



Wawanesa
Insurance

2013 WAWANESA INSURANCE
ANNUAL REPORT

Wawanesa is a Canadian mutual company owned by its policyholders. With assets of over \$8.0 billion and nearly 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.

Wawanesa has 100% ownership of two subsidiary companies.



The Wawanesa Life Insurance Company

400–200 Main Street

Winnipeg, Manitoba R3C 1A8

100% Owned

Book value of shares \$107,212,000

Wawanesa General Insurance Company

9050 Friars Road

San Diego, California 92108

100% Owned

Book value of shares \$268,740,000

MISSION AND VALUES

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.

VALUES

- We treat others in a respectful and truthful manner.
- We conduct business with integrity, honesty, consistency and fairness.
- We act ethically and lawfully.
- We take pride in making service a priority.
- We encourage collaboration, innovation and excellence.
- We support the communities in which we work and live.



PRESIDENT'S REPORT

2013 was a challenging year for our Company.

Continuation of the recent year trend of increasingly severe weather resulted in record levels of catastrophic claims costs that negatively impacted our property and casualty underwriting results. In addition, we experienced a modest overall decline in policies for the first time in many years. In spite of these challenges, we are reporting respectable profit for the year and due to excellent returns from the equity component of our investment portfolio, are reporting excellent total comprehensive income and a significant increase in total capital.

On a consolidated basis, gross premiums written increased slightly from 2012 and totalled \$2.6 billion. Investment income for 2013 declined to \$210 million from \$357 million. In fact, 2013 represents a return to more normal investment income from the unusually high levels of 2012. In 2012, the implementation of strategic changes to our bond portfolios generated significant realized gains. Profit for the year was \$88 million, down from \$221 million in 2012, which was a record for our Company. As mentioned above, total comprehensive income was excellent at \$313 million (increased from \$197 million in 2012) which significantly increased our capital position. As a result, our regulatory capital ratio remained at 300% in spite of changes made to the calculation, which served to increase capital requirements. Total assets exceed \$8 billion for the first time and total capital increased to \$2.8 billion. Wawanesa Mutual was once again awarded a rating of A+ (Superior) from A.M. Best.

In 2012, the implementation of strategic changes to our bond portfolios generated significant realized gains.

PROPERTY AND CASUALTY (P&C) OPERATIONS

Financial Results

As referenced earlier, we experienced an overall reduction in policies in our P&C operations for the first time in many years. Our Canadian policy count declined by 2.1% while modest growth was experienced in our United States operation. However, we understand the reasons behind the decline in Canadian business. The sale of two large brokerages to single-market brokers resulted in some

loss of business. In addition, specific pricing actions undertaken to improve our results in some areas resulted in an expected loss of business. However, these causes of business decline are now in the past, and we are experiencing a return to modest growth in 2014.

Canadian net written premiums declined slightly, following the reduction in policy counts. Auto premiums declined by 3.7% while personal property premiums increased by 1.7%, and on a positive note, commercial property premiums increased by 8.2%. In the United States, written premiums increased by 5.0%.

Underwriting results were disappointing in 2013. We experienced an underwriting loss of \$108 million, \$93 million in Canada and \$15 million in the United States.

The summer of 2013 will be remembered for extreme weather events throughout Canada. The financial impact on Wawanesa and the insurance industry was significant. The flooding in Southern Alberta, which began on June 19, was an unprecedented event. Not only was this a significant claims catastrophe for Wawanesa, with claims numbering around 4,000, the situation was compounded by losing access to our office in downtown Calgary for over a week. However, previous enhancements to our business continuity planning proved to be very useful in addressing the operational impacts associated with this office closure.

In responding to the flooding, a number of specific actions were taken to service our policyholders, including the establishment of four temporary mobile claim centres. Adjusters and appraisers from other regions came to the aid of the Southern Alberta Region. Claim intake was handled remotely by staff in other regions and in our executive office. Handling these types of claims is difficult at the best of times, but given the devastation suffered by many claimants, a high degree of empathy was required by claims adjusters. It was truly inspirational and gratifying to see our staff living the Wawanesa values by providing extraordinary service to our customers during such an unprecedented event. Overall, the response by our Wawanesa team to this disaster was exceptional.

After the June flooding, July brought many more extreme weather events involving wind, hail, water and sewer backup in all parts of Alberta and the rest of the Prairies. To say it was a challenging year for our claims staff in Southern Alberta would be an understatement.

While catastrophic weather events have (unfortunately) become the norm on the Prairies in recent years, it is not common for us to experience a major catastrophe in Ontario. But it happened on July 8 when a torrential rainfall in a relatively short period of time broke records in Toronto. Although not as severe as the Calgary flood, there was a large influx of difficult claims, and once again, staff from other regions provided assistance to our Toronto claims staff.

Overall, we experienced 19 catastrophic claim events in 2013 with a gross loss cost of \$338 million. This compares to \$202 million in 2012 and \$260 million in 2011, which included the Slave Lake wildfire. The major events in 2013 were the Calgary flood for \$130 million and the Toronto rainstorm for \$70 million. Total catastrophic losses in Alberta were \$238 million.

Regional Results

The Maritime Region continued to operate well although there was a small decline in business – the result of the sale of a large brokerage to a single market broker. An underwriting profit was realized, though somewhat reduced from 2012 due to poor winter weather.

Although we continued to lose some business in the Quebec Region during 2013, we made further progress in our strategic initiative to update our rating and pricing systems. In addition, certain operational changes were implemented that were designed to increase our focus on marketing and new business generation. We believe we are at point where our business volumes will begin to grow and have observed net policy growth during the first two months of 2014.

Due to necessary automobile rating actions taken early in the year, we lost a significant amount of business in the Ontario Region during 2013. However, with those actions behind us, we expect to return to modest growth in 2014. Overall underwriting results were quite good, with only a small loss realized in the property line in spite of the catastrophic torrential rainstorm on July 8.

The Ontario government recently enacted regulations requiring a 15% reduction in auto premiums by August 2015, with 8% by August 2014. We have responded with a premium reduction effective April 2014. It is of note that the regulation calls for reductions in both premiums and costs. Clearly, costs must be reduced in order to provide for further premium reductions. However, a reduction in costs requires action by government to reduce and/or control benefits provided by the

standard auto policy and also to reduce fraud. We remain concerned whether government will make necessary changes on a timely basis to appropriately address the cost side of the equation and thereby provide for further premium reductions by 2015.

The Winnipeg Region again reports a good year. Policies and written premiums increased steadily, with increases in both Manitoba and Northwestern Ontario. There were no significant weather events in 2013, so a good underwriting profit was reported.

Policy growth was modest in the Prairie Region, but written premiums grew at a much higher rate due to premium increases directed at the increasing cost of severe weather events. However, severe weather continued, and we again experienced a significant underwriting loss. Additional product and rate changes will be required to address continued poor results.

There was modest growth in both policies and written premiums in the Northern Alberta Region, while in the Southern Alberta Region, business levels were stable. Product changes were introduced in both regions in late 2012 to begin addressing continuing property losses resulting from severe weather. We were concerned that our business volume might decline as a result but were pleased this did not occur. We thank our brokers for their understanding and continued support. In spite of those changes and the fact that most of the severe weather occurred in Southern Alberta in 2013, the Northern Alberta Region again experienced a significant underwriting loss in the property line of business. In Southern Alberta, underwriting results were terrible due to the Calgary flood and a series of other significant, but less publicized, weather events. An underwriting loss was experienced in the auto line resulting mainly from flooded vehicles, while property losses were unprecedented.

The Winnipeg Region again reports a good year. Policies and written premiums increased steadily, with increases in both Manitoba and Northwestern Ontario.

The 2013 Alberta property underwriting results are really just a continuation of the poor results of recent years. It is clear that further premium increases are necessary to address the situation, but we have also concluded that changes in product design were required. We introduced those changes early in 2014. Policyholders are being provided with greater choice in selecting coverage amounts and deductibles. They are also being provided with significant discounts if they undertake loss prevention activities. The days of all-inclusive, low-premium property insurance policies are over. While these changes can be challenging to those on the front lines, i.e. our brokers, it is an opportunity for them to demonstrate the strength of the broker value proposition to their clients. We are pleased that many brokers take that view.

A reduction in policies was experienced in the British Columbia Region in 2013, while written premiums declined only marginally. We continued to lose some business as a result of necessary changes made to our earthquake products and pricing. A major earthquake is

the largest risk facing our company, and given the changes made, we are now comfortable with our approach to the market and our management of the risk. Another cause of the decline in policies was the sale of a large brokerage to a single market broker. We expect growth to resume in early 2014. An underwriting loss was experienced but much reduced from 2012.

Wawanesa General, our United States operation, experienced a return to modest policy growth in 2013 with a significant increase in written premium. Unfortunately the increase in premiums did not translate into an improvement in underwriting results as we are reporting an underwriting loss of \$14.7 million for the year. During the year, we continued to focus on marketing and business development and are beginning to see results. We are also focused on our

disappointing underwriting results and are developing more sophisticated approaches to pricing our products in response. In 2013, for the second consecutive year, the U.S. Operation was recognized as #1 in customer satisfaction in the California Region of the J.D. Power and Associates Auto Insurance Study. The award reflects the strong customer service culture that exists at Wawanesa. The first implementation of our new policy administration system is planned for mid-2015 in the U.S. Operation, so much work is underway preparing for the system launch and conversion from the old system.

Operational Comments

As has been the theme in recent years, we continued with the renewal of our company infrastructure in 2013 in order to meet the demands of the marketplace and be a strong and successful company in the future. We continued to update our core business systems as well as many internal processes.

The Strategic System Replacement Program continues to progress well. This is a multi-year implementation of Guidewire's InsuranceSuite and supporting technologies. We are over a year into the program, and it is on track for the first implementation in our U.S. Operation by mid-2015. This is a major financial investment, and it is being monitored closely with strong governance at various levels, including engaged project management, senior management steering committees, independent third-party reviews and Board of Directors oversight. Project teams are focused on all four aspects of the program:

- Configuring Guidewire's InsuranceSuite to meet our requirements
- Preparing the organization for change and transition
- Customer reporting and financial and regulatory reporting
- Developing the required enterprise technology platform to support the new systems

*On January 1, 2014,
the two-year project to
implement a new financial
system came to a successful
conclusion with the launch
of the system.*

On January 1, 2014, the two-year project to implement a new financial system came to a successful conclusion with the launch of the system. This is a major Tier 1 system that will provide us with improved financial and management reporting in the future.

We have been developing an Enterprise Risk Management Program for a few years now. During 2013, we reached the stage where we now consider our program to be fully in place. A new Risk Committee of the Board of Directors was established to provide oversight for the program, which demonstrates the level of importance our Board places on effective risk management. While the program

will become more complex and sophisticated over time, we are very pleased with the program development to date.

LIFE OPERATIONS

Financial Results

In 2013, Wawanesa Life reported net income of \$9.4 million, a new record for the Company. Changes were implemented

within the individual life and group operations designed to improve reported financial results that had fallen below expectations in recent years. These actions were successful and contributed to a significant improvement in results. Assets under administration grew to \$940 million, and the reported capital ratio is one of the best in recent history. Premium income and equivalents, net of reinsurance, was \$113 million, the result of respectable new business levels and policy persistency in both the individual and group lines of business.

Operational Comments

New business sales of individual insurance ended the year at \$4.9 million. This is a sharp decline from 2012's record-setting performance as premium increases and the removal of some payment options in permanent insurance products impacted new business production. These were difficult decisions to make but necessary in order to bring

profitability back to acceptable levels. The sales team did well to maintain a consistent level of production across other individual life products. Policy persistency remains above our objective, and inforce net premium grew by 3.6% to \$44.6 million.

We continue to make progress on our plans to replace the Individual Operation's various legacy systems. The objective is to modernize the technology environment and gain efficiencies in the back office environment, which will enhance policyholder and broker servicing. This is a very complex implementation with several project initiatives running in parallel. This year we completed the installation of document imaging in the underwriting and policy issue departments where all incoming documents are scanned for processing. While we still have a way to go before our modernization efforts are complete, we are pleased with our progress so far.

New business sales of group insurance reached \$3.3 million, a strong showing compared to 2012. Steps taken to update our product pricing and underwriting approach contributed to this positive result. These changes were also applied to renewals of the 10+ life product in 2013. Our sales team is seeing good broker support of our efforts in this area, with policy retention remaining above our internal target. These positives are being offset by renewal activity of the original 3-9 life product where pricing action is hurting renewal activity. As a result, net premium revenue increased only slightly to \$32.3 million, but operating results improved.

Wawanesa Life demonstrated excellent financial strength in 2013. The Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio is well in excess of 200%, significantly above the requirement set by the Office of the Superintendent of Financial Institutions (OSFI). In addition, Wawanesa Life continues to be rated as A (Excellent) by A.M. Best.

ACKNOWLEDGEMENTS

This is where I usually acknowledge the contributions of members of senior management or the Board who retired during the previous year. In fact, there were no retirements from senior management or the Board in 2013. But at least one will be occurring in 2014.

I will be retiring from Wawanesa in May after over 33 years of service to this wonderful organization. The company that started in the village of Wawanesa over 117 years ago is still growing and is financially very strong. It is a company with a storied past and a bright future. It is a company with dedicated and committed employees who

drive its success. It is a company that has developed long and trusting relationships with its brokers. It is a company that is investing in its business systems in order to effectively deliver insurance in the future.

I am incredibly proud to have worked almost my entire career at Wawanesa and to have had the opportunity to lead it for the

last seven years. It was nice to see Wawanesa Life have a good year in 2013 as I spent over 20 years in that part of our organization. I would like to thank many individuals throughout our companies who have been so supportive along the way, but as this report is already long enough, I will mention only a few. I served directly under two prior CEOs, Monty Montgomery and Gregg Hanson. Both were committed to the success of this organization and were great mentors. I served directly under two Board Chairs, Barry Harrison and Richard Bracken. Both provided incredible personal support and guidance. I would like to recognize the strong support provided by our Board of Directors, a group that is dedicated to seeing Wawanesa grow and prosper in the years ahead. I developed a relationship with many of our brokers over the last few years and was always impressed with their commitment to

The company that started in the village of Wawanesa over 117 years ago is still growing and is financially very strong.

their customers and thankful for their continued support of Wawanesa. But in particular, I want to recognize the efforts of the entire senior management team over the last seven years. I really think we functioned well as a team and accomplished quite a bit.

So now to the future. After a fulsome succession planning exercise, the Board announced its selection of a successor in July of last year. Jeff Goy will be appointed President and Chief Executive Officer in May 2014. Jeff is a great choice. He has been with Wawanesa for almost 25 years and knows our history and understands our values very well. He has an actuarial background and was most recently the Vice President of Insurance Products, which means he was involved in key product and pricing decision-making in all of our operations. I will have the privilege of remaining as a member of our Board, so will be able to observe future success at Wawanesa under Jeff's leadership.

In spite of some challenges, 2013 was a good one for Wawanesa. Growth was somewhat constrained in a very competitive environment, but we are back on track for modest growth in the future. We added to our strong capital position and continued to make progress at renewing the system infrastructure that will position us well for the future. As always, thanks to our brokers for their continued support, especially in regions where significant product and rate changes were required. Thank you to all of our employees for their dedication and commitment to the continued success of Wawanesa. I believe the company is well positioned to compete and be successful in any future industry environment.

Ken McCrea, CA, FLMI

President and Chief Executive Officer

Founded in 1896
Incorporated May 1, 1929

Head Office
Wawanesa, Manitoba

Executive Office
900–191 Broadway
Winnipeg, Manitoba

OFFICERS AND CORPORATE MANAGEMENT

K. E. McCrea, CA, FLMI
President and Chief Executive Officer

G. N. Bass, Q.C.
Vice President, General Counsel and Secretary

B. A. MacKinnon, FCAS, FCIA, MAAA
Vice President and Chief Actuary

G. J. Timlick, CA
Vice President and Chief Financial Officer

J. E. Carradice, BSc, CHRP
Vice President, Human Resources

S. J. Goy, ACAS, CIP
Vice President, Corporate Development

C. R. Loepky, BScSc
Vice President, Information Services

C. B. Luby, FCIP, CRM
Vice President, Marketing and
Business Development

B. K. MacIntyre, FCIP
Vice President, Claims

T. L. Nelson, FLMI/M, CHRP, CIP
Vice President, Regional Insurance Operations

T. A. Riley, CIP, NPDP
Vice President, Insurance Products

A. W. Sherry, FCAS, FCIA, CMA, FCIP, CRM
Vice President, Actuarial Pricing

M. S. Struck, FCAS, FCIA, MAAA
Vice President, Enterprise Risk Management

K. P. Boyd, CA, CIP
Controller

P. R. Mulaire, CMA, CIA, CRMA, FCIP
Director, Internal Audit

THE WAWANESA MUTUAL INSURANCE COMPANY REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

February 21, 2014

TO THE DIRECTORS OF THE WAWANESA MUTUAL INSURANCE COMPANY

The accompanying summary consolidated financial statements, which comprise the summary consolidated balance sheets as at December 31, 2013 and the summary consolidated statements of operations for the year ended December 31, 2013 are derived from the audited consolidated financial statements of The Wawanesa Mutual Insurance Company for the year ended December 31, 2013. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated February 21, 2014.

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of The Wawanesa Mutual Insurance Company.

Management's Responsibility for the Summary Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the summary 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."

Opinion

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of The Wawanesa Mutual Insurance Company for the year ended December 31, 2013 are a fair summary of those consolidated financial statements, on the basis described in note 1.

PricewaterhouseCoopers LLP

Chartered Accountants
Winnipeg, Manitoba

THE WAWANESA MUTUAL INSURANCE COMPANY
APPOINTED ACTUARY'S REPORT

February 21, 2014

**TO THE DIRECTORS OF
THE WAWANESA MUTUAL INSURANCE COMPANY**

I have valued the insurance contract liabilities of the Company for its consolidated balance sheets as at December 31, 2013 and their change in the consolidated statements of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of insurance contract liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the result of the valuation.



Brett A. MacKinnon, FCAS, FCIA, MAAA
Winnipeg, Manitoba

REGIONAL OFFICES

Maritime

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Moncton, New Brunswick
B. E. MacKenzie, CIP
Vice President, Maritime Region

Québec

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C. Auclair, PAA
Vice President, Québec Region

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T. R. Greer
Vice President, Ontario Region

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E. Rossong, FCIP
Vice President, Winnipeg Region

Prairie

Wawanesa, Manitoba
W. G. McGregor, FCIP
Vice President, Prairie Region

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

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M. M. Cote-Johnson, CIP
Vice President, Southern Alberta Region

British Columbia

400-1985 West Broadway
Vancouver, British Columbia
G. R. Haigh, BA, FCIP, CAIB
Vice President, British Columbia Region

United States

9050 Friars Road
San Diego, California
D. G. Fitzgibbons, CPCU
Vice President, United States Operations

SUMMARY CONSOLIDATED BALANCE SHEETS

	As at December 31	
	2013	2012
	(000s)	
Assets		
Cash and cash equivalents	\$ 129,129	\$ 96,762
Accrued investment income	27,780	28,356
Investments	6,344,004	6,205,522
Other assets	1,577,538	1,415,238
Total assets	\$ 8,078,451	\$ 7,745,878
Liabilities		
Insurance contract liabilities	\$ 4,615,481	\$ 4,424,535
Other liabilities	677,338	849,158
Total liabilities	5,292,819	5,273,693
Equity	2,785,632	2,472,185
Total liabilities and equity	\$ 8,078,451	\$ 7,745,878

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, 2013, which are prepared in conformity 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 www.wawanesa.com.

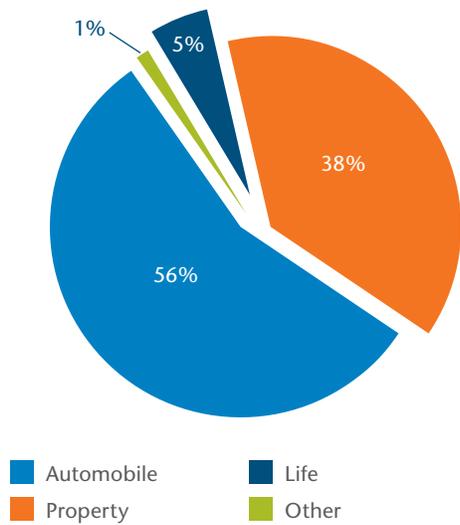
SUMMARY CONSOLIDATED STATEMENTS OF OPERATIONS

	For the year ended December 31	
	2013	2012
	(000s)	
Revenue		
Net premiums written	\$ 2,476,667	\$ 2,504,327
Change in unearned premiums	(6,676)	(45,254)
Net premiums earned	2,469,991	2,459,073
Net investment income	209,890	356,902
Instalment service charges earned	39,266	37,960
	2,719,147	2,853,935
Expenses		
Net claims and insurance benefits incurred	\$ 1,916,299	\$ 1,897,106
Other expenses incurred	694,605	2,610,904
		680,122
		2,577,228
Profit before income taxes	108,243	276,707
Provision for income taxes	19,965	55,997
Profit for the year	\$ 88,278	\$ 220,710
Profit for the year attributed to:		
Policyholders of the Company	\$ 83,980	\$ 220,274
Participating policyholders' interest	4,298	436
	\$ 88,278	\$ 220,710

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

CONSOLIDATED SUPPLEMENTARY INFORMATION

GROSS PREMIUMS WRITTEN 2013



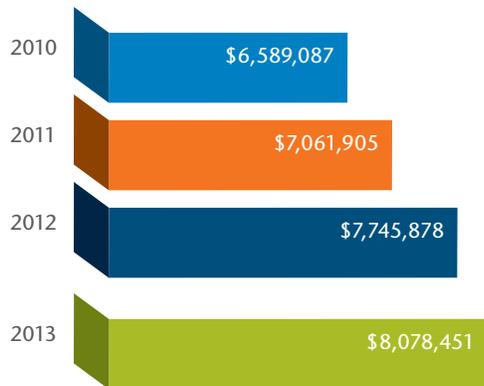
PROFIT

(000s)



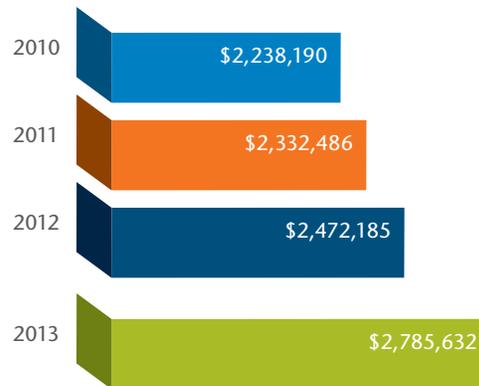
TOTAL ASSETS

(000s)



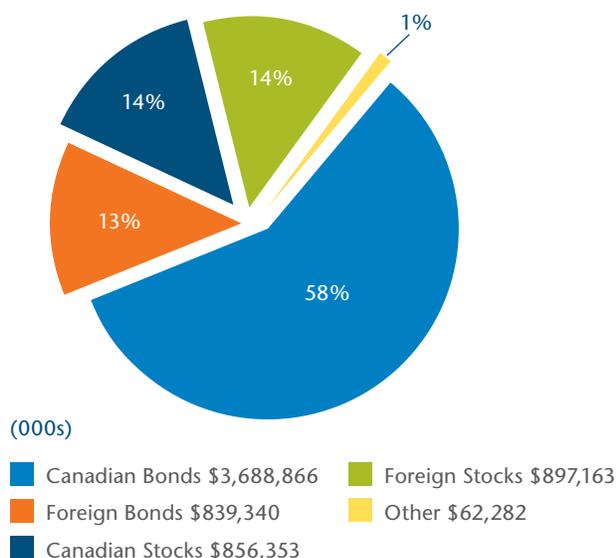
EQUITY

(000s)

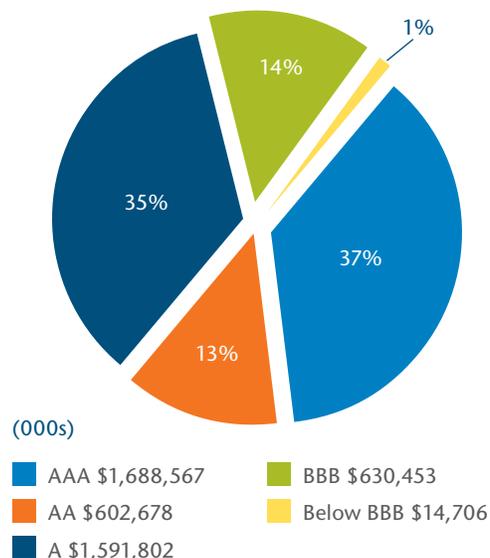


CONSOLIDATED SUPPLEMENTARY INFORMATION

INVESTMENTS 2013



BONDS CREDIT QUALITY 2013



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

PROPERTY AND CASUALTY (P&C) OPERATIONS PROFILE

P&C Operations consist of The Wawanesa Mutual Insurance Company in Canada and Wawanesa General Insurance Company in the U.S. Our P&C Operations have conducted business in Canada and the U.S. for 117 years and 38 years, respectively.

P&C Operations provide automobile, personal and commercial property, and liability 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, except in Quebec and the U.S. where products are distributed through company agents.

Key Facts

- Total assets of \$7.2 billion
- Strong financial position with equity of \$2.8 billion
- Over \$2.4 billion in annual policy premiums
- Over 2,500 employees across Canada and in the U.S.

KEY FINANCIAL MEASURES

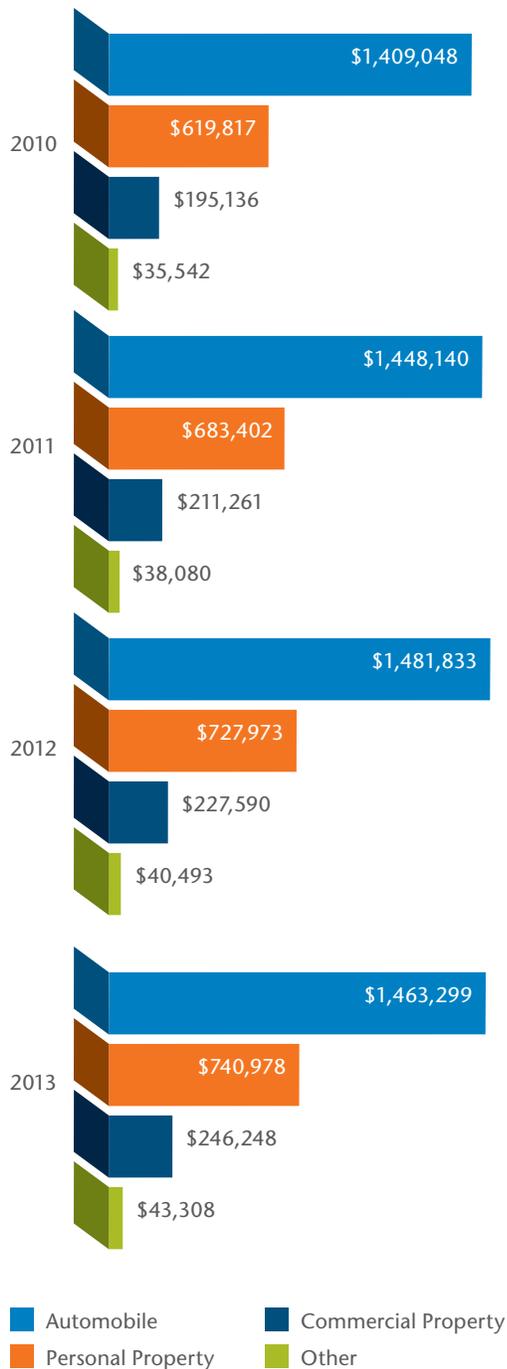
The following information and charts may not be IFRS measurements, but are derived from elements of the financial statements and are consistent with financial measures used in the P&C insurance industry.

P&C OPERATIONS

GROSS PREMIUMS WRITTEN

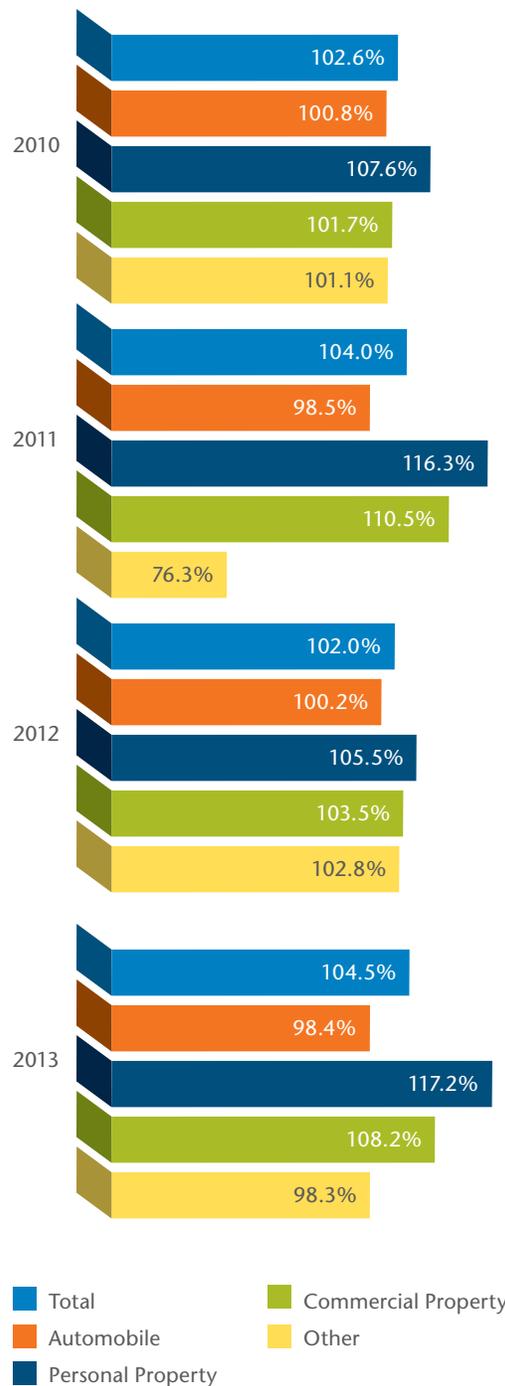
Gross premiums written are the premiums for all insurance policies placed during the period, including new policies and renewals.

(000s)



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%.

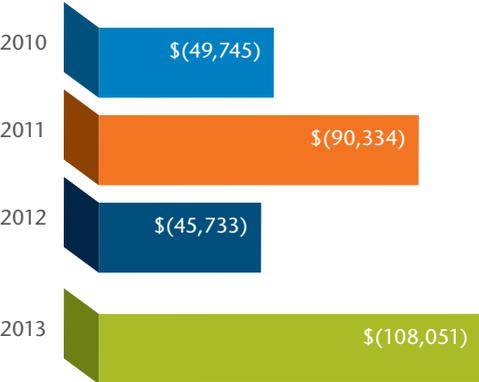


P&C OPERATIONS

UNDERWRITING RESULTS

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

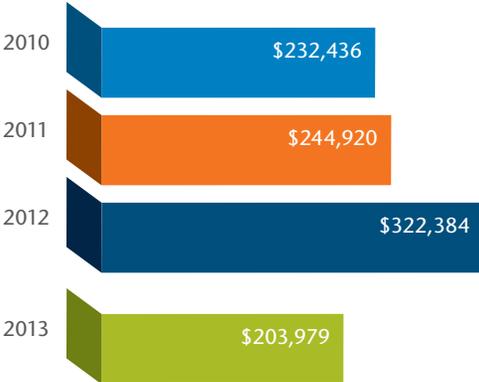
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NET INVESTMENT INCOME

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

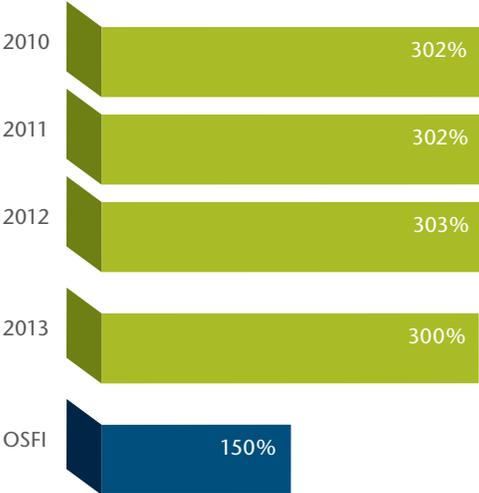
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CAPITAL RATIO MCT

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 Requirement



LIFE OPERATIONS PROFILE

Our life insurance operations are conducted by The Wawanesa Life Insurance Company. It is a Canadian life and health insurance company that has been in operation for over 50 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 regional sales offices across the country to support its many broker and client relationships.

Key Facts

- Total assets of \$940 million
- Individual life insurance volume of \$16 billion insured through 69,000 policies
- Insures more than 22,000 employees through group benefit plans

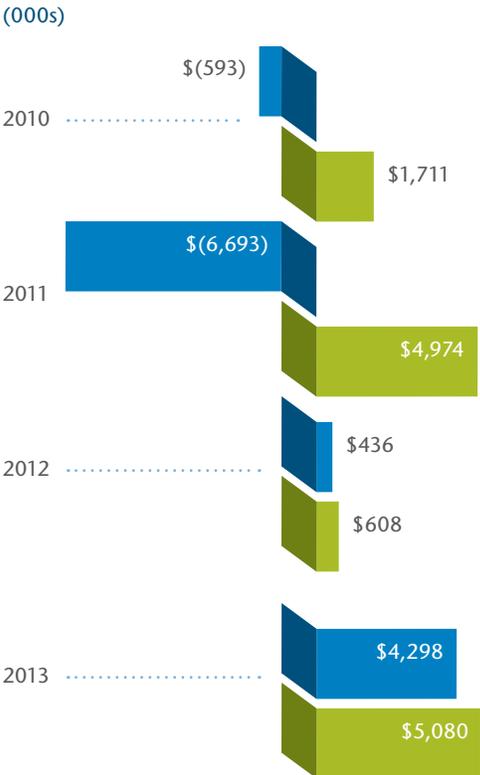
KEY FINANCIAL MEASURES

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

NET INCOME (LOSS)

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

- PAR Account
- Shareholder Account



LIFE OPERATIONS

NET PREMIUMS AND EQUIVALENTS

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.

(000s)



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 26 and 27.

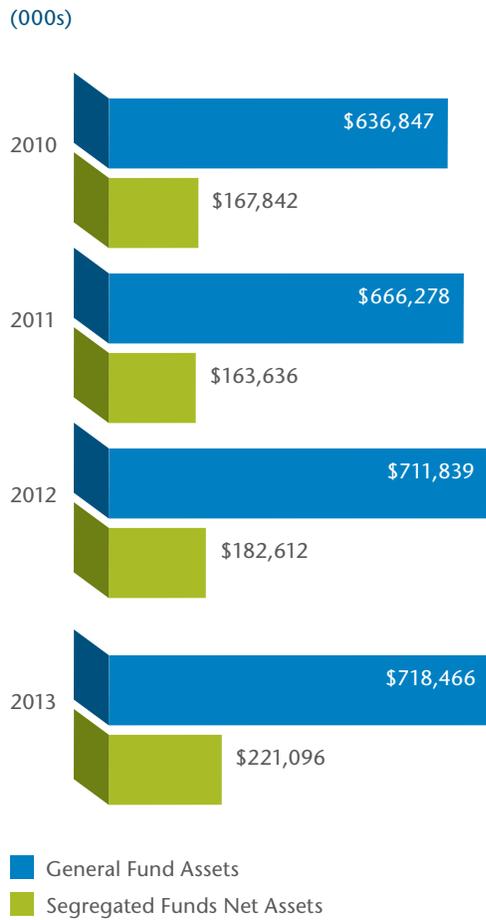
(000s)



LIFE OPERATIONS

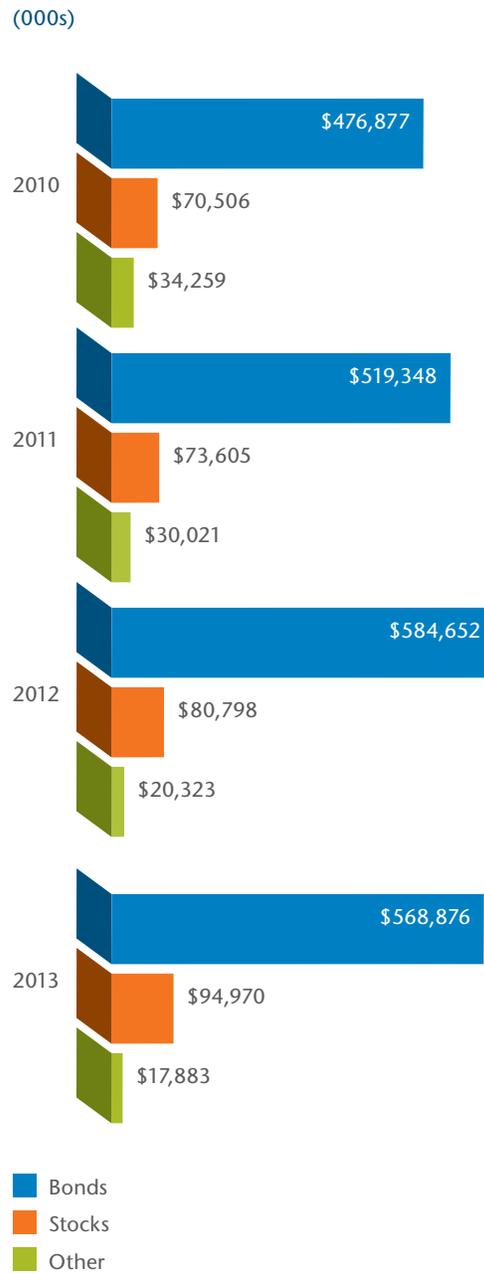
TOTAL ASSETS

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.



INVESTMENTS

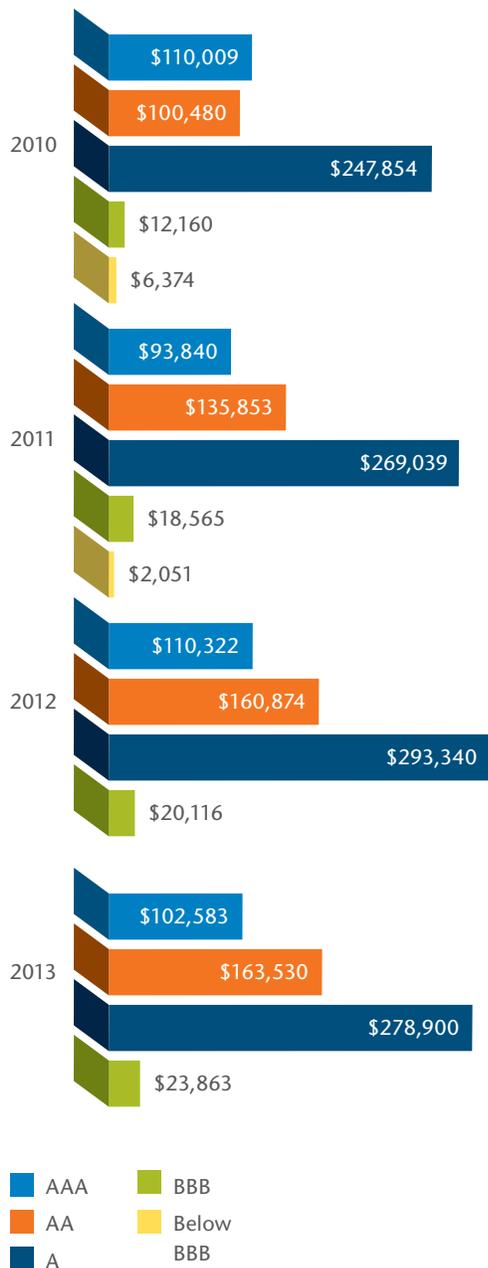
Investments are managed in a conservative manner to provide steady, consistent investment income to support the cash flow and liquidity needs of Wawanesa Life.



LIFE OPERATIONS

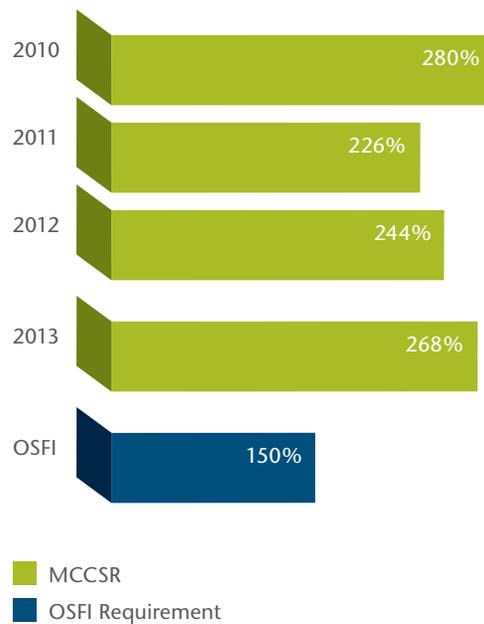
BONDS CREDIT QUALITY

(000s)



CAPITAL RATIO

The MCCR formula defines capital available and capital required. The MCCR Ratio equals capital available divided by capital required. OSFI expects life insurance companies to establish an internal target capital ratio above the supervisory target capital ratio of 150%. Capital available is the life insurance company's equity with certain prescribed adjustments.



Incorporated July 7, 1960

Head Office

Wawanesa, Manitoba

Executive Office

400–200 Main Street

Winnipeg, Manitoba

OFFICERS AND MANAGEMENT

Corporate

K. E. McCrea, CA, FLMI

President and Chief Executive Officer

M. K. Nemeth, CA, FLMI, GBA

Vice President and Chief Operating Officer

G. N. Bass, Q.C.

Vice President, General Counsel and Secretary

I. R. MacDonald, FSA, FCIA

Vice President and Actuary

C. R. Loeppky, BScCS

Vice President, Information Services

J. E. Carradice, BSc, CHRP

Vice President, Human Resources

E. Elvebo, CA

Manager, Corporate Reporting

P. M. Horncastle, CGA

Controller

P. R. Mulaire, CMA, CIA, CRMA, FCIP

Director, Internal Audit

K. J. Richtik, FSA, FCIA

Manager, Actuarial Financial Reporting

Insurance Operations

G. G. Sadler, CLU, ChFC, CHS

Director, Individual Sales and Marketing

M. M. Nolin, DDM, ALHC, ACS, AIAA

Manager, Group Benefit Services

D. M. Smook, BA

Manager, National Group Sales and Marketing

D. I. Verwey

Manager, Group Underwriting and
Policy Administration

A. E. Waller, MBA, CFP, CLU, FALU, FLMI

Manager, Individual Life Administration

Medical Director

Dr. R. B. Boyd, MD

THE WAWANESA LIFE INSURANCE COMPANY REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

February 21, 2014

TO THE SHAREHOLDER AND POLICYHOLDERS OF THE WAWANESA LIFE INSURANCE COMPANY

The accompanying summary financial statements, which comprise the summary balance sheet as at December 31, 2013 and the summary statement of operations for the year ended December 31, 2013 are derived from the audited financial statements of The Wawanesa Life Insurance Company for the year ended December 31, 2013. We expressed an unmodified audit opinion on those financial statements in our report dated February 21, 2014.

The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of The Wawanesa Life Insurance Company.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements on the basis described in note 1.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standards ("CAS") 810, "Engagements to Report on Summary Financial Statements."

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of The Wawanesa Life Insurance Company for the year ended December 31, 2013 are a fair summary of those financial statements, on the basis described in note 1.

PricewaterhouseCoopers LLP

Chartered Accountants
Winnipeg, Manitoba

THE WAWANESA LIFE INSURANCE COMPANY
APPOINTED ACTUARY'S REPORT

February 21, 2014

**TO THE SHAREHOLDER AND POLICYHOLDERS OF
THE WAWANESA LIFE INSURANCE COMPANY**

I have valued the insurance contract liabilities of The Wawanesa Life Insurance Company for its balance sheet at December 31, 2013 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of insurance contract liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly present the result of the valuation.

Ian R. MacDonald

Ian R. MacDonald
Fellow, Canadian Institute of Actuaries
Winnipeg, Manitoba

REGIONAL OFFICES

Atlantic

1010 St. George Boulevard
Moncton, New Brunswick

S. B. Brydges, CFP, CHS
Regional Life Manager

Ontario

100–4110 Yonge Street
Toronto, Ontario

203–20 Erb Street West
Waterloo, Ontario

B. I. Lang, RHU
Regional Life Manager

Western Manitoba

208–740 Rosser Avenue
Brandon, Manitoba

G. L. C. Goymer, BA, CFP, ChFC, CLU, CHS
Regional Life Manager

**Eastern Manitoba
and NW Ontario**

701–200 Main Street
Winnipeg, Manitoba

J. A. Kien, BA, BComm (Hons)
Regional Life Manager

T. A. McDowell, BComm (Hons)
Regional Group Manager

Saskatchewan

201, 3501–8th Street East
Saskatoon, Saskatchewan

205, 2631–28th Avenue
Regina, Saskatchewan

G. F. M. Kurmey, FLMI
Regional Life Manager

Northern Alberta

100, 8657–51st Avenue
Edmonton, Alberta

L. P. J. Addison
Regional Life Manager

S. Lambert
Regional Group Manager

Southern Alberta

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

B. Reid Galarnyk
Regional Life Manager

British Columbia

310–1985 West Broadway
Vancouver, British Columbia

S. F. Engmann, BA
Regional Life Manager

B. R. Wyne, MBA
Regional Group Manager

THE WAWANESA LIFE INSURANCE COMPANY
SUMMARY BALANCE SHEETS

	As at December 31	
	2013	2012
	(000s)	
Assets		
Cash and cash equivalents	\$ 22,563	\$ 11,890
Investments	681,729	685,773
Other assets	14,174	14,176
General fund assets	718,466	711,839
Segregated funds net assets	221,096	182,612
Total assets	\$ 939,562	\$ 894,451
Liabilities		
Other liabilities	\$ 7,740	\$ 8,126
Insurance contract liabilities	578,141	577,026
General fund liabilities	585,881	585,152
Segregated funds contract liabilities	221,096	182,612
Total liabilities	806,977	767,764
Equity	132,585	126,687
Total liabilities and equity	\$ 939,562	\$ 894,451

Note 1

These summary financial statements have been derived from the audited financial statements of The Wawanesa Life Insurance Company (the Company) for the year ended December 31, 2013, which are prepared in conformity with International Financial Reporting Standards (IFRS).

The criteria developed by management for the preparation of the summary financial statements is as follows: that the information included in the summarized financial statements is in agreement with the related information in the complete financial statements, and that the summarized financial statements contain the information necessary to avoid distorting or obscuring matters disclosed in the related complete financial statements, including the notes thereto, in all material respects.

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

SUMMARY STATEMENTS OF OPERATIONS

	For the year ended December 31	
	2013	2012
	(000s)	
Net premiums and equivalents	\$ 113,060	\$ 111,855
Net investment income	5,911	34,518
Total income	118,971	146,373
Net claims and benefits incurred	77,329	78,283
Net change in insurance contract liabilities	(707)	36,581
Expenses incurred	30,034	31,453
Total benefits and expenses	106,656	146,317
Income before income taxes	12,315	56
Provision for (recovery of) income taxes	2,937	(988)
Net income for the year	\$ 9,378	\$ 1,044
Net income for the year attributed to:		
Shareholder	\$ 5,080	\$ 608
Participating policyholders	4,298	436
	\$ 9,378	\$ 1,044

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

SOURCE OF EARNINGS STATEMENT

The Source of Earnings are attributable to one of the following categories:

EXPECTED PROFIT ON INFORCE BUSINESS

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

IMPACT OF NEW BUSINESS

This represents the overall loss during the first year on new business. The PFADs in the actuarial liabilities contribute to an overall initial loss on issuing new business. These PFADs are anticipated to be released into income 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 actuarial 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 actuarial 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.

SOURCE OF EARNINGS STATEMENT

Source of Earnings 2013	Total Company	Individual Life	Individual Annuity	Group Life and Health
	(000s)			
Expected profit on inforce business	\$ 8,059	\$ 5,170	\$ 2,317	\$ 572
Impact of new business	(5,404)	(5,030)	(374)	–
Experience gains and losses	2,181	2,940	209	(968)
Management action and changes in assumptions	1,000	1,000	–	–
Other	(854)	(854)	–	–
Earnings (loss) on operations	4,982	\$ 3,226	\$ 2,152	\$ (396)
Earnings on surplus	7,333			
Income before income taxes	12,315			
Income taxes	2,937			
Net income	\$ 9,378			

Source of Earnings 2012	Total Company	Individual Life	Individual Annuity	Group Life and Health
	(000s)			
Expected profit on inforce business	\$ 7,562	\$ 5,044	\$ 1,944	\$ 574
Impact of new business	(9,910)	(9,086)	(824)	–
Experience gains and losses	(1,818)	553	(307)	(2,064)
Management action and changes in assumptions	(1,848)	(979)	(160)	(709)
Other	(1,240)	(1,240)	–	–
Earnings (loss) on operations	(7,254)	\$ (5,708)	\$ 653	\$ (2,199)
Earnings on surplus	7,310			
Income before income taxes	56			
Income taxes	(988)			
Net income	\$ 1,044			

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.



Standing (L to R): J. S. McCallum, G. J. Hanson, C. M. Best, D. G. Unruh, D. C. Crewson, K. L. Matchett, E. J. Beale, R. O. Landry, N. R. Logan; Seated (L to R): K. E. McCrea, R. R. Bracken

BOARD OF DIRECTORS

The Wawanesa Mutual Insurance Company, Wawanesa General Insurance Company and The Wawanesa Life Insurance Company

R. R. Bracken 1,2,3,4,5 Chairman of the Board	D. C. Crewson 1,2 G. J. Hanson 3,5 R. O. Landry 3,5 N. R. Logan 1,4	K. L. Matchett 2,4,5 J. S. McCallum 3,4 K. E. McCrea D. G. Unruh 1,4
--------------------------------------------------	------------------------------------------------------------------------------	-------------------------------------------------------------------------------

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



Wawanesa
Insurance

Wawanesa Insurance Executive Office
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