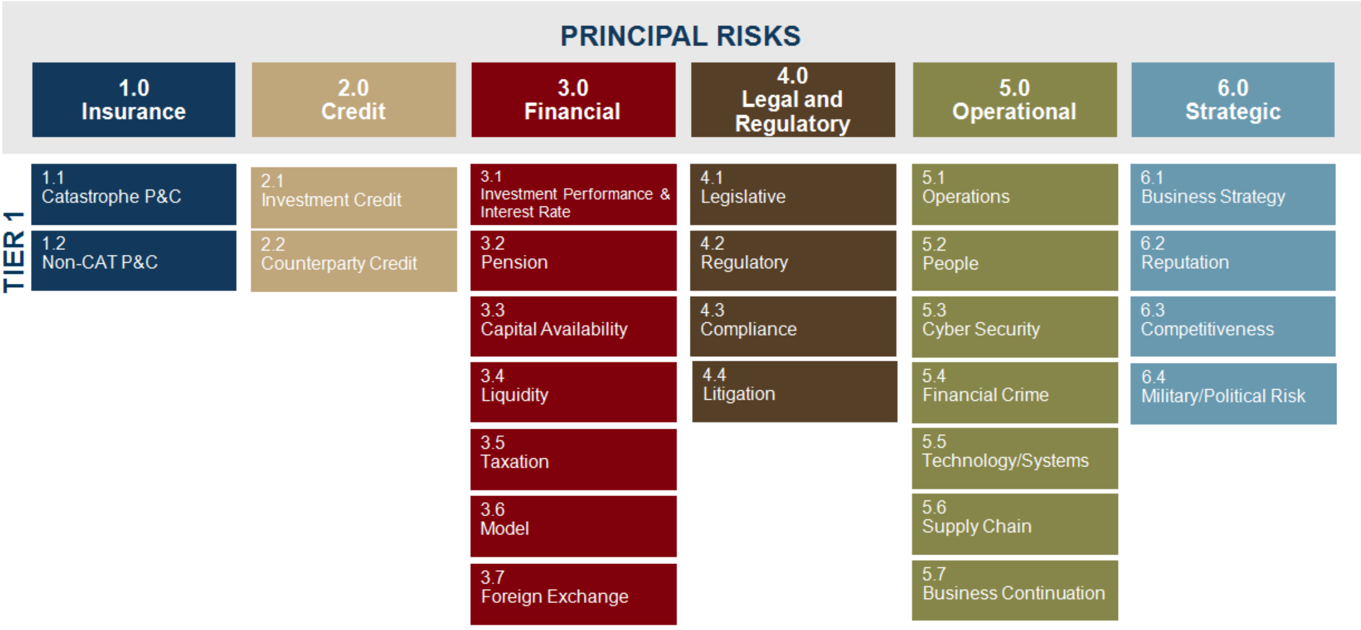
The Company's governance structure has management-led governing bodies throughout the Company, as well as the Board, to ensure that prudent risk management is practiced across the Company to protect the safety and soundness of the Company. The Company's risk governance was established with consideration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



Risk 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. 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's 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. 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 2018 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.

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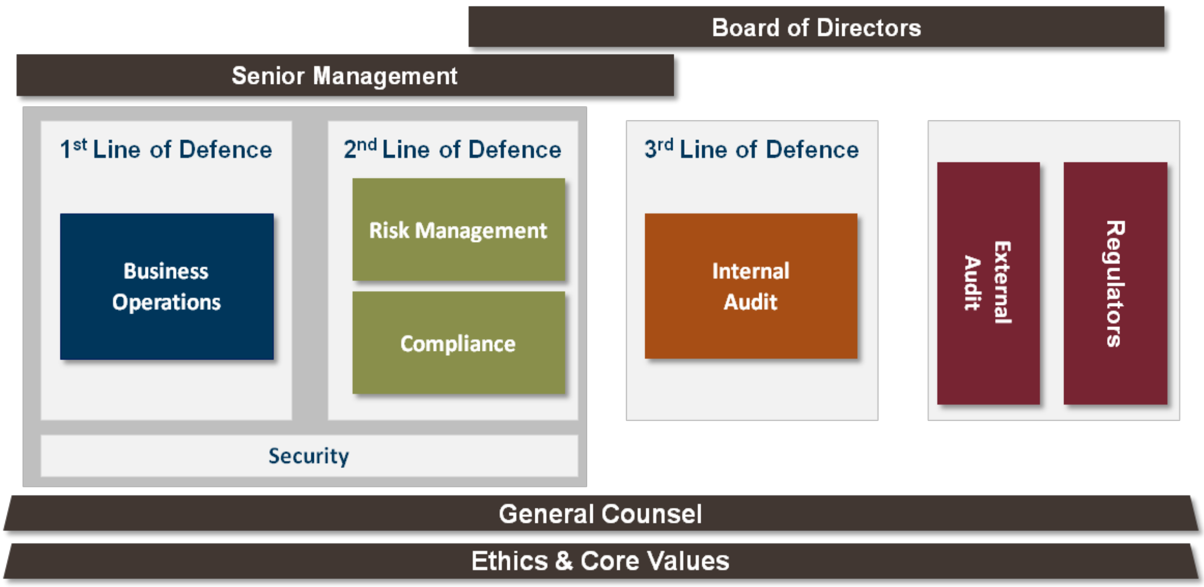
The ORSA Report is produced annually and when the Company's capital position is impacted significantly from a material event or change in its risk profile. The Report structure contains sections focused on material changes from the prior year, business strategy, risk framework and assessments, and capital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

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, 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 five areas for which an RCSA is in place are: Insurance Services, Claims, Underwriting/Pricing, Accounting/Finance, and Human Resources/Information Technology. 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 ultimate parent company, USAA. Following the restructure, the Company has moved to an outsourcing model. From 1 November 2018 all the Company's employees were transferred to USAA International SARL and USAA SA. Staff costs are charged to the Company under a service fee arrangement. In these cases, the oversight role will be delegated to the General Manager. The Company does not assume that an outsourcing arrangement with either 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 companies the Company outsources various services to external parties as listed in the table below:

Outsourced Operation	Service Provider	Jurisdictions	Description
Claims Handling	External Vendor USAA International SARL – Parent Company & USAA SA	Azores, Belgium, France, Greece, Italy, Netherlands, Portugal & Spain UK and EU Locations	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 International SARL – Parent Company & USAA - Ultimate 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 International SARL – Parent Company & USAA - Ultimate Parent Company	Azores, Belgium, France, Germany, Greece, Italy, Netherlands, Portugal, Spain & UK	IT services, Actuary, Legal, Audit, Compliance, Internal Loss Reserving, Human Resources, Compensation & Benefits, Accounting & Finance, Risk Management
Specialist Technical Services	External Vendor	Azores, Belgium, France, Germany, Greece, Italy, Netherlands, Portugal, Spain & UK	Appraisers, Loss-adjusters, Fiscal Agents

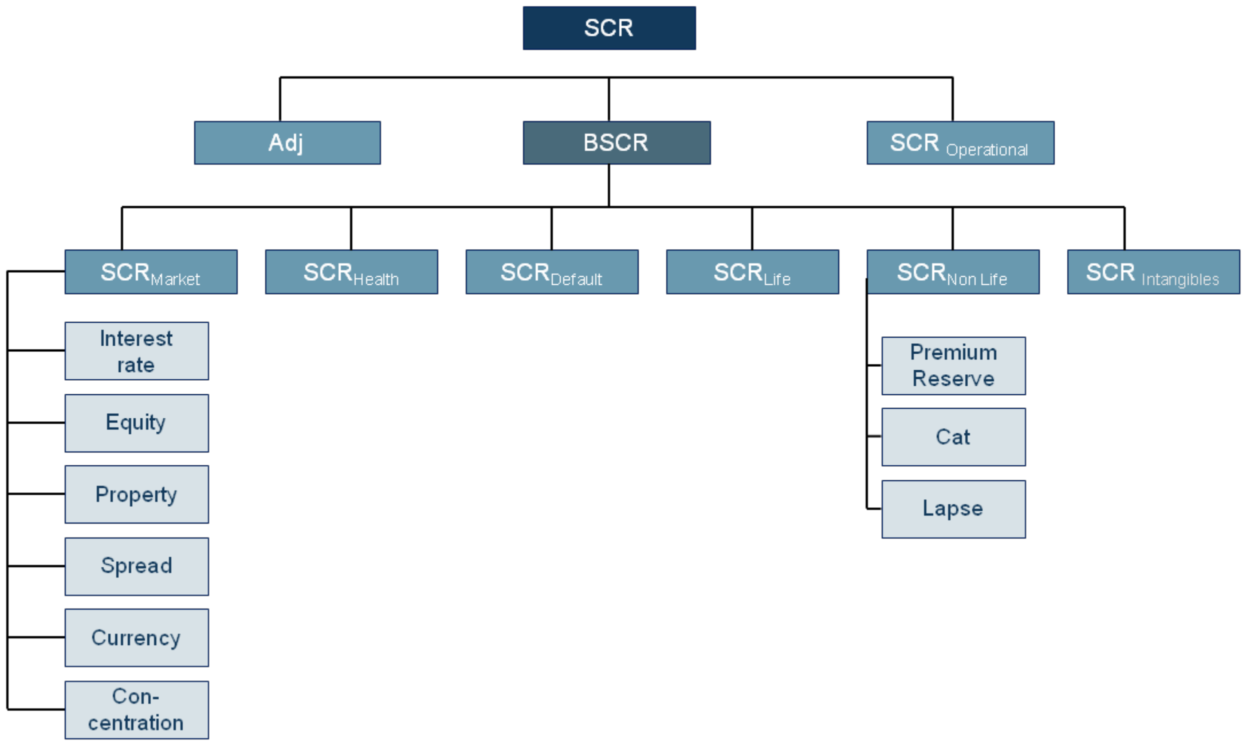
C. RISK PROFILE

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. Beginning in 2019, USAA Limited will write UK business only. As a result, this geographical diversification will reduce over time as the non-UK insurance reserves run-off. 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 £2.2m for the UK and €2.5m for other European location. Beginning in 2019, USAA Limited will write UK business only. As a result, the excess of loss treaty will cover all European locations in accident year 2019 and the UK only beginning in accident year 2020.

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 arises 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.

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 £5,979k.

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 addition, 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 other than those relating to the restructure that impacted the Company during the reporting period.

Stress Testing and Sensitivities

The 2018 USAA Limited Stress Testing Plan focused on the Company's 2019 business plan. The emphasis of the stress tests was on the impact of exchange rate movements to the Solvency Capital Requirement (SCR) ratio and Own Funds position.

The 2019 business plan was stressed with a 25% shock to exchange rates under four scenarios:

- Scenario 1 - GBP weakens 25% relative to the US Dollar and the Euro.
- Scenario 2 - GBP strengthens 25% relative to the US Dollar and the Euro.
- Scenario 3 - GBP strengthens 25% relative to the US Dollar and weakens 25% relative to the Euro.
- Scenario 4 - GBP weakens 25% relative to the US Dollar and strengthens 25% relative to the Euro.

A 25% shock to currencies is a significant event for exchange rate forecasts within a one-year horizon. To show marginal impacts for each scenario, shocks in 5% increments up to 25% were employed.

For each scenario, the change in net profit from the financial plan was then applied to the plan Own Funds to get the implied Own Funds position. The impact of realised or unrealised gains due to exchange rate shocks was not reflected. Intervening management decisions stemming from pricing considerations was also not reflected.

- **Background and approach**

  Although the company's reporting currency is GBP, the Company is subject to three different operating currencies GBP, US Dollar and Euro. All premiums are written and collected in US Dollars, while claims and expenses are generally paid in GBP and Euros. Based on the movement of exchange rates, there is volatility due to collecting premiums and establishing claims provisions in different currencies. A strong US Dollar threatens competitiveness and a weak US Dollar threatens profitability.

  The Company has a currency asset and liability matching strategy in place to mitigate its exchange rate exposure on assets and liabilities held in US Dollars and Euros.

  The currency impact to earned premium income, claims and underwriting expenses was assessed under the above four scenarios to determine the impact on profitability and available Own Funds.

- **Assumptions**

  The income statement reflected the first year of business after the Brexit restructure, where the Company will no longer write EU business but will continue to earn premium from EU insurance policies still in force in 2019.

  - Projected earned premium was split assuming a 100% of UK business and 50% of EU business is still earning out in USAA Limited.

  - The stop loss reinsurance where the Company retains up to a £1m underwriting loss and can recover up to £25m in a financial year provides the intended protection to capital by establishing an SCR ratio floor when exchange rate movements lead to underwriting losses.

  - Projected incurred losses are split on the same logic.
  - Projected investment income is split based on based Own Funds. For 2019 it is assumed that approximately 82% of investment income is attributable to USAA Limited.

- **Limitations**

  The approach employed is a simplified view of exchange rate impacts on Own Funds. The risk to financial balances due to exchange rate movements, such as asset and liability valuations, was not reflected as well as the impact that certain management decisions could have on mitigating exchange rate risk. Furthermore, the exchange rate shocks in this analysis are deterministic and not tied to current market projections or forecasts.

For each of the individual scenarios, the same SCR (denominator in the SCR ratio) was employed. The reason for not adjusting the SCR:

- The SCR already considers a significant exchange rate risk charge, and
- The calculation of the SCR for each scenario was not possible.

- **Results**

Below is the table of Own funds in £000's:

Own Funds	Plan	Scenario 1	Scenario 2	Scenario 3	Scenario 4
5% Shock	81,636	82,162	81,162	79,621	83,703
10% Shock	81,636	82,746	80,730	79,307	85,851
15% Shock	81,636	83,399	80,335	79,228	88,115
20% Shock	81,636	84,133	79,973	79,156	90,535
25% Shock	81,636	84,964	79,641	79,090	93,160

Below is the table of SCR ratio's using a projected SCR of £38m:

Own Funds	Plan	Scenario 1	Scenario 2	Scenario 3	Scenario 4
5% Shock	2.15	2.16	2.13	2.09	2.20
10% Shock	2.15	2.17	2.12	2.08	2.26
15% Shock	2.15	2.19	2.11	2.08	2.32
20% Shock	2.15	2.21	2.10	2.08	2.38
25% Shock	2.15	2.23	2.09	2.08	2.45

- **Conclusion**

The results of the analysis points to an overall strong capital position for USAA Limited. Scenarios 1 and 4 led to stronger Own Funds positions (i.e., SCR ratios increased from plan and increased with greater shocks). In both scenarios, the US Dollar premiums at current rates grew relative to GBP leading to greater underwriting gains. Since the Euro and US Dollar relationship is preserved in Scenario 1, the impact on the Own Funds was less dramatic than in Scenario 4 where Euro weakened to the US Dollar creating a greater disparity between premiums and incurred losses.

Similarly, Scenarios 2 and 3 led to weaker Own Funds positions. In both scenarios, the US Dollar premiums at current rates reduced relative to GBP leading to a greater chance for underwriting losses. Scenario 3 also had the EUR strengthen to the US Dollar creating a greater inadequacy of premiums, however; the stop loss reinsurance provided protection, essentially establishing a SCR ratio floor for each entity.

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') together with Guidelines issued by EIOPA requires companies falling under the scope of Solvency II to recognise and value their assets and liabilities generally in accordance with the fair value principles of International Financial Reporting Standards ('IFRS') subject to specific recognition and valuation rules for particular assets and liabilities, notably technical provisions. This Section D sets out the bases, methods and assumptions for assets and liabilities for the purposes of Solvency II.

The analysis in this section also explains material differences in valuation or classification between the Solvency II balance sheet and the Company's statutory financial statements. 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. This accounting framework is generally consistent with IFRS in recognition and valuation criteria.

Solvency II Balance Sheet as at 31 December 2018 in £'000	Notes	UK GAAP	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II
Assets					
Deferred tax assets	7	302	(302)	-	-
Pension benefit surplus	8	2,747	-	-	2,747
Property, plant & equipment held for own use	6	169	-	-	169
Investments	1	**130,400**	**1,304**	-	**131,749**
Government Bonds		49,352	541	-	49,893
Corporate Bonds		79,524	750	-	80,274
Collateralised securities		1,524	13	-	1,537
Deposits other than cash equivalents	2	-	45	-	45
Reinsurance recoverable from:		**10,774**	-	(5,192)	**5,582**
Non-life excluding health	D.2	10,774	-	(5,192)	5,582
Insurance Intermediaries receivables	3	53,394	-	(48,830)	4,564
Receivables (trade, not insurance)	4	1,994	-	-	1,994
Cash and cash equivalents	5	17,956	(45)	-	17,911
Any other assets, not elsewhere shown	9	1,664	(1,304)	-	360
Total assets		**219,400**	**(347)**	**(54,022)**	**165,076**
Liabilities					
Technical Provisions					
Non-Life excluding health	D.2	127,149	-	(57,721)	69,428
Liabilities other than Technical Provisions					-
Pension benefit obligations	11	210	-	-	210
Deferred tax liabilities	10	566	(302)	674	938
Insurance & Intermediaries payables	12	266	-	(266)	-
Payables (trade, not insurance)	13	5,764	-	-	5,764
Any other liabilities, not shown elsewhere	14	1,753	-	-	1,753
Total Liabilities		**135,708**	**(302)**	**(57,313)**	**78,093**
Excess of Assets over Liabilities		**83,692**	**(45)**	**3,291**	**86,983**

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. 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 Company outsources the management of its investment portfolio to Western Asset Management. The investments are measured on a fair value hierarchy Levels 1 to 3.

- Level 1 represents quoted securities either on an exchange or over the counter using prices published by a recognised pricing source, or, if such prices are not available, using other reputable sources acceptable to the Company.
- Level 2 represents unquoted securities valued by the Company asset managers, Western Asset Management, based on the average of third-party bid and offer prices.
- Level 3 represents securities where observable inputs are not available, unobservable inputs are used to measure fair value by use of valuation techniques. The objective of using valuation techniques is to estimate what the fair value would have been on the measurement date.

The investments included in the Level 2 category, are financial assets and are valued by the Company's 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.

The valuation methods used are considered to be consistent with the valuation approach set out in Article 75 of Directive 2009/138/EC.

Note 2: Deposits other than Cash Equivalents

Deposits other than cash equivalents under Solvency II include short-term 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 are 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 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 considered 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. The inter-company balance due is a short-term receivable and has been valued at the amount due to be paid by the parent company in the month following collection of the premiums. A reclassification adjustment has been made to payables (trade, not insurance) under liabilities for any amounts in the inter-company account which are due to be paid to the parent company for non-insurance services. These are short term payables and have been valued at the amount to be settled in the month following the occurrence of the services.

Note 4: Receivables (Trade, not Insurance)

The receivables (trade, not insurance balances) relates to advance payments for estimated 2019 insurance premiums taxes paid to tax authorities in Germany and Belgium and other receivables, which are due within 1 year. The carrying values are deemed 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 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.

Plant and equipment have not been revalued to a Solvency II market consistent value as the value of these assets is not deemed to be material.

As part of the restructure the Company transferred its furniture, computer equipment and motor vehicles to USAA International SARL and SA on 1 November 2018.

Note 7: Deferred Tax Asset

The Solvency II recognition principles for deferred taxes are described in note 10 deferred tax liabilities.

The deferred tax asset of £302k is the deferred tax asset as per the annual statutory financial statements. No adjustments have been made to the deferred tax asset for Solvency II valuations. The deferred tax asset has been reclassified to offset against the deferred tax liability to reflect a net deferred tax position.

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 on 30 June 2016. The German Scheme was closed to new entrants on 30 June 2016.

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.

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

The valuations for both schemes at 31 December 2018 have been calculated under UK GAAP FRS 102, based on the latest funding valuations carried out by independent qualified actuaries. At 31 December 2018 the FRS 102 valuations reported a pension benefit surplus of £2,747k on the UK Scheme. This is an increase of £747k over the prior reporting year from additional pension contributions paid into the Scheme. The German Scheme reported a pension benefit deficit of £210k.

Full details on the principal assumptions used to calculate the defined benefit pension surplus and liability can be found in the Company's Annual 2018 Financial Statements, disclosure Note 21.

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 includes accrued interest and prepayments. Accrued interest £1,304k has been subject to reclassification to investments for Solvency II valuation purposes. The £360k 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. These are deemed to be valued in accordance with Solvency II.

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

31 December 2018

Non-Life Technical Provisions	Gross Best Estimate (£000)	Risk Margin (£000)	SII Value (£000)	Reinsurance Recoverable (£000)	Net Technical Provisions (£000)
Motor Vehicle Liability	65,635	6,335	71,970	(8,036)	63,934
Other Motor	(2,690)	458	(2,232)	2,019	(213)
Fire & Other Property	(211)	95	(116)	309	193
General Liability	(251)	58	(193)	126	(67)
Total	**62,483**	**6,945**	**69,429**	**(5,582)**	**63,847**

Overall, the assumptions underlying the technical provision calculations have remained consistent since the prior reporting period. However, there were material changes in the following premium provision assumptions:

- Loss ratios – Although the aggregate loss ratios remained fairly flat, there were material changes by region in order to better reflect recent loss experience.
- Ceded loss percentages – Due to the Ogden discount rate change, as well as several large claims that occurred in the Western region during the reporting period, there was a material increase in the expected amount of ceded losses.

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.

No material changes have been made to the assumptions underlying the technical provisions since the previous reporting period:

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.

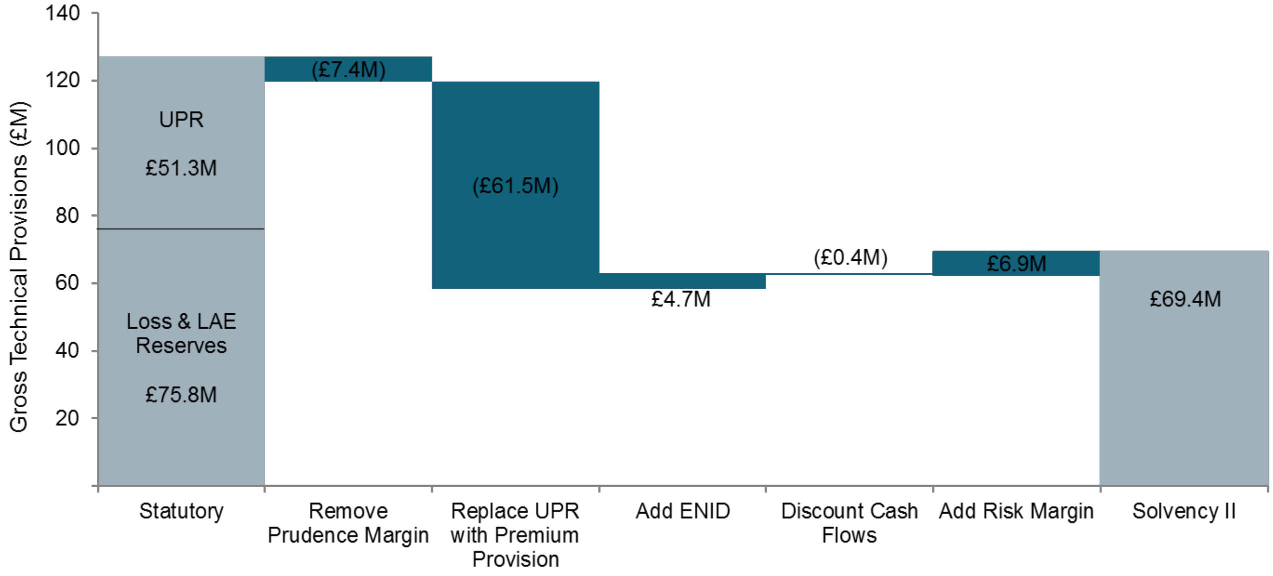
Premium Provision

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.



Reconciliation of differences between the valuation used for Solvency II purposes and that used for statutory financial statements by Line of Business in £'000.

Lines of Business	Statutory Technical Provisions	Remove Prudence Margin	Replace UPR with Premium Provision	Add ENID	Discount Cash Flows	Risk Margin	Gross SII Technical Provisions
Motor Vehicle Liability	91,436	(7,217)	(22,569)	4,718	(733)	6,335	71,970
Other Motor	28,997	(130)	(31,809)	-	252	458	(2,232)
Fire & Other Property	4,657	(19)	(4,877)	-	28	94	(117)
General Liability	2,059	(31)	(2,291)	-	13	58	(193)
Total	**127,149**	**(7,397)**	**(61,546)**	**4,718**	**(440)**	**6,945**	**69,428**

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 four categories: administrative expenses, investment management expenses, overhead expenses, claims management expenses. 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 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 recoverables 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 interest rate 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

The level of uncertainty inherent in USAA Limited's business is affected by many factors. Future claims experience is in part 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 technical provision estimation.

There are several risk factors that USAA Limited faces, including,

- **Large losses** - The potential for large liability losses due to high limits, or in some jurisdictions, unlimited liability, or property losses at military bases or in concentrated port areas where policyholder goods are being shipped, creates volatility in profitability. The Company appropriately plans for these potential losses in its planning process, and generally sees reserve reductions if large losses are not realised. This risk is mitigated by both stop loss and excess of loss reinsurance.

- **Exchange rate** - Premiums are collected in US Dollars. Losses are generally paid in local currency, primarily, Sterling and Euros. This risk is somewhat mitigated by holding a portfolio of assets that matches the currency composition of liabilities. While this approach hedges long term currency volatility, sharp, short term fluctuations can significantly impact the profitability of USAA Limited. This risk is also mitigated by stop-loss reinsurance.

- **Unanticipated frequency or severity trends** - USAA Limited's planning process effectively plans for both claim frequency and severity trends. It uses historical data as well as known or anticipated information about loss costs to estimate prospective losses and then use the prospective losses to price accordingly. To the extent that claims frequency or severity trends emerge at an unanticipated level, pricing plans can be adjusted. Additionally, this risk is mitigated through reinsurance.

- **Military Drawdown** - USAA Limited's principal clientele are members of the United States military and their families stationed in Europe. Hence, the book is subject to the risk of a military drawdown, which could make the book too small to be sustainable. USAA Limited monitors the plans of the US military in Europe and could take action accordingly if the book became unsustainable.

- **Legal Risk** - The insurance business is subject to the vagaries of the legal system. Lawsuits, whether justified or not, regarding damages or contract terms, are rampant in many jurisdictions that the parent, USAA, does business in. USAA Limited's legal risk is deemed to be lower than that of the parent, as the litigiousness and case law in the jurisdiction that USAA Limited operates is lower than that of the parent. However, because of high limits or in some jurisdictions, unlimited liability, USAA Limited continuously monitors this risk. This risk is mitigated by both stop loss and excess of loss reinsurance.

- **Social Expectations and Behaviour** - The risk that social expectations and behaviour around insurance changes is a risk that all companies involved in insurance face. USAA Limited is not an exception. Increased claims filing at levels not anticipated impact the volatility around the level of expected profitability. In the near term this is mitigated by stop-loss reinsurance. In the longer term it is mitigated by pricing actions.

  Another factor than creates uncertainty in the technical provisions and profits is adverse selection. Adverse selection occurs when the likelihood of loss is correlated with the demand for insurance. That is, people who are more likely to have a loss are more likely to purchase insurance. If an insurer raises prices across the board to adjust for increasing losses, the risks less likely to have a loss can get lower prices elsewhere and leave the book, leaving the high risks in the book, which is now again under-priced. This creates a spiral of price increases driving better risks away from the business leading to losses greater than anticipated.

  The means to avoid adverse selection is the ability to accurately charge each risk an appropriate premium based on its characteristics. Clearly understanding risk characteristics and having the ability to price accordingly is paramount in avoiding adverse selection. USAA Limited employs sufficient risk classification to appropriately price individual risks, thus the potential for adverse selection is minimal. A random sample of policies was reviewed, and premiums were validated against these risk classification parameters.

  Reinsurance stabilizes the volatility of USAA Limited profitability in several ways. Excess of loss reinsurance is purchased to protect against the rare large liability losses. This is more for capital protection than limiting the volatility around expected profitability. The stop loss agreement between USAA Limited and its parent guarantees a combined ratio not greater than 100% plus its retention of £1m up to a limit of £25m, thus in most cases subjecting USAA Limited to a loss of £1m.

Transitional measures on technical provisions

The Company has not used any of the transitional measures with regards to transitional measures on technical provisions, transitional measures on risk-free interest rates, matching adjustments or volatility adjustments.

D.3 OTHER LIABILITIES

Note 10: Deferred Tax Liabilities

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 based on 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.

The deferred tax liability of £566k and deferred tax asset £302k under UK GAAP have been combined to produce a net deferred tax liability of £264k. This has been adjusted for additional deferred tax on valuation differences on Solvency II Non-life technical provisions. The total deferred tax liability under Solvency II at 31 December 2018 is £938k.

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 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 valued at the amounts expected to be paid by the Company.

Note 14: Other Liabilities, Not Shown Elsewhere

Other Liabilities, not shown elsewhere £1,753k 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 be paid in the subsequent period and are deemed to be valued in accordance with Solvency II.

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 Tier 1 - £000	31 December 2018	2017
Ordinary Share Capital	13,100	13,100
Share Premium	348	348
Reconciliation Reserve	73,535	81,402
Total Own Funds	**86,983**	**95,050**

All the company's Tier 1 Own Funds 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	31 December 2018	2017
Excess of assets over liabilities from SII Balance Sheet	86,983	95,050
Less:		
Ordinary Share Capital	(13,100)	(13,100)
Share Premium	(348)	(348)
Reconciliation Reserve	**73,535**	**81,602**

The reconciliation reserve comprises of retained earnings from the Company's statutory financial statements adjusted for Solvency II valuation differences.

31 December	2018 £'000	2017 £'000
Total comprehensive income for the year	10,508	19,777
Dividend paid	(8,419)	(2,500)
Dividend in specie	(11,986)	
Retained Earnings B/F	80,141	62,864
Total retained earnings as per Financial Statements	**70,244**	**80,141**
Adjustments for Solvency II:		
Difference in Technical Provisions Net of Reinsurance	3,965	1,689
Difference in valuation of Deferred Tax Liability	(674)	(228)
Reconciliation Reserve	**73,535**	**81,602**

The reconciliation reserve has a potential volatility to currency risk from exchange rate movements. Premiums are collected in US Dollars and losses are generally paid in local currency, primarily, Sterling or Euros. The Company also holds assets and liabilities in Sterling, Euros and US Dollars. However, this risk is somewhat mitigated by holding a portfolio of assets that matches the currency composition of liabilities. While this approach hedges long term currency volatility, sharp, short term fluctuations can significantly impact the profitability of the Company. This risk is mitigated by the stop-loss agreement between the Company and its ultimate parent, which limits the underwriting loss of the Company to £1m up to an excess of £25m in each financial year.

The combination of the currency asset and liability matching strategy and the stop loss reinsurance treaty ensures that the quality of the reconciliation reserve is retained.

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

31 December	2018 £'000	2017 £'000
Ordinary Share Capital	13,100	13,100
Share Premium	348	348
Total comprehensive income for the year	10,508	19,777
Dividend paid	(8,419)	(2,500)
Dividend in specie	(11,986)	
Retained Earnings B/F	80,141	62,864
Total Equity as per Financial Statements	**83,692**	**93,589**
Adjustments for Solvency II:		
Difference in Technical Provisions Net of Reinsurance	3,965	1,689
Difference in valuation of Deferred Tax Liability	(674)	(288)
Excess of Assets Over Liabilities	**86,983**	**95,050**

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

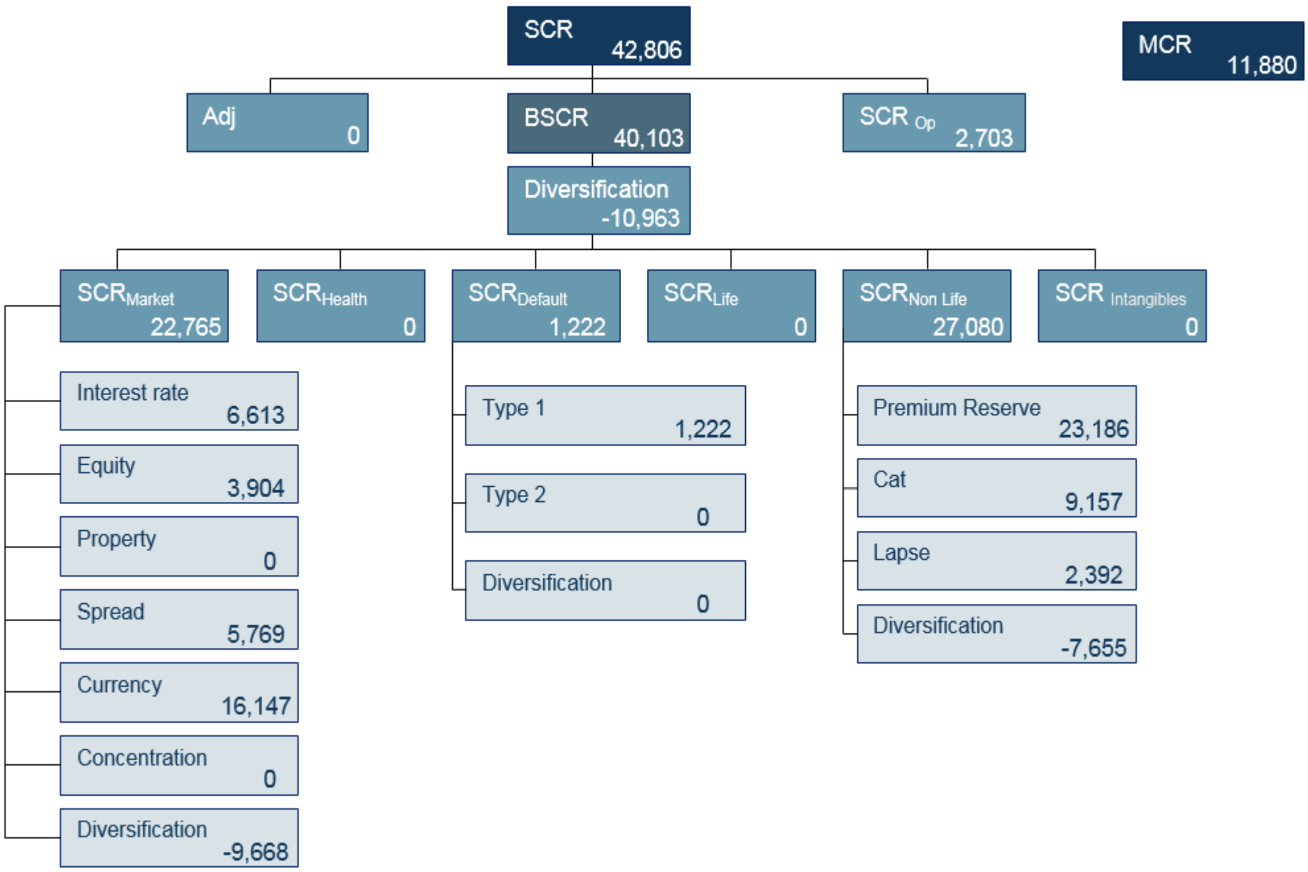
SOLVENCY CAPITAL REQUIREMENT (SCR)

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 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.

The waterfall chart below shows the Company's SCR and its SCR risk sub-modules as at 31 December 2018.



Total SCR

The total SCR at 31 December 2018 £42,806k has reduced by £616k over the previous reporting period. The SCR reconciliation below shows the movements in the SCR components driving the overall decrease in the SCR.

Reconciliation of Movement in SCR	£'000	£'000
As at 31 December 2017		**43,422**
Movements in SCR		
Overall Diversification		**341**
SCR Operational Risk		**31**
SCR Market Risk Sub-modules:		
Interest Rate	2,866	
Equity	(3,303)	
Property	0	
Spread	(217)	
Currency	(907)	
Concentration	-	
Market Risk Diversification	(206)	
SCR Market Risk		**(1,767)**
SCR Counterparty Default Risk		**(141)**
SCR Non-Life Risk Sub-modules:		
Premium Reserve	699	
CAT	421	
Lapse	353	
Non-Life Risk Diversification	(553)	
SCR Non-Life Risk		**920**
As at 31 December 2018		**42,806**

Most of the reduction in the total SCR comes from the SCR market risk and SCR Non-Life risk modules.

SCR Market Risk

The market risk component of the standard formula SCR £22,765k (2017: £24,533k) is driven mainly by risks inherent within the Company's assets and liabilities and pension schemes. The sub-components of market risk over the reporting period are as follows:

- Interest rate risk £6,613k (2017: £3,747k) is driven by changes in assets and liabilities in the Company's technical provisions, investment portfolio and the pension scheme investments. At 31 December 2018 interest rate risk increased by £2,866k from significant movements in the UK and German pension schemes.
- Equity risk £3,904k (2017: £7,208k) results from the sensitivity of the values of financial instruments in the Company's pension schemes to changes in the level or in the volatility of market prices of equities. The main reason for the £3,304k decrease in equity risk is the transfer of the German pension scheme for active members to the Luxembourg entities as part of the restructure.

- Spread risk £5,769k (2017: £5,986k) is driven by the company's investment in bonds and securitised assets. At 31 December 2018, spread risk decreased slightly by £217k based on the decrease in the value of bonds in the investment portfolio.
- Currency risk £16,147k (2017: £17,054k) 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 pays claims in Euro and Sterling. The Company's pension Scheme assets are also spread across a range of currencies. At 31 December 2018, currency risk decreased by £907k because of a decrease in US Dollar denominated liabilities reducing the currency charge on total US dollar net assets.
- Concentration risk is driven by exposures to default to counterparties or groups of counterparties, referred to as single name exposures. The concentration risk charge for both 2018 and 2017 is zero as the holdings are lower than the excess of the specified thresholds prescribed by the EU Delegated Acts.

SCR Non-Life Underwriting Risk

The Non-life underwriting risk £27,080k (2017: £26,160k) is the largest component of Standard Formula SCR. and is made up of:

- Premium and Reserve risk £23,186k (2017: £22,487k) 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). Premium and Reserve risk increased by £699k from changes in loss ratio assumptions increasing the premium provision within non-life technical provisions.
- Catastrophe risk £9,157k (2017: £8,736k) arises from the Company's exposure to man-made catastrophe and natural catastrophe risks. Catastrophe risk increased by £421k.
- Lapse risk £2,392k (2017: 2,093k) covering the risk of insurance policy lapses increased by £353k relative to the increase in premium provision.

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 credit for non-proportional reinsurance in premium and reserve risk.

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 £11,880k (2017: £12,043k). The following table shows the MCR calculation:

Overall MCR calculation - £'000	31 December 2018	2017
Linear MCR	11,880	12,043
SCR	42,806	43,422
MCR cap	19,263	19,540
MCR floor	10,702	10,855
Combined MCR	11,880	12,043
Absolute floor of the MCR	3,288	3,251
Minimum Capital Requirement	**11,880**	**12,043**

There is minimal change 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.

31 December Eligible Own Funds - £'000	2018 SCR Coverage	2018 MCR Coverage	2017 SCR Coverage	2017 MCR Coverage
Available Eligible Own Funds	86,983	86,983	95,050	94,050
SCR/MCR	(42,806)	(11,880)	(43,422)	(12,043)
Excess Eligible Own Funds	44,177	75,103	51,628	83,007
Ratio of Eligible Own Funds to SCR/MCR	203.2%	732.2%	218.9%	789.3%

The decrease in available own funds and a reduced SCR has decreased the ratio of eligible own funds to SCR by 15.7% and MCR by 57.1%.

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 2018
Currency used for reporting	GBP
Accounting standards	Local GAAP
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

	Assets	Solvency II value
		C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	2,747
R0060	Property, plant & equipment held for own use	169
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	131,749
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	131,704
R0140	*Government Bonds*	49,893
R0150	*Corporate Bonds*	80,274
R0160	*Structured notes*	0
R0170	*Collateralised securities*	1,537
R0180	*Collective Investments Undertakings*	0
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	45
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:	5,582
R0280	*Non-life and health similar to non-life*	5,582
R0290	*Non-life excluding health*	5,582
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	4,564
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	1,994
R0390	Own shares (held directly)	
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	17,911
R0420	Any other assets, not elsewhere shown	360
R0500	**Total assets**	165,076

	Liabilities	Solvency II value
		C0010
R0510	Technical provisions - non-life	69,428
R0520	*Technical provisions - non-life (excluding health)*	69,428
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	62,483
R0550	*Risk margin*	6,945
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	210
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	938
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)	5,765
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	1,752
R0900	**Total liabilities**	78,093
R1000	**Excess of assets over liabilities**	86,983

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				38,048	45,168		6,928	2,782									92,927
R0120	Gross - Proportional reinsurance accepted																	0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share				5,678	3,564		567	229									10,038
R0200	Net				32,370	41,604		6,361	2,554									82,889
	Premiums earned																	
R0210	Gross - Direct Business				36,701	43,443		7,091	2,860									90,096
R0220	Gross - Proportional reinsurance accepted																	0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share				5,678	3,564		567	229									10,038
R0300	Net				31,023	39,880		6,523	2,632									80,057
	Claims incurred																	
R0310	Gross - Direct Business				18,060	19,046		2,528	42									39,676
R0320	Gross - Proportional reinsurance accepted																	0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share				-640													-640
R0400	Net				18,700	19,046		2,528	42									40,316
	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**				10,902	12,521		1,935	598									25,957
R1200	**Other expenses**																	
R1300	**Total expenses**																	25,957

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	16,247	52,255	18,080	2,493	2,246	923	92,244
R0120	Gross - Proportional reinsurance accepted							0
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share	1,931	5,435	2,039	265	221	89	9,979
R0200	Net	14,317	46,820	16,041	2,229	2,025	834	82,264
	Premiums earned							
R0210	Gross - Direct Business	15,733	50,440	17,631	2,446	2,266	900	89,417
R0220	Gross - Proportional reinsurance accepted							0
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share	1,931	5,435	2,039	265	221	89	9,979
R0300	Net	13,803	45,005	15,592	2,182	2,045	811	79,438
	Claims incurred							
R0310	Gross - Direct Business	4,000	24,395	8,973	622	1,081	342	39,414
R0320	Gross - Proportional reinsurance accepted							0
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share	132	-772					-640
R0400	Net	3,868	25,167	8,973	622	1,081	342	40,054
	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**	3,994	14,963	5,313	621	669	250	25,811
R1200	**Other expenses**							
R1300	**Total expenses**							25,811

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				Total Non-Life obligation
		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	
		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				-576	-6,653		-1,030	-749									-9,009
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				-3,381	-2,019		-309	-126									-5,834
R0150	**Net Best Estimate of Premium Provisions**				2,804	-4,635		-721	-623									-3,175
	Claims provisions																	
R0160	Gross				66,212	3,963		819	499									71,492
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				11,416	0		0	0									11,416
R0250	**Net Best Estimate of Claims Provisions**				54,795	3,963		819	499									60,076
R0260	**Total best estimate - gross**				65,635	-2,690		-211	-251									62,483
R0270	**Total best estimate - net**				57,600	-671		98	-124									56,901
R0280	**Risk margin**				6,335	458		95	58									6,945
	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**				71,970	-2,232		-117	-193									69,428
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**				8,036	-2,019		-309	-126									5,582
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**				63,934	-213		192	-67									63,846

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020	Accident year / underwriting year	Accident Year

Gross Claims Paid (non-cumulative)

(absolute amount)

	Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
		Development year											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											90	90	90
R0160	2009	14,021	5,739	1,818	1,827	994	482	-255	149	30	39		39	24,844
R0170	2010	15,451	7,468	1,444	892	766	1,040	102	5	2			2	27,170
R0180	2011	15,978	4,891	1,524	1,899	949	104	703	168				168	26,216
R0190	2012	15,851	5,989	2,124	1,154	2,986	470	19					19	28,593
R0200	2013	16,146	5,667	1,539	599	634	184						184	24,769
R0210	2014	18,176	6,488	1,218	4,668	642							642	31,192
R0220	2015	25,619	7,948	2,876	1,864								1,864	38,307
R0230	2016	25,166	8,090	2,630									2,630	35,886
R0240	2017	26,647	7,860										7,860	34,507
R0250	2018	27,689											27,689	27,689
R0260												Total	41,187	299,263

Gross Undiscounted Best Estimate Claims Provisions

(absolute amount)

	Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
		Development year											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											9,506	9,415
R0160	2009	0	0	0	0	0	0	0	821	452	365		349
R0170	2010	0	0	0	0	0	0	1,662	1,666	1,577			1,514
R0180	2011	0	0	0	0	0	2,489	1,328	977				974
R0190	2012	0	0	0	0	3,440	1,012	506					502
R0200	2013	0	0	0	3,292	1,633	746						740
R0210	2014	0	0	7,111	3,389	2,130							2,084
R0220	2015	0	18,203	13,845	9,517								9,377
R0230	2016	25,485	17,460	12,764									12,604
R0240	2017	21,173	12,039										11,903
R0250	2018	22,168											22,031
R0260												Total	71,492

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		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	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	73,535	73,535			
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**	86,983	86,983	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	86,983	86,983	0	0	0
R0510	Total available own funds to meet the MCR	86,983	86,983	0	0	
R0540	Total eligible own funds to meet the SCR	86,983	86,983	0	0	0
R0550	Total eligible own funds to meet the MCR	86,983	86,983	0	0	
R0580	**SCR**	42,806				
R0600	**MCR**	11,880				
R0620	**Ratio of Eligible own funds to SCR**	203.20%				
R0640	**Ratio of Eligible own funds to MCR**	732.19%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	86,983
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	13,448
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	73,535
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	5,979
R0790	**Total Expected profits included in future premiums (EPIFP)**	5,979

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	22,765		
R0020	Counterparty default risk	1,222		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	27,080		
R0060	Diversification	-10,963		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	40,104		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	2,703
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**	42,806
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	42,806
	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

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

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	11,880

		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	57,600	32,370
R0060	Other motor insurance and proportional reinsurance	0	41,604
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	
R0080	Fire and other damage to property insurance and proportional reinsurance	98	6,361
R0090	General liability insurance and proportional reinsurance	0	2,554
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	11,880
R0310	SCR	42,806
R0320	MCR cap	19,263
R0330	MCR floor	10,702
R0340	Combined MCR	11,880
R0350	Absolute floor of the MCR	3,288
R0400	**Minimum Capital Requirement**	11,880