

The Wawanesa Mutual Insurance Company

ACCELERATING OUR TRANSFORMATION



Wawanesa
Insurance

2018 Annual Report

Wawanesa is a Canadian mutual company owned by its policyholders. With assets of over \$9.5 billion and over two million policies in force, Wawanesa is one of the 10 largest property and casualty insurers in Canada.

Wawanesa has a rich history dating back to September 25, 1896, when it was founded in the Village of Wawanesa, Manitoba. Today, our head office continues to be located in the Village of Wawanesa with the executive office located in Winnipeg, Manitoba.

The Wawanesa Mutual Insurance Company

900 - 191 Broadway
Winnipeg, Manitoba R3C 3P1

Wawanesa has 100% ownership of three subsidiary companies.

The Wawanesa Life Insurance Company

400 - 200 Main Street
Winnipeg, Manitoba R3C 1A8

Wawanesa General Insurance Company

9050 Friars Road
San Diego, California 92108

Trimont Financial Ltd.

900 - 191 Broadway
Winnipeg, Manitoba R3C 3P1



Wawanesa
Insurance

OUR MISSION

"Earning your trust since 1896"...

As a policyholder-owned mutual insurance company, we will continue to earn trust by providing quality products and services at the lowest price which supports long-term growth and financial stability.

OUR VALUES

- We treat others in a respectful and truthful manner.
- We conduct business with ethics, integrity, honesty, consistency and fairness.
- We make service a priority.
- We are collaborative, innovative and drive excellence.
- We are open and transparent in our business dealings.
- We support the communities in which we work and live.

As we build on the momentum of our transformation, our people are at the core of our operation; propelling us toward success.

IN 2018, OUR PRIORITY WAS TO ACCELERATE OUR TRANSFORMATION.



Jeff Goy
President & CEO

MESSAGE FROM THE PRESIDENT & CEO

The insurance industry is evolving at a rapid pace, evident in rising customer expectations for value, intensifying competition, and innovation enabled by digital technology. In that context, our 2018 priority was to accelerate our transformation at Wawanesa into a true performance-oriented organization, improving every aspect of how we operate today while preparing for tomorrow. We are pleased that in 2018 we delivered a solid year of progress in our transformation while delivering improved underwriting results.

Consolidated profit of \$151 million declined \$49 million from \$200 million last year. Gross premiums written at \$3.5 billion were 10.6% greater than last year while net premiums earned of \$3.2 billion represented a 7.4% increase. Net investment income was down \$262 million from the previous year due to a significant reduction in the sales of equities in 2018 and reduced opportunities for realizations of gains on fixed income securities. Offsetting the reduction in investment income was our combined ratio (COR) which improved to 104.2% from 108.4% last year, a 4.2 basis point decrease. We are committed to continued improvements in COR in the coming year through better underwriting, claims management and profitable growth in key geographic and product market segments. We ended the year with \$9.6 billion in assets and policyholder equity of \$3.3 billion both up slightly from last year.

Our policy count grew 0.5% to 2.2 million during the year. Property and casualty gross premiums written increased to \$3.2 billion, up 9.4% while net premiums earned increased 6.1%. In Canada, policy counts grew by 0.3% and in the U.S. by 2.1%. Our independent brokerage business met expectations

with solid results based on a full year of earnings from Western Financial Group, which was acquired in mid-2017. In our Life business, we were pleased that net premiums and equivalents grew across all lines of business while total general and segregated fund assets remained consistent with the prior year at \$1.5 billion.

At year-end, Wawanesa's capital position remained strong. The Minimum Capital Test (MCT) ratio stood at 260% at year-end, significantly above the requirements set by the Office of the Superintendent of Financial Institutions (OSFI). We continue to be rated A (Excellent) with a stable outlook by A.M. Best. In our continuing view, our mutual ownership structure provides both the means and the requirement for a balanced and prudent approach to future growth.

Wawanesa Life's capital position also remains strong. The Life Insurance Capital Adequacy Test (LICAT) ratio, which replaced the Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio as OSFI's established measurement of capital adequacy for life insurance companies at the beginning of 2018, was 178% at year-end, significantly above the requirements set by OSFI. Our Life Company continues to be rated A (Excellent) with a stable outlook by A.M. Best.

2018 HIGHLIGHTS

In 2018, we reorganized the operating structure of our insurance operations into three core business units, each led by a President, supported by a new Enterprise Services group of key corporate functions. Our new organization provides more clarity and accountability in how we function. The reorganization unfolded productively as noted below:

Canadian Property & Casualty (P&C) Operations

The turnaround in our Canadian P&C operations accelerated, resulting in improved financial performance and a more focused broker channel strategy. Specifically, we transitioned

our direct Quebec business to a broker model. In addition, in a P&C market undergoing some tightening and reduced underwriting capacity, we are doubling down on our support of the independent brokerage network. Being a mutual, we can take a longer view than a publicly traded company. Another key achievement was improved claims management, leveraging strategies applied successfully in the U.S. in the year previous.

Canadian Life Operations

In our Life business, we delivered solid results across all strategic performance indicators while moving ahead with the integration of Wawanesa Life and Western Life into a unified team in a single location. We solidified our management team, enhanced the customer experience, modernized our technology capabilities, and initiated strategies to accelerate cross-selling between Life and P&C. For the year, we reported operating profit in all business lines and a 9.3% operating return on equity.

U.S. P&C Operations

In the U.S., our direct Wawanesa General business, which is focused mainly on markets in Southern California, delivered an impressive year, supported by strong revenue and profitability growth and continued operational improvements, notably in customer service that exceeded targets and in our claims leakage ratio. During the year, policy retention counts improved despite price increases.

Operating Highlights

In 2018, we continued to modernize our technology and processes enterprise-wide through our Strategic Systems Renewal initiative (SSR) by rolling out the Guidewire InsuranceSuite to three more provinces: British Columbia, Saskatchewan and Manitoba. They join Alberta and the U.S. Region working with our new policy, rating and billing platform. We now have the majority of our Company on the Guidewire platform with the remainder planned for 2019.

Other innovation developments in 2018 included fully deploying a new broker portfolio management system, BlueTrack, which enhances how brokers manage their Wawanesa portfolio online and streamlines processes for billing and commission payments.

Last year, we also continued our progress towards becoming a more performance-oriented culture. In 2018 we introduced a company-wide, consistent method for goal-setting and employee performance evaluations. Along with that, we rolled out new leadership training and career development programs to support our talent base.

We are also very proud of what we accomplished in the community. Last year, we funded over 1,100 days of paid time off for community volunteer work. Significantly, we updated our approach to support the United Way by uniting all our annual regional and local campaigns into one company-wide initiative. In doing so, we delivered our highest-ever contribution level for the Company, raising more than \$860,000 for the United Way in 2018.

2019 PRIORITY: A FOCUS ON GROWTH

Going forward, Wawanesa is a strong, confident company focused on our continuing transformation. Our priority this year is to focus on growth – not just in revenue and profitability, but in deepening our capabilities as an organization prepared to thrive in a changing insurance industry.

We are confident that, as we move through 2019, we can produce solid, single-digit revenue growth this year on a consolidated basis while moving closer to net profitability in relation to our combined operating ratio.

In 2019, we will be looking for improved operating performance from all our business units. We will focus on the following:

- **Completing the Guidewire InsuranceSuite Roll-out** – as the digital foundation of our transformation and to improve workforce productivity. A related

priority is delivering Broker Management systems integration into the Guidewire platform.

- **Driving Efforts to Optimize How We Manage Claims** – as a priority in improving the customer experience while optimizing cost performance.
- **Developing Better Digital Capabilities and Tools** – to connect us to our brokers, and our brokers to their customers. Improving broker performance is critical in our commitment to doubling down on brokers.
- **Enhancing Product Innovation, Diversification and Cross-Selling** – between P&C and Life will be critical strategies to drive growth and retention. The more product lines we can offer to brokers, the more they can offer their customers.
- **Developing Our Bench Strength** – through training, offering more diverse career opportunities, and by evolving our culture in ways that engage, motivate and empower our people.

OUR VISION FOR TOMORROW: THE FEELING'S MUTUAL

Everything we are focused on is intended to support our vision for the Company we want to be today and in the years ahead:

Wawanesa is a strong, innovative insurance company that our customers and brokers have a great relationship with because they value who we are and what we offer. The feeling's mutual.

We believe Wawanesa is well on its way today to achieving that vision.

In closing, I would like to acknowledge the contributions toward our vision by Gary Timlick, who retired in April this year as Senior Vice President and Chief Financial Officer, after 11 years of outstanding, dedicated service to

Wawanesa and a stellar 40-year career. Appointed Wawanesa CFO in 2008, Gary's vast experience, knowledge in many areas, and courage to challenge made him a valuable member of our executive leadership team and has resulted in lasting and significant contributions to our Company. We wish Gary and his family all the best on his well-deserved retirement.

On behalf of our Board of Directors and the Company's leadership team, I would like to thank our customers, our brokers and our employees for their support and contributions to our success.



Jeff Goy
President & CEO
May 8, 2019

OUR VISION

Wawanesa is a strong, innovative insurance company that our customers and brokers have a great relationship with because they value who we are and what we offer. The feeling's mutual.

MESSAGE FROM THE CHAIR

We are pleased by Wawanesa's performance in 2018 that delivered a measurably improved combined operating ratio for the year. This is all the more impressive given the continuing investments in transformational change being made across the Company to prepare Wawanesa for a much more competitive, globalizing insurance industry.

In 2018, the Company successfully completed a reorganization of its insurance operations that involved creating three business units, each led by a President and supported by an Enterprise Services team. In the Board's view, the reorganization improves the Company's strategic focus and operating effectiveness that opens up new opportunities to generate synergies in the future.

From my perspective and that of the Board, Wawanesa moves into 2019 as a financially-strong, well-positioned insurer with excellent prospects for growth and success in the years ahead. We strongly support management in its continuing efforts to strengthen the Company while remaining true to our values and our mutual structure.

We are confident that Wawanesa has many more chapters of success to come.

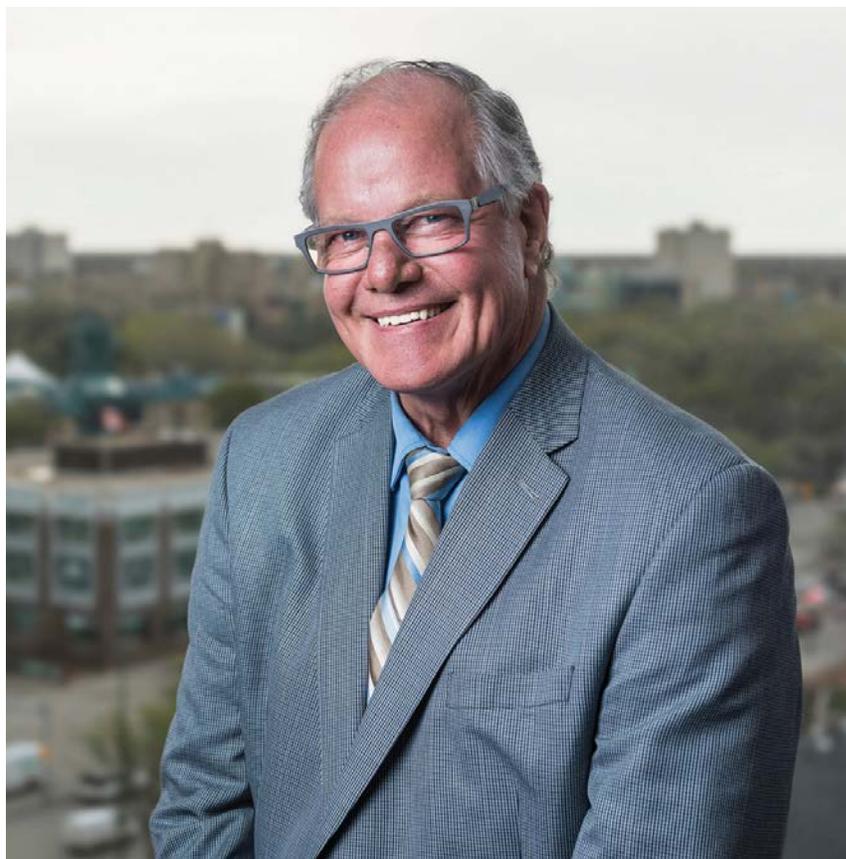
I would also like to acknowledge the contributions to Wawanesa's success of two longstanding Board members who will retire from the Board at our upcoming AGM – Ken Matchett, who joined the Board in 2008 and chaired our Risk Committee, and David Unruh, who

joined the Board in 2000 and chaired our HR Committee. Thank you for your exceptional contributions to Wawanesa over many years.

On behalf of our Board of Directors, I also want to thank Jeff Goy, his leadership team, and our 5,000-plus employees who bring their best to work in serving our customers and helping to build a company moving ahead with confidence.



Richard Bracken
Chair, Board of Directors
May 8, 2019



Richard Bracken
Chair, Board of Directors

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

TO THE POLICYHOLDERS OF THE WAWANESA MUTUAL INSURANCE COMPANY

Our Opinion

In our opinion, the accompanying summary consolidated financial statements of The Wawanesa Mutual Insurance Company and its subsidiaries (together, the Company) are a fair summary of the audited consolidated financial statements, on the basis described in Note 1 to the summary consolidated financial statements.

The Summary Consolidated Financial Statements

The Company's summary consolidated financial statements derived from the audited consolidated financial statements for the year ended December 31, 2018 comprise:

- the summary consolidated balance sheet as at December 31, 2018;
- the summary consolidated statement of comprehensive income for the year then ended; and
- the related notes to the summary consolidated financial statements.

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon.

The Audited Consolidated Financial Statements and Our Report Thereon

We expressed an unmodified opinion on the audited consolidated financial statements in our report dated February 21, 2019.

Management's Responsibility for the Summary Consolidated Financial Statements

Management is responsible for the preparation of the summary consolidated financial statements on the basis described in Note 1.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are a fair summary of the audited consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standards (CAS) 810, *Engagements to Report on Summary Financial Statements*.

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Winnipeg, Manitoba
February 21, 2019

APPOINTED ACTUARY'S REPORT

TO THE DIRECTORS OF THE WAWANESA MUTUAL INSURANCE COMPANY

I have valued the policy liabilities of the Company for its summary consolidated balance sheet as at December 31, 2018 and their change in the summary consolidated statement of comprehensive income for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policy obligations and the summary consolidated financial statements fairly present the results of the valuation.



Liam M. McFarlane
Fellow Canadian Institute of Actuaries
Toronto, Ontario
February 21, 2019

THE WAWANESA MUTUAL INSURANCE COMPANY

Founded in 1896

Incorporated May 1, 1929

Head Office

107 - 4th Street
Wawanesa, Manitoba

Executive Office

900 - 191 Broadway
Winnipeg, Manitoba

OFFICERS AND CORPORATE MANAGEMENT

S. J. Goy, *ACAS, CIP*
President and
Chief Executive Officer

C. J. Jardine, *FCIP, CRM*
President,
Canadian P&C Operations

G. J. Timlick, *FCCA, FCA, ICD.D*
Senior Vice President and
Chief Financial Officer

E. T. Johnston, *LLB, CFA,*
B.Comm.(Hons.)
Senior Vice President,
Chief Legal Officer and
Corporate Secretary

J. E. Carradice, *BSc, CPHR, CIP*
Senior Vice President and
Chief People and Culture Officer

M. K. Nemeth, *CPA, CA,*
FLMI, GBA, CEA
Senior Vice President and
Chief Risk Officer

C. R. Loeppky, *BScCS*
Senior Vice President and
Chief Information Officer

C. M. Low, *FCAS, FCIA,*
MAAA, CFA, FCIP, CRM
Vice President,
Corporate Actuarial

K. P. Boyd, *CPA, CA, CIP*
Vice President,
Finance and Controller

REGIONAL OFFICES

British Columbia

400 - 1985 West Broadway
Vancouver, British Columbia

L. Bullock, *CAIB*
Vice President,
British Columbia Region

Alberta

100, 8657 - 51st Avenue
Edmonton, Alberta

K. E. Hartry, *FCIP, MBA*
Vice President, Alberta Region

Central

107 - 4th Street
Wawanesa, Manitoba

K. W. Bailey, *FCIP*
Vice President, Central Region

Ontario

100 - 4110 Yonge Street
Toronto, Ontario

J. Porto, *BA, FCIP*
Vice President, Ontario Region

Québec

8585 Décarie Boulevard
Mont-Royal, Québec

P. L. Faubert, *BSc, BBA, CIP*
Vice President, Eastern Region

Maritime

1010 St. George Boulevard
Moncton, New Brunswick

P. L. Faubert, *BSc, BBA, CIP*
Vice President, Eastern Region

United States

9050 Friars Road
San Diego, California

C. M. Henn
President,
U.S. Operations

SUMMARY CONSOLIDATED BALANCE SHEET

As at December 31
(in thousands of Canadian dollars, except as otherwise noted)

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 330,066	\$ 245,440
Accrued investment income	28,664	28,849
Investments including securities on loan	6,217,038	6,445,015
Intangible assets	451,017	452,242
Goodwill	499,978	488,960
Other assets	2,050,419	1,875,252
Total assets	\$ 9,577,182	\$ 9,535,758
LIABILITIES		
Insurance contract liabilities	\$ 5,055,798	\$ 5,082,411
Other liabilities	1,189,453	1,135,477
Total liabilities	6,245,251	6,217,888
Equity	3,331,931	3,317,870
Total liabilities and equity	\$ 9,577,182	\$ 9,535,758

Note 1: These summary consolidated financial statements have been derived from the audited consolidated financial statements of The Wawanesa Mutual Insurance Company (the Company) for the year ended December 31, 2018, which are prepared in accordance with International Financial Reporting Standards (IFRS).

The criteria developed by management for the preparation of the summary consolidated financial statements is as follows: that the information included in the summarized consolidated financial statements is in agreement with the related information in the complete consolidated financial statements, and that the summarized

consolidated financial statements contain the information necessary to avoid distorting or obscuring matters disclosed in the related complete consolidated financial statements, including the notes thereto, in all material respects.

A full set of the audited consolidated financial statements is available from the Company or at wawanesa.com.

SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31
(in thousands of Canadian dollars, except as otherwise noted)

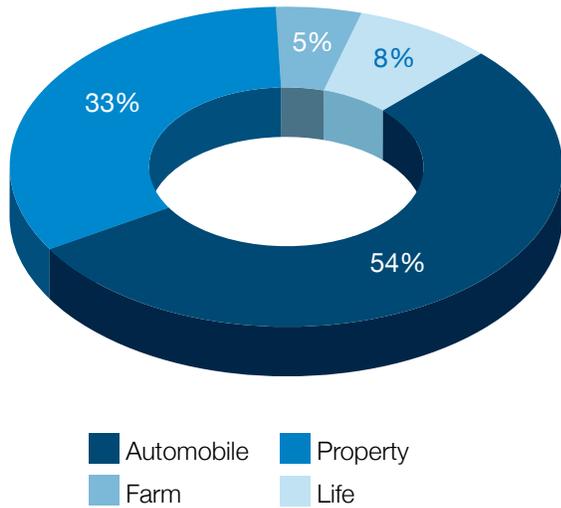
	2018	2017
REVENUE		
Net premiums written	\$ 3,336,170	\$ 3,016,399
Change in unearned premiums	(95,503)	1,524
Net premiums earned	3,240,667	3,017,923
Net investment income	258,296	520,216
Revenue from service contracts and other revenue	221,963	135,644
	3,720,926	3,673,783
EXPENSES		
Net claims and insurance benefits incurred	\$ 2,385,571	\$ 2,419,251
Other expenses incurred	1,189,820	3,439,871
Profit before income taxes	145,535	233,912
Provision for (recovery of) income taxes	(5,817)	33,345
Profit for the year	151,352	200,567
Other comprehensive loss, net of taxes	(137,291)	(153,832)
Total comprehensive income for the year	\$ 14,061	\$ 46,735
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTED TO:		
Policyholders of the Company	\$ 13,041	\$ 46,605
Participating policyholders	1,020	130
	\$ 14,061	\$ 46,735

A full set of the audited consolidated financial statements is available from the Company or at wawanesa.com.

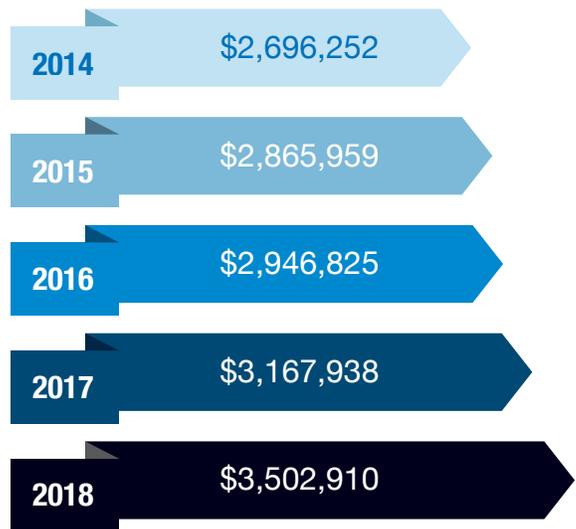
CONSOLIDATED SUPPLEMENTARY INFORMATION

(in thousands of Canadian dollars, except as otherwise noted)

GROSS PREMIUMS WRITTEN 2018

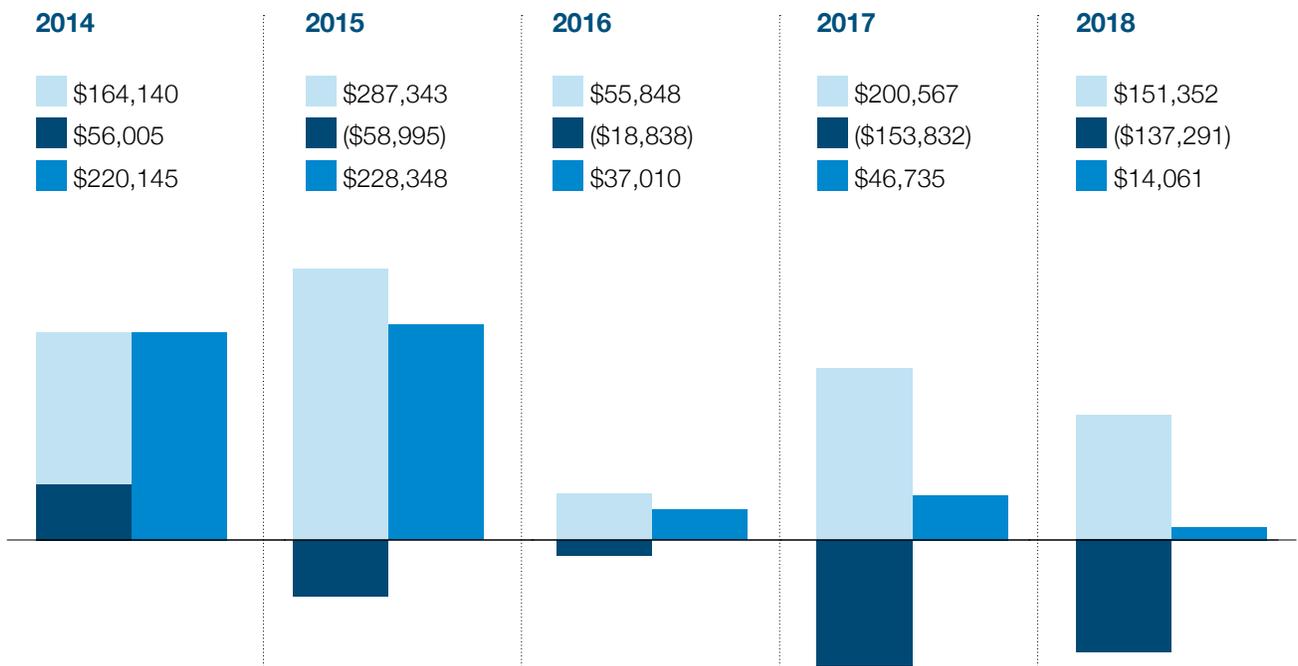


GROSS PREMIUMS WRITTEN 5 YEAR HISTORY



TOTAL COMPREHENSIVE INCOME

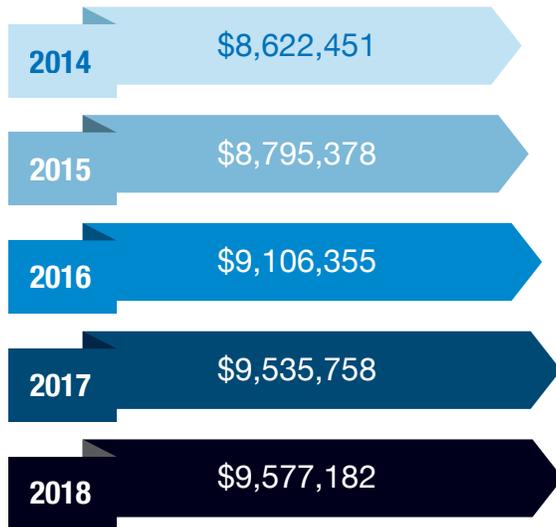
Profit Other Comprehensive Income (Loss) Total Comprehensive Income



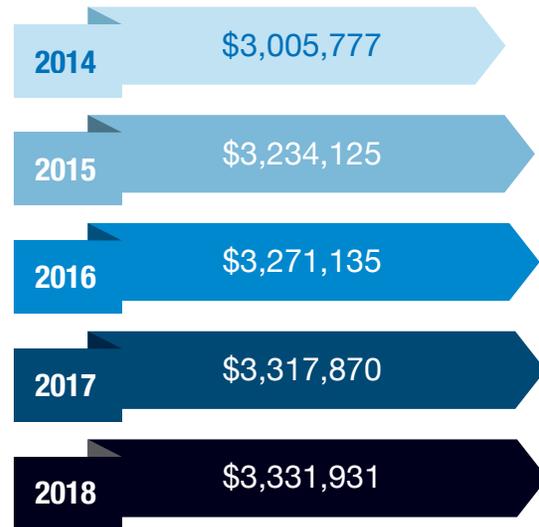
CONSOLIDATED SUPPLEMENTARY INFORMATION

(in thousands of Canadian dollars, except as otherwise noted)

TOTAL ASSETS

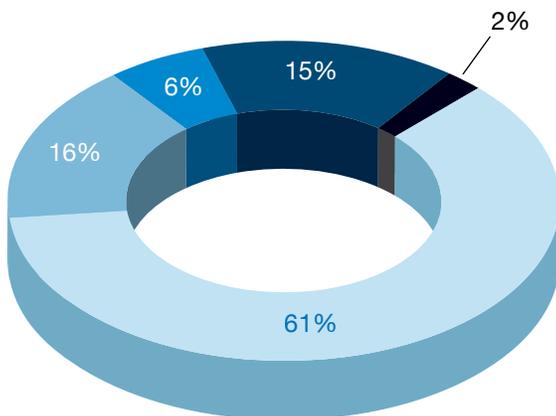


EQUITY



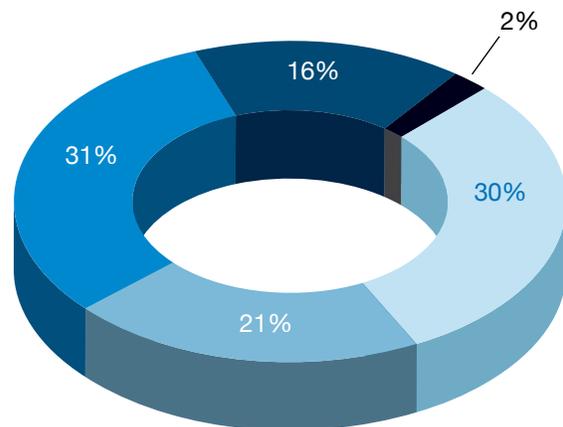
INVESTMENTS 2018

Investments are managed in a conservative manner to provide steady, consistent investment income to support the cash flow and liquidity needs of Wawanesa.



- Canadian Fixed Income Securities – \$3,786,389
- Foreign Fixed Income Securities – \$962,159
- Canadian Stocks – \$371,118
- Foreign Stocks – \$961,437
- Other – \$135,935

FIXED INCOME SECURITIES CREDIT QUALITY 2018



- AAA – \$1,439,026
- AA – \$1,009,686
- A – \$1,457,832
- BBB – \$751,508
- Below BBB – \$90,496

PROPERTY AND CASUALTY (P&C) OPERATIONS PROFILE

OUR P&C OPERATIONS HAVE CONDUCTED BUSINESS IN CANADA AND THE U.S. FOR OVER 122 YEARS AND 43 YEARS, RESPECTIVELY.

P&C Operations consist of The Wawanesa Mutual Insurance Company and Trimont Financial Ltd. in Canada and Wawanesa General Insurance Company in the U.S.

P&C Operations provide automobile, personal and commercial property, and farm insurance products in all major areas of Canada as well as in California and Oregon. Wawanesa's P&C insurance products are distributed by independent insurance brokers in Canada and by company agents in the U.S.

Trimont Financial Ltd., which owns the Western Financial Group, is dedicated to supporting and strengthening the insurance broker channel in Canada.

Key Facts

- Total assets of \$8.3 billion
- Strong financial position with equity of \$3.3 billion
- Over \$3.2 billion in annual policy premiums
- Over 5,100 employees across Canada and in the U.S.

Key Financial Measures

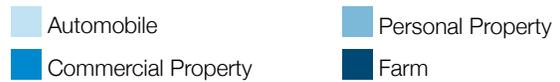
The following information and charts may not be IFRS measurements, but are derived from elements of the financial statements and are consistent with financial measures used in the P&C insurance industry.

P&C OPERATIONS

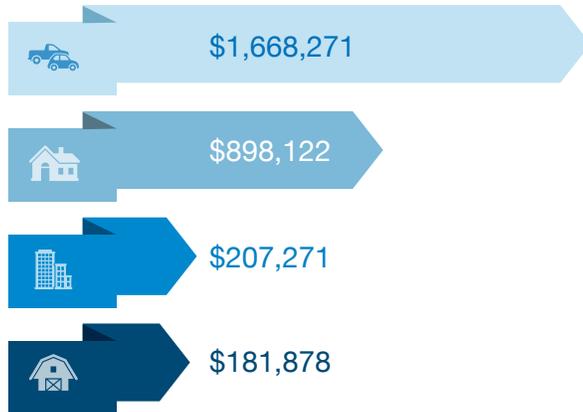
(in thousands of Canadian dollars, except as otherwise noted)

GROSS PREMIUMS WRITTEN

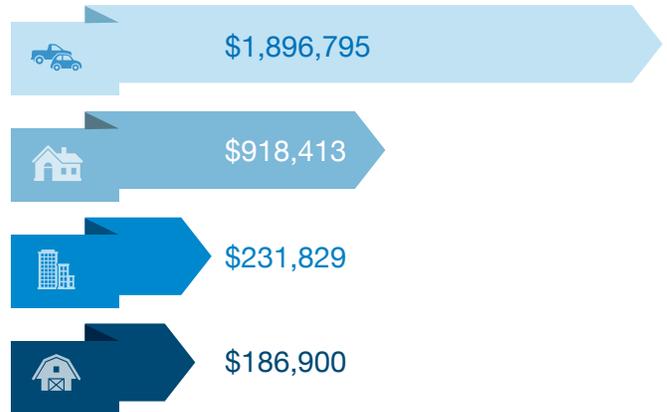
Gross premiums written are the premiums for all insurance policies placed during the period, including new policies and renewals.



2017



2018

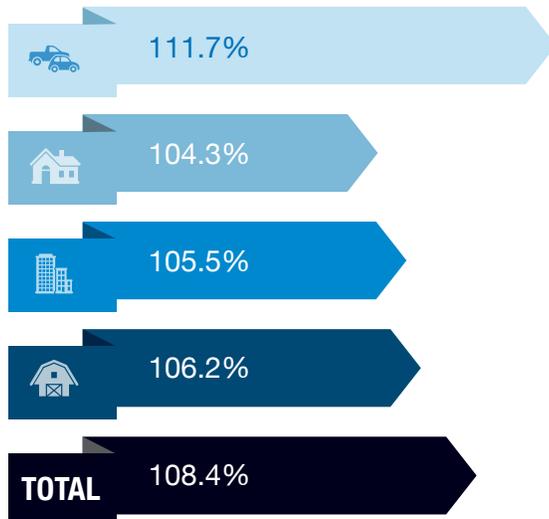


COMBINED RATIO

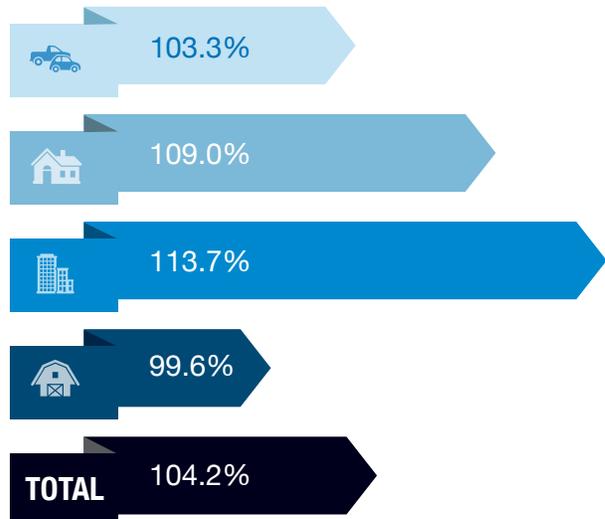
The combined ratio is a measure of the underwriting performance. It is the relationship between claims and other expenses incurred and premiums earned for the year expressed as a percentage. When there is an underwriting profit, the combined ratio will be less than 100%. When there is an underwriting loss, the combined ratio will be greater than 100%.



2017



2018

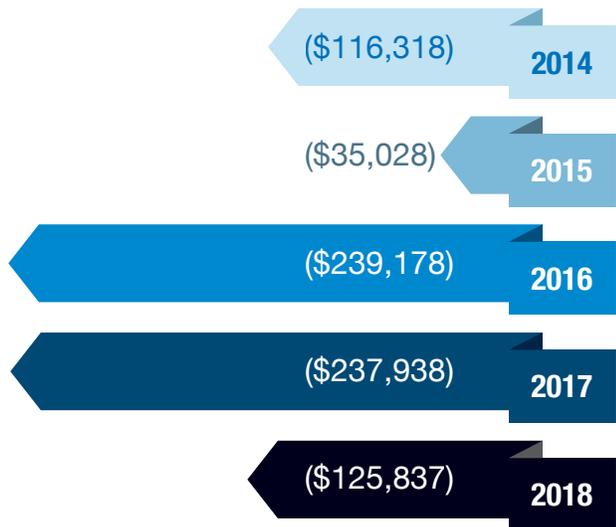


P&C OPERATIONS

(in thousands of Canadian dollars, except as otherwise noted)

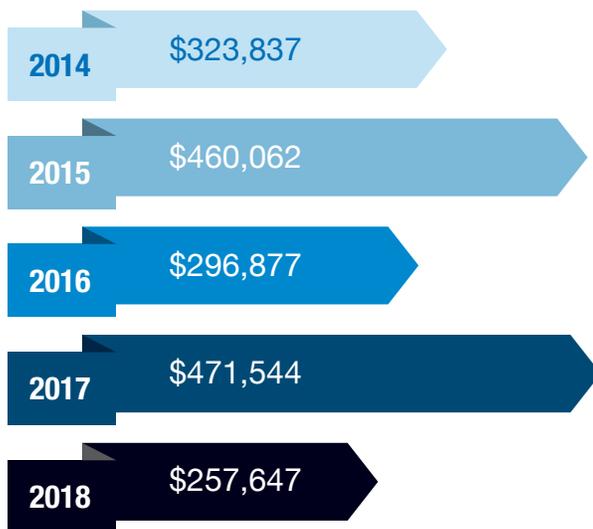
UNDERWRITING RESULTS

Underwriting profit (loss) represents the profit (loss) from insurance operations.



NET INVESTMENT INCOME

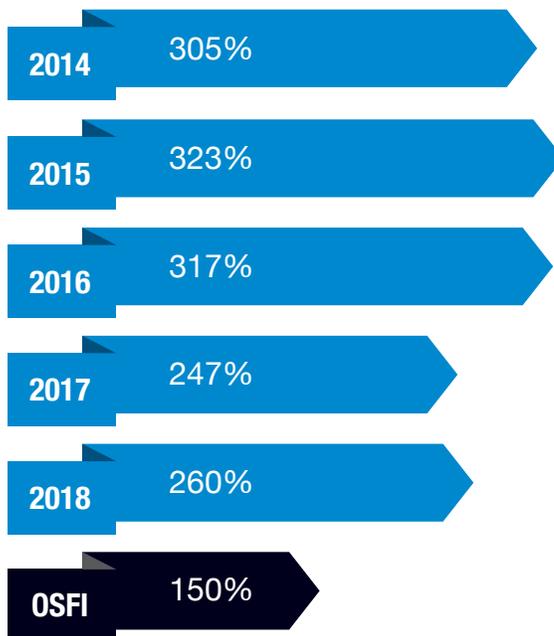
Net investment income is comprised of interest income, dividends and distributions from stocks and pooled funds, the net realized gain (loss) on sale of available-for-sale financial assets, the change in fair value of derivative financial instruments, and other investment income less expenses.



CAPITAL RATIO MCT

The Minimum Capital Test (MCT) is a calculation established by OSFI to measure the financial strength of P&C insurance companies. The MCT ratio is determined by dividing capital available by capital required, expressed as a percentage.

- MCT
- OSFI Minimum Requirement



LIFE OPERATIONS PROFILE

OUR LIFE INSURANCE OPERATIONS ARE CONDUCTED BY THE WAWANESA LIFE INSURANCE COMPANY AND ITS WHOLLY-OWNED OPERATING SUBSIDIARY, WESTERN LIFE ASSURANCE COMPANY (WESTERN LIFE).

These entities comprise the consolidated entity of The Wawanesa Life Insurance Company (Wawanesa Life). It is a Canadian life and health insurance company that has been in operation for 58 years.

Wawanesa Life provides term, permanent and critical illness insurance plus investment product options including segregated funds to individuals through its independent broker channel. Group life and health insurance products are designed to service the needs of employers, associations and unions by working with group benefit brokers. Wawanesa Life maintains a network of Regional Managers across the country to support its many broker and client relationships.

Key Facts

- Total assets of \$1.5 billion
- Individual life insurance volume of \$27.2 billion insured through 112,000 policies
- Insures over 277,000 employees through group benefit plans

Key Financial Measures

The following information and charts may not be IFRS measurements, but are derived from elements of Wawanesa Life's consolidated financial statements and are consistent with financial measures used in the life insurance industry.

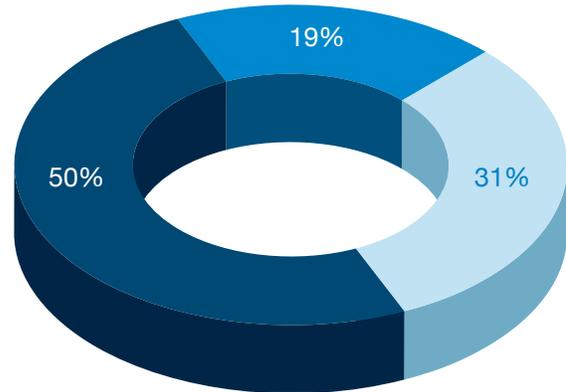
LIFE OPERATIONS

(in thousands of Canadian dollars, except as otherwise noted)

NET PREMIUMS AND EQUIVALENTS 2018

Net premiums and equivalents are the sum of billed insurance premiums, contributions received for investment in annuities or segregated funds, management fees earned on segregated fund balances and fee income earned from the administration of group business where the policyholder retains the insurance risk.

- Individual — \$72,388
- Group — \$114,850
- Annuity — \$42,592



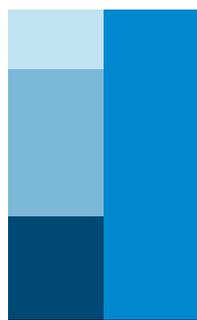
TOTAL COMPREHENSIVE INCOME (LOSS)

Total comprehensive income (loss) attributed to the participating policyholders (PAR Account) and the shareholder is shown in the following chart.

- Shareholder Other Comprehensive Income (Loss)
- Shareholder Profit (Loss)
- PAR Account Total Comprehensive Income
- Total Comprehensive Income (Loss)

2014

- \$2,565
- \$6,392
- \$4,427
- \$13,384



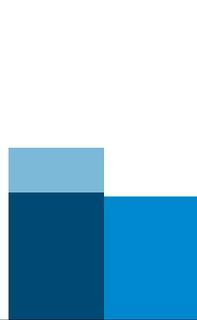
2015

- (\$1,820)
- \$2,493
- \$261
- \$934



2016

- (\$2,122)
- \$1,893
- \$5,547
- \$5,318



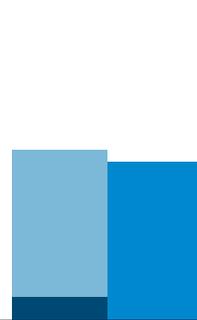
2017

- (\$1,227)
- (\$639)
- \$130
- (\$1,736)



2018

- (\$511)
- \$6,820
- \$1,020
- \$7,329

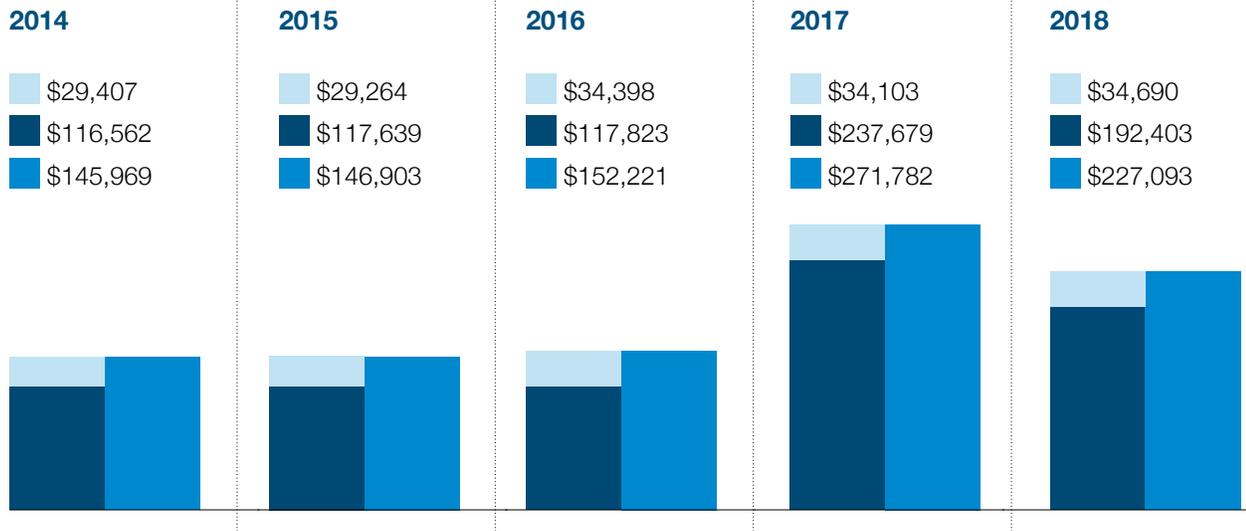
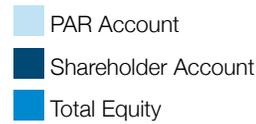


LIFE OPERATIONS

(in thousands of Canadian dollars, except as otherwise noted)

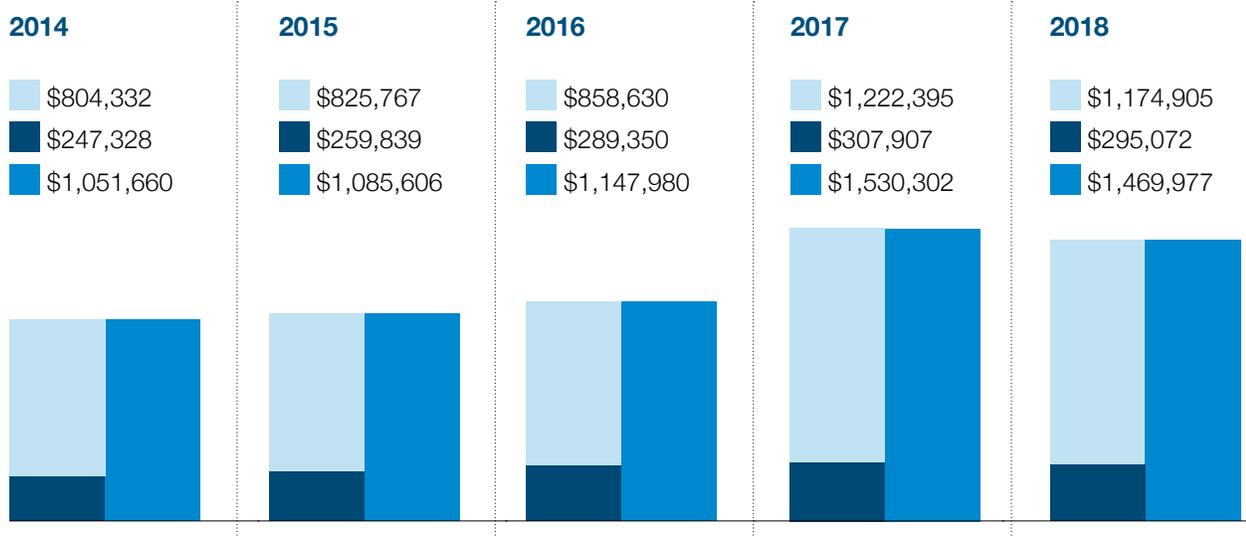
EQUITY

Equity includes amounts related to the shareholder account and the participating account. Shareholder equity supports the non-participating business and participating equity supports participating business. A summary of Wawanesa Life's Participating Account Management Policy and Participating Policyholder Dividend Policy can be found on pages 28 and 29.



TOTAL ASSETS

Total assets managed by Wawanesa Life include its general fund assets and annuity contractholder contributions to the segregated funds that are held separate and apart from the general fund assets.

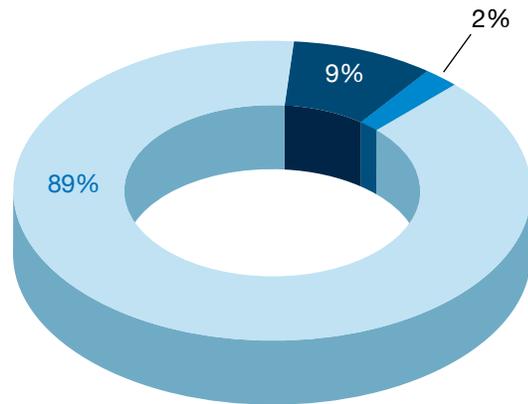


LIFE OPERATIONS

(in thousands of Canadian dollars, except as otherwise noted)

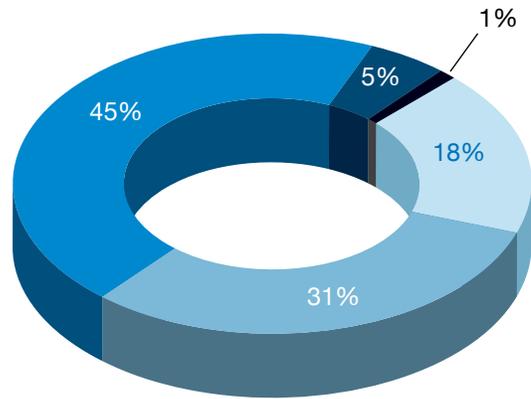
INVESTMENTS 2018

Investments are managed in a conservative manner to provide steady, consistent investment income to support the cash flow and liquidity needs of Wawanesa Life.



- Fixed Income Securities – \$940,881
- Stocks – \$93,673
- Policy Loans – \$18,758

FIXED INCOME SECURITIES CREDIT QUALITY 2018



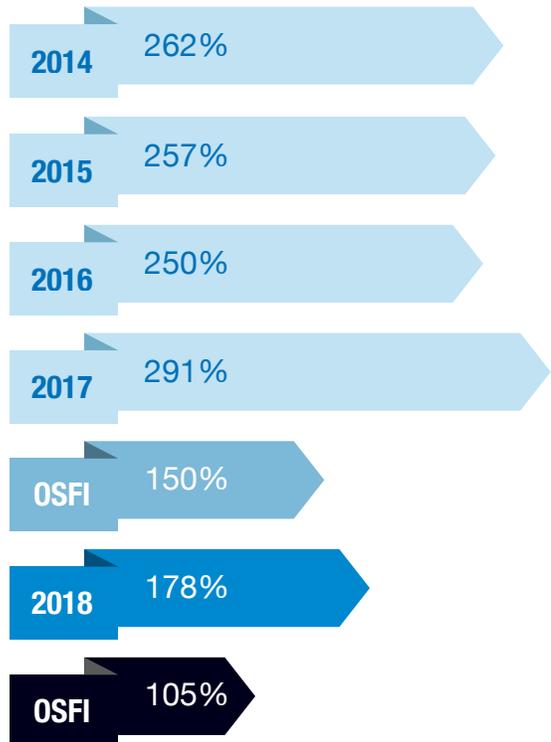
- AAA – \$164,823
- AA – \$293,448
- A – \$433,361
- BBB – \$48,247
- Fixed Income Pooled Funds – \$1,002

CAPITAL RATIO

Effective January 1, 2018, the Life Insurance Capital Adequacy Test (LICAT) replaced the Minimum Continuing Capital and Surplus Requirements (MCCSR) as OSFI's established measurement of capital adequacy for life insurance companies.

The LICAT guidelines defines regulatory capital resources and Base Solvency Buffer or required capital. The LICAT Ratio is calculated by dividing the Total Capital Resources by the Base Solvency Buffer. OSFI expects life insurance companies to establish internal target ratios above the supervisory target ratios.

- MCCSR
- OSFI Minimum Requirement MCCSR
- LICAT
- OSFI Minimum Requirement LICAT



REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

TO THE SHAREHOLDER AND POLICYHOLDERS OF THE WAWANESA LIFE INSURANCE COMPANY

Our Opinion

In our opinion, the accompanying summary consolidated financial statements of The Wawanesa Life Insurance Company and its subsidiaries (together, the Company) are a fair summary of the audited consolidated financial statements, on the basis described in Note 1 to the summary consolidated financial statements.

The Summary Consolidated Financial Statements

The Company's summary consolidated financial statements derived from the audited consolidated financial statements for the year ended December 31, 2018 comprise:

- the summary consolidated balance sheet as at December 31, 2018;
- the summary consolidated statement of comprehensive income (loss) for the year then ended; and
- the related notes to the summary consolidated financial statements.

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon.

The Audited Consolidated Financial Statements and Our Report Thereon

We expressed an unmodified opinion on the audited consolidated financial statements in our report dated February 21, 2019.

Management's Responsibility for the Summary Consolidated Financial Statements

Management is responsible for the preparation of the summary consolidated financial statements on the basis described in Note 1.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are a fair summary of the audited consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standards (CAS) 810, *Engagements to Report on Summary Financial Statements*.

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Winnipeg, Manitoba
February 21, 2019

APPOINTED ACTUARY'S REPORT

TO THE SHAREHOLDER AND POLICYHOLDERS OF THE WAWANESA LIFE INSURANCE COMPANY

I have valued the policy liabilities of The Wawanesa Life Insurance Company for its summary consolidated balance sheet at December 31, 2018 and their change in the summary consolidated statement of comprehensive income (loss) for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policy obligations and the summary consolidated financial statements fairly present the results of the valuation.



Jacques Tremblay
Fellow, Canadian Institute of Actuaries
Toronto, Ontario
February 21, 2019

THE WAWANESA LIFE INSURANCE COMPANY

Incorporated July 7, 1960

Head Office

107 - 4th Street
Wawanesa, Manitoba

Executive Office

400 - 200 Main Street
Winnipeg, Manitoba

OFFICERS AND CORPORATE MANAGEMENT

S. J. Goy, *ACAS, CIP*
President and
Chief Executive Officer

L. Mitchell
President,
Life Operations

G. J. Timlick, *F CPA, FCA, ICD.D*
Senior Vice President and
Chief Financial Officer

E. T. Johnston, *LLB, CFA,*
B. Comm. (Hons.)
Senior Vice President,
Chief Legal Officer and
Corporate Secretary

J. E. Carradice, *BSc, CPHR, CIP*
Senior Vice President and
Chief People and Culture Officer

M. K. Nemeth, *CPA, CA,*
FLMI, GBA, CEA
Senior Vice President and
Chief Risk Officer

C. R. Loeppky, *BScCS*
Senior Vice President and
Chief Information Officer

P. M. Horncastle, *CPA, CGA*
Vice President and
Chief Operating Officer

E. Elvebo, *CPA, CA*
Vice President,
Finance and Controller

T. S. Watson, *FCIA, FSA*
Vice President,
Risk Management and
Chief Actuary

REGIONAL OFFICES

British Columbia

400 - 1985 West Broadway
Vancouver, British Columbia

S. F. Engmann, *BA*

Regional Manager

B. R. Wyne, *MBA*

Regional Manager

Alberta

100, 8657 - 51st Avenue
Edmonton, Alberta

600, 708 - 11th Avenue S.W.
Calgary, Alberta

L. P. J. Addison

Regional Manager

B. R. Galarnyk

Regional Manager

Saskatchewan

201, 3501 - 8th Street East
Saskatoon, Saskatchewan

T. G. Briand, *CLU, CHS, TEP*

Regional Manager

Manitoba

400 - 200 Main Street
Winnipeg, Manitoba

G. L. C. Goymer, *BA, CFP,*

ChFC, CLU, CHS

Regional Manager

Ontario

100 - 4110 Yonge Street
Toronto, Ontario

M. Baljak

Regional Manager

B. I. Lang, *RHU*

Regional Manager

Maritime

1010 St. George Boulevard
Moncton, New Brunswick

S. B. Brydges, *CFP, CHS*

Regional Manager

SUMMARY CONSOLIDATED BALANCE SHEET

As at December 31
(in thousands of Canadian dollars, except as otherwise noted)

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 30,729	\$ 18,988
Investments including securities on loan	1,053,312	1,057,774
Other assets	90,864	145,633
General fund assets	1,174,905	1,222,395
Segregated funds net assets	295,072	307,907
Total assets	\$ 1,469,977	\$ 1,530,302
LIABILITIES		
Other liabilities	\$ 31,450	\$ 27,329
Insurance contract liabilities	916,362	923,284
General fund liabilities	947,812	950,613
Segregated funds contract liabilities	295,072	307,907
Total liabilities	1,242,884	1,258,520
Equity	227,093	271,782
Total liabilities and equity	\$ 1,469,977	\$ 1,530,302

Note 1: These summary consolidated financial statements have been derived from the audited consolidated financial statements of The Wawanesa Life Insurance Company (the Company) for the year ended December 31, 2018, which are prepared in accordance with International Financial Reporting Standards (IFRS).

The criteria developed by management for the preparation of the summary consolidated financial statements is as follows: that the information included in the summarized consolidated financial statements is in agreement with the related information in the complete consolidated financial statements, and that the summarized

consolidated financial statements contain the information necessary to avoid distorting or obscuring matters disclosed in the related complete consolidated financial statements, including the notes thereto, in all material respects.

A full set of the audited consolidated financial statements is available from the Company or at wawanesa.com.

SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the year ended December 31
(in thousands of Canadian dollars, except as otherwise noted)

	2018	2017
Net premiums and equivalents	\$ 229,830	\$ 178,450
Net investment income	649	48,672
Total revenue	230,479	227,122
Net claims and benefits incurred	108,940	95,918
Net change in insurance contract liabilities	(374)	45,578
Expenses incurred	110,563	86,303
Total benefits and expenses	219,129	227,799
Profit (loss) before income taxes	11,350	(677)
Provision for (recovery of) income taxes	3,384	(372)
Profit (loss) for the year	7,966	(305)
Other comprehensive loss, net of taxes	(637)	(1,431)
Total comprehensive income (loss) for the year	\$ 7,329	\$ (1,736)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR ATTRIBUTED TO:		
Shareholder	\$ 6,309	\$ (1,866)
Participating policyholders	1,020	130
	\$ 7,329	\$ (1,736)

A full set of the audited consolidated financial statements is available from the Company or at wawanesa.com.

SOURCES OF EARNINGS

The Sources of Earnings (SOE) is prepared following regulatory guidelines provided by OSFI requiring SOE disclosure. SOE is a non-IFRS financial measure. There is no standard SOE methodology. The calculation of SOE is dependent on, and sensitive to, the methodology, estimates and assumptions used.

SOE identifies and quantifies the various sources of IFRS profit. It provides an analysis of the difference between actual profit and expected profit based on business inforce and assumptions made at the beginning of the reporting period. The terminology used in the discussion of sources of earnings is described below:

Expected Profit on Inforce Business

This includes the release of the Provision for Adverse Deviations (PfADs) plus the expected profit on Segregated Funds. The release of the PfADs is the profit arising on the inforce business if the expected assumptions used in calculating the insurance contract liabilities are realized.

Impact of New Business

This represents the overall loss during the first year on new business. The PfADs in the insurance contract liabilities contribute to an overall initial loss on issuing new business. These PfADs are anticipated to be released into profit in future years to the extent they are not required to cover future adverse experience.

Experience Gains and Losses

The experience gains and losses result from items such as investment returns, claims and expenses where the actual experience during the year differs from the expected experience assumed in the insurance contract liabilities. It also includes the amount the fee income generated on Segregated Funds differs from expected.

Management Action and Changes in Assumptions

This section includes specific management actions and the impact of changes in assumptions used to calculate insurance contract liabilities.

Other

This represents all other sources of earnings on operations not included above.

Earnings on Surplus

This reflects the earnings on the surplus and capital of the Company.

SOURCES OF EARNINGS

For the year ended December 31
(in thousands of Canadian dollars, except as otherwise noted)

CONSOLIDATED SOURCES OF EARNINGS 2018	Total Company	Individual Life	Individual Annuity	Group Life and Health
Expected profit on inforce business	\$ 17,073	\$ 10,920	\$ 3,586	\$ 2,567
Impact of new business	(9,074)	(5,753)	(329)	(2,992)
Experience gains and losses	2,390	(8,102)	405	10,087
Management action and changes in assumptions	3,569	4,204	(45)	(590)
Other	(6,884)	(2,094)	(4)	(4,786)
Earnings (loss) on operations	7,074	\$ (825)	\$ 3,613	\$ 4,286
Earnings on surplus	4,276			
Profit before income taxes	11,350			
Provision for income taxes	3,384			
Profit for the year	\$ 7,966			

CONSOLIDATED SOURCES OF EARNINGS 2017	Total Company	Individual Life	Individual Annuity	Group Life and Health
Expected profit on inforce business	\$ 11,579	\$ 8,143	\$ 3,358	\$ 78
Impact of new business	(6,450)	(5,932)	(518)	–
Experience gains and losses	(2,404)	607	(114)	(2,897)
Management action and changes in assumptions	1,200	999	150	51
Other	(10,038)	(9,732)	–	(306)
Earnings (loss) on operations	(6,113)	\$ (5,915)	\$ 2,876	\$ (3,074)
Earnings on surplus	5,436			
Loss before income taxes	(677)			
Recovery of income taxes	(372)			
Loss for the year	\$ (305)			

SUMMARY OF THE PARTICIPATING ACCOUNT MANAGEMENT POLICY*

A Participating Account is maintained in respect of the Company's participating business, which is separate from the Shareholder Account. Revenue and expenses that are directly related to participating business are recorded to the Participating Account. Allocation methods are also used to record certain expense and revenue items to the Participating Account.

The Expense Allocation Method is designed to allocate expenses and taxes fairly and equitably between the Participating Account and the Shareholder Account.

The Investment Income Allocation Method is designed to allocate investment income fairly and equitably between the Participating Account and the Shareholder Account.

The Investment Policy Statement (IPS) governs the investment activities of the Company. Assets have been segmented into funds to facilitate managing assets with liabilities. The IPS specifies the investment objectives, investment risks, and management of these risks for each of the funds.

Surplus exists in the Participating Account for the needs of the current inforce business and future new business. Surplus is managed to meet the continuing financial stability of the Participating Account and to exceed any minimum regulatory requirements.

Participating policyholders are eligible to receive distributions from the Participating Account when experience justifies their payment. The Board of Directors determines the amount of dividends to be paid in accordance with the Company's Dividend Policy.

The Company is allowed to transfer an amount from the Participating Account to the Shareholder Account each year as described in the Insurance Companies Act. The Company intends to transfer an amount equal to the lesser of 10% of the amount of the dividends paid to the participating policyholders during the year and the maximum permitted by the Insurance Companies Act.

**The complete policy is available upon request.*

SUMMARY OF THE PARTICIPATING POLICYHOLDER DIVIDEND POLICY*

PARTICIPATING INDIVIDUAL LIFE INSURANCE

Participating Earnings are generated when collective experience related to investment, mortality, lapse, expenses and taxes is more favourable than assumed in developing the premiums. The Company may distribute a portion of the participating account earnings to the participating policyholders. The distribution is in the form of dividends payable to the policyholders. The amount available to be paid as dividends is determined based on various factors including the Company's earnings, any regulatory requirements and the amount of surplus required to ensure the continuing financial stability of the Participating Account.

The dividend scale sets out a formula for the allocation of distributable earnings to the participating policies. The primary factors used to distribute earnings are investment earnings, mortality, and expense experience. The dividend scale allocates distributable earnings among policies in the same proportion as the policies are considered to have contributed to distributable earnings. Dividends are credited to the policies on their policy anniversary date. The distribution of dividends is designed to maintain reasonable equity between classes of participating business.

Dividends are declared at the discretion of the Board of Directors.

**The complete policy is available upon request.*

INVESTMENT IN OUR PEOPLE

With each step forward in our growth as an organization, Wawanesa is transforming towards becoming a performance-based culture where employees feel engaged, empowered and rewarded for driving business results

We are dedicated to investing in the future of our people and providing them with a supportive and stimulating environment where they can grow their careers.

Below are the 2018 highlights related to our people investment initiatives:

- **We rolled out a new leadership development program** – to all frontline leaders, equipping them with better skills and knowledge to successfully lead their teams.
- **We launched a new learning management system** – that gives all employees access to online resources to support their professional advancement. As part of that, we fund an educational assistance program to employees who want to further their learning.
- **We introduced a new performance management program** – that promotes employee-leader conversations throughout the year. The conversations focus on an employee's individual goals and how they align to both our corporate strategy and to their career development.
- **Our talent acquisition strategy has evolved** – to strengthen our recruiting practices and that in addition to our Employee Value Proposition (EVP) elevates our ability to compete for high-calibre candidates. We are proud to offer a highly competitive total rewards program, which includes compensation and bonus plans, health and wellness benefits, flexible work hours and leading paid time off programs.

We continue to review and revise our people programs to remain competitive in the market and relevant to our diverse workforce. To that end, we perform annual engagement surveys to ensure we are in step with our employees. These surveys provide invaluable feedback to guide our planning and decision-making.

INVESTMENT IN OUR COMMUNITY

As a mutual insurer founded on the idea of looking after one another, Wawanesa is committed to investing in and supporting the communities we serve.

Our charitable giving program currently supports community organizations and programs in five primary areas:

- Arts & Culture
- Community Activities
- Education
- Health
- Social Services

Key community investment and philanthropic highlights in 2018 include:

- **We gave nearly \$3 million** to support community organizations across Canada and the United States.
- **We unified our annual local and regional United Way campaigns** into an enterprise-wide initiative. In doing so, our employees' generosity, coupled with a dollar-for-dollar company match, resulted in \$860,000 provided to help United Way agencies across North America.
- **Our My Community Day program** provides employees one paid day per year to volunteer in their communities. Last year our employees gave 8,284 hours of their time. That's more than 1,100 working days donated to community organizations and programs.

We support communities in the midst of tragedy, catastrophe or disaster.

Last year we donated \$120,000 to help first-responders and their support organizations. For example:

- In April, Canadians were shaken by the tragic accident that killed 16 junior hockey players and severely injured 13 more. Canada came together to embrace the Humboldt Broncos hockey team and those tragically affected by the accident. **Wawanesa donated \$30,000 to support five local fire departments and the work of first-responders.**
- In 2018, California experienced the most destructive wildfires in its history. Officially declared a national disaster, these wildfires ravaged hundreds of thousands of hectares of land, displaced thousands of people, and claimed numerous lives. **Our donation of USD \$15,000 to the American Red Cross helped provide shelter to families, support emergency responders, and deliver relief supplies.**
- In September, tornadoes tore through the Ottawa-Gatineau region destroying thousands of homes and leaving more than 200,000 people without power. **We donated \$20,000 to United Way Centraide Ottawa** to support their efforts to provide families with access to food, clothing, and counselling support during their time of greatest need.

Helping neighbours is the core of our Company and caring is in the heart of who we are. Driven by genuine community spirit and generosity, we will continue investing in our communities to help build a better future for everyone.

BOARD OF DIRECTORS



S.J. Goy



R.R. Bracken 1,2,3,4,5
Chair, Board of Directors



K.A. Bardswick 4,5



E.J. Beale 2,3



C.M. Best 1,2



N.A. Everett 2,3



B.W.J. Jack 1,5



R.O. Landry 3,5



N.R. Logan 1,4



K.L. Matchett 2,4,5



A.S. Penman 1,3



M.M. Szel 4,5



D.G. Unruh 2,4

1. Member of the Audit Committee
2. Member of the Governance Committee
3. Member of the Investment Committee
4. Member of the Human Resources Committee
5. Member of the Risk Committee

Wawanesa Insurance
Executive Office
900 - 191 Broadway
Winnipeg, Manitoba R3C 3P1

Telephone: 204-985-3923
Fax: 204-942-7724
wawanesa.com



Wawanesa
Insurance