REPORT OF EXAMINATION
OF THE

THE WAWANESA MUTUAL INSURANCE COMPANY
(U.S. BRANCH)

AS OF
DECEMBER 31, 2007

Filed March 27, 2009

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Los Angeles, California
February 3, 2009

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

THE WAWANESA MUTUAL INSURANCE COMPANY (U.S. BRANCH)

(hereinafter also referred to as the Company) at its home office located at 9050 Friars Road, San Diego, California 92108.

SCOPE OF EXAMINATION

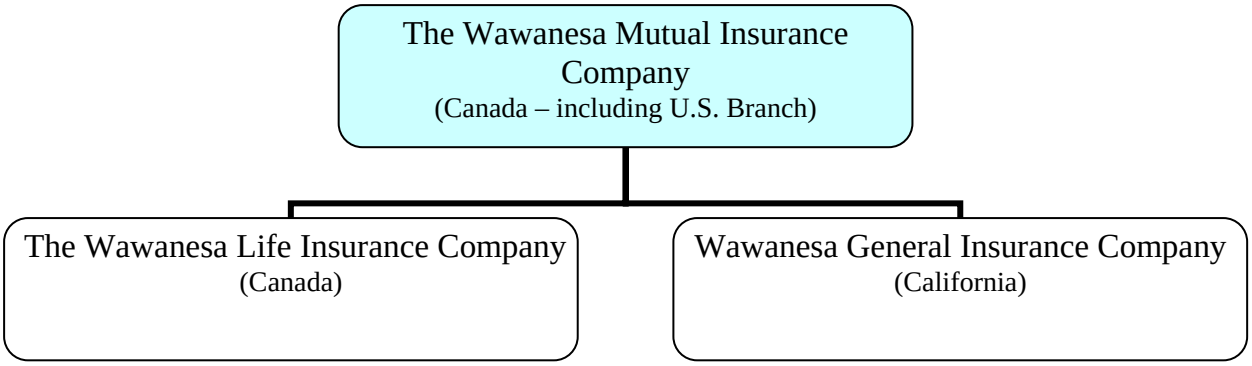
The previous examination of the Company was made as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2007. The examination was made pursuant to the National Association of Insurance Commissioners' (NAIC) plan of examination. The examination was conducted concurrently with the examination of the Company's subsidiary, Wawanesa General Insurance Company. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2007, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: company history; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension

plans; growth of company; business in force by states; loss experience; accounts and records; and sales and advertising.

MANAGEMENT AND CONTROL

The following is an abbreviated organization chart of the Company and its subsidiary insurance companies:



(*) all ownership is 100%

Management of the Company is vested in an eleven-member board of directors elected annually. As of the examination date, two of the board positions were vacant. A listing of the members of the board and principal officers serving on December 31, 2007 follows:

Directors

Name and Residence	Principal Business Affiliation
Richard Ramsay Bracken Winnipeg, Manitoba, Canada	Chairman Royal Canadian Securities
Delmore Clair William Crewson Winnipeg, Manitoba, Canada	Retired
Gregory Joseph Hanson Winnipeg, Manitoba, Canada	Retired

Name and Residence	Principal Business Affiliation
Barry Wayne Harrison Calgary, Alberta, Canada	President Eastgate Minerals Ltd.
John Stuart McCallum Winnipeg, Manitoba, Canada	Professor The University of Manitoba
Kenneth Ernest McCrea Winnipeg, Manitoba, Canada	Chief Executive Officer and President The Wawanesa Group of Companies
Margot Elizabeth Northey Kingston, Ontario, Canada	Retired
David Gerthard Unruh West Vancouver, British Columbia, Canada	Retired
Susan Madeline Van De Velde Mariapolis, Manitoba, Canada	Retired

Principal Officers

Name	Title
Kenneth Ernest McCrea	Chief Executive Officer and President
George Nicholas Bass	Secretary and General Counsel
David Jack Goss	Vice President U.S. Operations
Brett Alexander MacKinnon	Vice President and Chief Actuary
Paul Robert Goodman	Vice President and Comptroller

Management Agreements

Affiliated Management Agreement: The Company is party to a management agreement dated July 11, 1996 with its subsidiary, Wawanesa General Insurance Company (WGIC). Under this agreement, the Company provides the following services to WGIC: management, office space, information systems, data processing services, telecommunications, administration, financial services, accounting services, investment services, accounting and financial reports, actuarial services, human resources services,

legal services, marketing and solicitation of potential insureds, investigation of the applicants, policy forms, underwriting, rating and claims services. The Company is reimbursed for some expenses on an actual cost basis, while certain other expenses are paid on a mutually agreed upon allocation basis. For 2005, 2006 and 2007, WGIC paid $29,356,349, $34,099,742, and $37,966,037, respectively, in fees to the Company under the terms of this agreement. The California Department of Insurance (CDI) approved this agreement on July 25, 1996.

Trust Agreement: As a condition of writing business in California, the Company is required to maintain in the United States trusteed assets for the security of its policyholders and creditors. In order to satisfy this requirement, the Company executed a trust agreement with the Bank of New York. All of the trusted assets are held in the State of California. As of December 31, 2007 the trust had a balance of $211.4 million in gross assets and a trusteed surplus of $164.1 million. This agreement was approved by the CDI on May 19, 2006.

CORPORATE RECORDS

The Company's board actions regarding the authorization and approval of investments did not satisfy the requirements of California Insurance Code (CIC) Sections 1200 and 1201. The Company's minutes failed to document the authorization or approval of its investments, which is in violation of CIC Section 1200. In addition, specific references to amounts, facts and the values of the securities were not included as required under CIC Section 1201. It is recommended that the Company implement procedures to ensure future compliance with CIC Sections 1200 and 1201.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2007, the Company was licensed to transact multiple lines of property and casualty insurance in California. The Company is a direct writer of private passenger auto liability and physical damage coverage, insuring preferred risks. The Company also offers preferred homeowners and condominium insurance, including earthquake coverage. All policies are issued for

a 12-month term. Currently, the Company is only transacting renewal business as writing new business was discontinued in 1997.

In 2007, direct premiums written were $58.4 million. The lines of business written were auto physical damage (50.9%), private passenger auto liability (41.8%), homeowners multiple peril (6.2%), and the remainder in fire, earthquake, inland marine and allied lines.

REINSURANCE

Assumed

The Company does not assume reinsurance.

Ceded

The Company and its affiliates are insured under a catastrophe excess of loss reinsurance program. The business covered includes personal, farm, commercial property and automobile physical damage excluding collision. The following is a summary of the reinsurance program in-force as of December 31, 2007:

Layer	**Reinsurance Limit**
Underlying Catastrophe Cover	95% of $7.5 million excess of $22.5 million
1st Catastrophe Cover	95% of $30 million excess of $30 million
2nd Catastrophe Cover	95% of $40 million excess of $60 million
3rd Catastrophe Cover	95% of $75 million excess of $100 million
4th Catastrophe Cover	95% of $125 million excess of $175 million
5th Catastrophe Cover	100% of $150 million excess of $300 million

***Note: The above limits are in Canadian dollars.**

The reinsurance program utilizes the services of Guy Carpenter & Company, Inc., as a reinsurance intermediary. The Company recorded a provision for unauthorized reinsurance for the entire net recoverable balance as all of the reinsurance is unauthorized. The above program is primarily reinsured with Underwriters at Lloyd's of London, and Axis Specialty Ltd.

As of December 31, 2007, reinsurance recoverables for all ceded reinsurance totaled $1.45 million, or 0.8% of surplus as regards policyholders.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2007

Underwriting and Investment Exhibit for the Year Ended December 31, 2007

Reconciliation of Surplus as Regards Policyholders
from December 31, 2004 through December 31, 2007

Statement of Trusteed Surplus in the United States
for the Year Ended December 31, 2007

Statement of Financial Condition
as of December 31, 2007

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 205,027,201	$	$ 205,027,201	
Real estate: Properties occupied by the company	13,255,354		13,255,354	
Cash and short-term investments	4,368,601		4,368,601	
Investment income due and accrued	1,895,563		1,895,563	
Premiums and considerations:				
Premiums and agents' balances in course of collection	1,124,528		1,124,528	
Premiums, agents' balances and installments booked but deferred and not yet due	9,165,720		9,165,720	
Federal income tax recoverable	905,423		905,423	
Net deferred tax asset	3,723,045	1,100,921	2,622,124	
Electronic data processing equipment and software	370,414		370,414	
Furniture and equipment	635,170	635,170	0	
Receivables from parent, subsidiaries and affiliates	1,338,695		1,338,695	
Aggregate write-ins for other than invested assets	106,824	84,358	22,466	
Total assets	$ 241,916,538	$ 1,820,449	$ 240,096,089	

Liabilities, Surplus and Other Funds			
Losses		$ 14,328,179	(1)
Loss adjustment expenses		2,687,042	(1)
Other expenses		2,513,850	
Taxes, licenses and fees		213,609	(2)
Unearned premiums		29,442,414	
Advance premium		534,871	
Ceded reinsurance premiums payable		337,999	
Amounts withheld or retained by company for account of others		986,528	
Provision for reinsurance		1,112,000	
Drafts outstanding		3,347,180	
Payable to parent, subsidiaries and affiliates		2,086,598	
Total liabilities		57,590,270	
Aggregate write-ins for other than special surplus funds	$ 1,000,000		
Unassigned funds (surplus)	181,505,819		
Surplus as regards policyholders		182,505,819	
Total liabilities, surplus and other funds		$ 240,096,089	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2007

Statement of Income

Underwriting Income		
Premiums earned		$ 61,065,240
Deductions:		
Losses incurred	$ 45,520,062	
Loss expense incurred	7,600,763	
Other underwriting expenses incurred	6,395,052	
Total underwriting deductions		59,515,877
Net underwriting gain		1,549,363
Investment Income		
Net investment income earned	$ 10,473,398	
Net realized capital gains	67,557	
Net investment gain		10,540,955
Other Income		
Net loss from premium balances charged off	$ (19,931)	
Finance and service charges not included in premium	656,548	
Total other income		636,617
Net income before federal income taxes		12,726,935
Federal income taxes incurred		3,930,657
Net income		$ 8,796,278

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2006		$ 175,002,596
Net income	$ 8,796,278	
Change in net deferred income tax	(374,129)	
Change in nonadmitted assets	193,074	
Change in provision for reinsurance	(1,112,000)	
Change in surplus as regards policyholders		7,503,223
Surplus as regards policyholders, December 31, 2007		$ 182,505,819

Reconciliation of Surplus as Regards Policyholders
from December 31, 2004 through December 31, 2007

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2004, per Examination			$ 149,988,314
Net income	$ 33,806,703	$	
Change in net deferred income tax		628,943	
Change in nonadmitted assets	451,745		
Change in provision for reinsurance		1,112,000	
Totals	$ 34,258,448	$ 1,740,943	
Net increase in surplus as regards policyholders for the examination			32,517,505
Surplus as regards policyholders, December 31, 2007, per Examination			$ 182,505,819

Statement of Trusteed Surplus in the United States
for the Year Ended December 31, 2007

Assets	
General state deposit:	
California Insurance Code Section1591(a)	$ 1,868,156
Trusteed Assets	207,709,957
Total gross assets in United States deposited with Insurance Department	209,578,113
Interest due and accrued	1,840,722
Total gross assets within the United States	211,418,835
Liabilities and Reserves	
Total liabilities and reserves	57,590,270
Deductions:	
Agents' balances not more than 90 days past due	10,290,248
Net liabilities	47,300,022
Trusteed Surplus	$ 164,118,813

The Company maintains trusteed assets in the State of California pursuant to California Insurance Code Section 1591(a).

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary from the California Department of Insurance (CDI), the Company's loss and loss adjustment expense reserves as of December 31, 2007 were found to be reasonably stated and have been accepted for purposes of this examination.

(2) Taxes, Licenses and Fees

California Insurance Code (CIC) Section 1872.8(a) states, in part, that each insurer doing business in the State of California must pay an annual Vehicle Fraud Assessment Fee for each vehicle insured under an insurance policy it issues in California. The fee provides funding for the increased investigation and prosecution of fraudulent automobile insurance claims and automobile theft in California.

During the course of this examination, it was noted that the Company did not accurately calculate its vehicle count used for the Vehicle Fraud Assessment Fee as required by the CIC. The Company stated this miscalculation was not a deliberate act as the Company believed it calculated the vehicle count correctly. The total amount due is $6,638.40 plus additional late charges assessed based on CIC Section 12995 and is summarized by quarter as follows:

Quarter	Fee/Vehicle	Underreported Vehicle Count	Amount Due
01/01/05 - 03/31/05	$0.45	113	$ 50.85
04/01/05 - 06/30/05	$0.45	937	$ 421.65
07/01/05 - 09/30/05	$0.45	1,093	$ 491.85
10/01/05 - 12/31/05	$0.45	1,942	$ 873.90
01/01/06 - 03/31/06	$0.45	786	$ 353.70
04/01/06 - 06/30/06	$0.45	989	$ 445.05
07/01/06 - 09/30/06	$0.45	1,220	$ 549.00
10/01/06 - 12/31/06	$0.45	1,109	$ 499.05

Quarter	Fee/Vehicle	Underreported Vehicle Count	Amount Due
01/01/07 - 03/31/07	$0.45	861	$ 387.45
04/01/07 - 06/30/07	$0.45	913	$ 410.85
07/01/07 - 09/30/07	$0.45	1,198	$ 539.10
10/01/07 - 12/31/07	$0.45	1,012	$ 455.40
01/01/08 – 03/31/08	$0.45	800	$ 360.00
04/01/08 – 06/30/08	$0.45	900	$ 405.00
07/01/08 – 09/30/08	$0.45	879	$ 395.55
Total		**14,752**	**$6,638.40**

It is recommended that the Company remit the amount due to the CDI and implement procedures to insure future compliance.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Corporate Records (Page 4): It is recommended that the Company implement procedures to ensure compliance with California Insurance Code (CIC) Sections 1200 and 1201.

Taxes, Licenses and Fees (Page 11): It is recommended that the Company remit the amount due to California Department of Insurance and implement procedures to insure future compliance with CIC Section 1872.8(a).

Previous Report of Examination

None

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

_____/S/_____
Gregory J. Lieber, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California