

WESTMINSTER

MUTUAL INSURANCE COMPANY

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

THE WESTMINSTER MUTUAL INSURANCE COMPANY

DECEMBER 31, 2020

CONTENTS

Page

INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS

Statement of Financial Position	1
Statement of Comprehensive Income	2
Statement of Policyholders' Surplus	3
Statement of Cash Flows	4
Notes to the Financial Statements	5 - 26



PARTNERS

STEPHEN J. OUTRIDGE, CPA, CA
KEVIN M. SABOURIN, CPA, CA
JAMES D. KEARNEY, CPA, CA (RET.)

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
The Westminster Mutual Insurance Company

Opinion

We have audited the accompanying financial statements of **The Westminster Mutual Insurance Company** (the Company), which comprise the statement of financial position as at December 31, 2020, and the statements of comprehensive income, policyholders' surplus and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditors' Responsibilities for the Audit of the Financial Statements

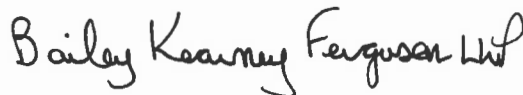
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Wallaceburg, Ontario
February 12, 2021



Chartered Professional Accountants
Licensed Public Accountants

THE WESTMINSTER MUTUAL INSURANCE COMPANY
(Incorporated under the Laws of Ontario)

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2020

ASSETS

	2020	2019
Cash and bank	\$ 4,397,424	\$ 3,150,368
Investments (Note 4)	15,606,973	16,250,685
Prepaid expenses	-	6,268
Deferred policy acquisition costs (Note 3)	777,569	759,460
Due from reinsurer (Note 3)	319,836	14,824
Other receivables	3,137,543	3,165,687
Reinsurer's share of provision for unpaid claims (Note 3)	2,912,424	3,339,060
Investment property (Note 13)	360,000	324,000
Property, plant and equipment (Note 12)	705,985	731,498
Intangible assets (Note 12)	9,421	12,561
Deferred income taxes	38,300	44,700
	\$ 28,265,475	\$ 27,799,111

LIABILITIES

	2020	2019
Accounts payable and accrued liabilities	\$ 852,469	\$ 758,021
Provision for unpaid claims (Note 3)	9,199,697	10,544,231
Unearned premiums (Note 3)	5,594,751	5,452,307
Income taxes payable	207,195	391,823
Deferred service charges (Note 3)	44,530	44,104
	15,898,642	17,190,486

POLICYHOLDERS' SURPLUS

Unappropriated policyholders' surplus	12,366,833	10,608,625
	\$ 28,265,475	\$ 27,799,111

APPROVED ON BEHALF OF THE BOARD

 , Director
 , Director

The accompanying notes are an integral part of these financial statements.

THE WESTMINSTER MUTUAL INSURANCE COMPANY

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2020

	2020	2019
GROSS INSURANCE PREMIUMS WRITTEN	\$ 11,616,399	\$ 11,134,395
REINSURANCE PREMIUMS CEDED	1,858,551	1,884,191
NET PREMIUMS WRITTEN	9,757,848	9,250,204
INCREASE IN PROVISION FOR UNEARNED PREMIUMS	142,444	401,459
NET PREMIUMS EARNED	9,615,404	8,848,745
SERVICE CHARGE REVENUE	91,259	90,578
NET UNDERWRITING REVENUE	9,706,663	8,939,323
DIRECT LOSSES INCURRED		
Gross claims and adjustment expenses	4,663,908	5,707,039
Less reinsurer share of claims and adjustment expenses	(251,702)	(669,029)
NET CLAIMS INCURRED	4,412,206	5,038,010
NET UNDERWRITING INCOME BEFORE EXPENSES	5,294,457	3,901,313
EXPENSES		
Fees, commissions and inspection of risks (Note 7)	2,128,272	1,813,007
Other operating and administrative expenses (Note 8)	1,651,619	1,727,730
TOTAL EXPENSES	3,779,891	3,540,737
NET UNDERWRITING INCOME	1,514,566	360,576
INVESTMENT AND OTHER INCOME (Note 5)	855,042	1,177,601
INCOME BEFORE INCOME TAXES	2,369,608	1,538,177
PROVISION FOR (RECOVERY OF) INCOME TAXES (Note 10)	611,400	365,937
COMPREHENSIVE INCOME FOR THE YEAR	\$ 1,758,208	\$ 1,172,240

The accompanying notes are an integral part of these financial statements.

THE WESTMINSTER MUTUAL INSURANCE COMPANY

STATEMENT OF POLICYHOLDERS' SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2020

	2020	2019
BALANCE , beginning of the year	\$ 10,608,625	\$ 9,436,385
Comprehensive income for the year	1,758,208	1,172,240
BALANCE , end of the year	\$ 12,366,833	\$ 10,608,625

The accompanying notes are an integral part of these financial statements.

THE WESTMINSTER MUTUAL INSURANCE COMPANY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2020

	2020	2019
OPERATING ACTIVITIES		
Net income for the year	\$ 1,758,208	\$ 1,172,240
Items not requiring cash		
Depreciation	51,618	42,597
Provision for (recovery) income taxes	6,400	(3,100)
Realized gain on disposal of investments	(163,504)	(201,226)
Unrealized gain on investments	(137,977)	(444,576)
	1,514,745	565,935
Net change in non-cash working capital balances		
Prepaid expenses	6,268	(6,268)
Deferred policy acquisition expenses	(18,109)	(65,644)
Due from reinsurer	(305,012)	152,568
Income taxes recoverable	-	255,872
Other receivables	28,144	(157,506)
Reinsurer's share of provision for unpaid claims	426,636	1,177,376
Accounts payable and accrued liabilities	94,448	152,336
Provision for unpaid claims	(1,344,531)	(207,081)
Unearned premiums	142,444	401,458
Income taxes payable	(184,628)	391,823
Deferred service charges	426	3,692
	360,831	2,664,561
INVESTING ACTIVITIES		
Proceeds from sale of investments	8,134,759	5,182,022
Purchase of investments	(7,225,569)	(5,826,826)
Additions to property, plant and equipment	(22,965)	(221,513)
Acquisition of investment property	-	(335,410)
	886,225	(1,201,727)
INCREASE IN CASH AND BANK, during the year	1,247,056	1,462,834
CASH AND BANK, beginning of the year	3,150,368	1,687,534
CASH AND BANK, end of the year	\$ 4,397,424	\$ 3,150,368

The accompanying notes are an integral part of these financial statements.

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

1. CORPORATION INFORMATION

The Westminster Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is located at 14122 Belmont Road, Belmont, Ontario.

The Company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutuals. The rate filing must include actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Regulatory Authority of Ontario. Rate regulation may affect the automobile revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

These financial statements have been authorized for issue by the Audit Committee on February 12, 2021.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB).

These financial statements were prepared under the historical cost convention, except for financial assets classified as fair value through profit and loss (FVTPL).

The financial statements are presented in Canadian dollars (CDN), which is also the Company's functional currency.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company accounting policies. The areas involving critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

The calculation of unpaid claims and the related reinsurers' share, including the determination of the initial claim liability, the development of claims, and the estimate of time until ultimate settlement (Note 3).

The determination of the recoverability of deferred policy acquisition expenses (Note 3).

The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 4).

The notes to the financial statements were prepared and ordered in such a way that the most relevant information was presented earlier in the notes and disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involves significant judgement.

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

3. INSURANCE CONTRACTS

In accordance with IFRS 4, Insurance Contracts, the Company has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian generally accepted accounting principles.

Balances arising from insurance contracts primarily include the following:

(a) PREMIUMS AND UNEARNED PREMIUMS

Premiums written consist of the premiums on contracts incepting in the financial year. Premiums written are stated gross of commissions payable to agents and brokers and exclusive of taxes levied on premiums.

The Company recognizes premium income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums. Changes in unearned premiums recorded in the statement of financial position and the impact on net premiums earned are as follows:

Unearned premiums	2020	2019
Unearned premiums, beginning of the year	\$ 5,452,307	\$ 5,050,849
Premiums written	11,616,399	11,134,395
Premiums earned during the year	(11,473,955)	(10,732,937)
Unearned premiums, end of the year	\$ 5,594,751	\$ 5,452,307

Pricing of property and liability policies are based on assumptions in regards to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Automobile premiums are subject to approval by the Financial Services Regulatory Authority of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk.

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2020 or December 31, 2019.

Amounts due from policyholders are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk. Regular review of amounts outstanding is performed to ensure credit worthiness.

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

3. INSURANCE CONTRACTS (continued)

(b) DEFERRED POLICY ACQUISITION EXPENSES

Acquisition costs consist of agents' and brokers' commissions and premium taxes. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses.

Changes in deferred policy acquisition expenses recorded in the statement of financial position and their impact on fees, commissions and other acquisition expenses are as follows:

Deferred policy acquisition expenses	2020	2019
Balance, beginning of the year	\$ 759,460	\$ 693,816
Acquisition costs incurred	1,672,481	1,594,383
Expensed during the year	(1,654,372)	(1,528,739)
Balance, end of the year	\$ 777,569	\$ 759,460

(c) PROVISIONS FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, changes in reported claims and for claims incurred but not reported, based on past experience and business in force. The estimates are regularly reviewed and updated, and any resulting adjustments are included in current income.

The Company must participate in industry automobile residual pools of business, and recognizes a share of this business based on its automobile market share. The Company recognizes its share of the liabilities provided by the actuaries of the pools.

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

3. INSURANCE CONTRACTS (continued)

A summary of the Company's outstanding gross unpaid liabilities, related reinsurers' share of unpaid claims and the net insurance liabilities are as follows:

	December 31, 2020		
	Gross	Reinsurance	Net
Outstanding claims provision			
Long-term	\$ 3,267,613	\$ 518,038	\$ 2,749,575
Short-term	2,300,416	539,386	1,761,030
Facility Association and other residual pools	488,727	-	488,727
	6,056,756	1,057,424	4,999,332
Provision for claims incurred but not reported	3,142,941	1,855,000	1,287,941
	\$ 9,199,697	\$ 2,912,424	\$ 6,287,273
	December 31, 2019		
	Gross	Reinsurance	Net
Outstanding claims provision			
Long-term	\$ 5,849,802	\$ 1,327,014	\$ 4,522,788
Short-term	1,388,714	192,046	1,196,668
Facility Association and other residual pools	486,507	-	486,507
	7,725,023	1,519,060	6,205,963
Provision for claims incurred but not reported	2,819,208	1,820,000	999,208
	\$ 10,544,231	\$ 3,339,060	\$ 7,205,171

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

3. INSURANCE CONTRACTS (continued)

Changes in claim liabilities recorded in the statement of financial position and their impact on claims and adjustment expenses are as follows:

Claims and adjustment expenses	2020	2019
Provision for unpaid claims, beginning of the year	\$ 10,544,231	\$ 10,751,314
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	(1,107,722)	426,589
Provision for losses and expenses on claims occurring in the current year	5,023,294	4,637,806
Change in gross IBNR	295,720	191,397
Payment on claims:		
Current year	(2,792,794)	(2,245,990)
Prior years	(2,763,032)	(3,216,885)
Provision for unpaid claims - end of year	9,199,697	10,544,231
Reinsurers' share of provision for unpaid claims	(2,912,424)	(3,339,060)
	\$ 6,287,273	\$ 7,205,171

Claim development

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The Company writes insurance primarily over a twelve month duration. The most significant risks arise through high severity, low frequency events such as natural disasters or catastrophes. A concentration of risk may arise from insurance contracts issued in a specific geographic location since all insurance contracts are written in Ontario.

The above risk exposure is mitigated by diversification across a large portfolio of insurance. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims, the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim year 2011 to 2020. The tables show the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims.

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

3. INSURANCE CONTRACTS (continued)

Gross claims	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Gross estimate of cumulative claims cost											
At the end year of claim	3,952,603	3,840,543	\$ 4,089,264	\$ 5,388,344	\$ 3,217,627	\$ 3,820,586	\$ 3,482,848	\$ 4,996,440	\$ 4,480,552	\$ 4,924,448	
One year later	4,034,129	3,747,033	4,073,153	5,745,377	3,550,396	4,022,731	3,700,173	5,050,584	4,145,130		
Two years later	3,795,215	3,961,636	4,137,023	7,039,532	4,175,580	3,820,212	3,672,858	4,727,051			
Three years later	3,673,847	5,074,892	4,508,884	6,192,099	3,948,965	3,433,230	3,471,440				
Four years later	3,647,899	5,181,535	4,508,884	5,877,316	4,209,927	3,325,243					
Five years later	3,684,728	5,176,973	4,510,805	6,332,903	4,168,669						
Six years later	3,684,728	5,127,504	4,510,805	6,161,478							
Seven years later	3,684,728	5,147,504	4,510,805								
Eight years later	3,684,728	5,098,833									
Nine years later	3,684,728										
Current estimate of cumulative claims cost	3,684,728	5,098,833	4,510,805	6,161,478	4,168,669	3,325,243	3,471,440	4,727,051	4,145,130	4,924,448	44,217,825
Cumulative payments	3,684,728	5,082,697	4,024,164	6,153,822	4,090,112	3,238,345	3,331,579	3,473,697	2,814,535	2,756,117	38,649,796
Outstanding claims	-	16,136	486,641	7,656	78,557	86,898	139,861	1,253,354	1,330,595	2,168,331	5,568,029
Gross IBNR											2,925,000
Gross net internal adjusting Facility											217,941
											488,727
Total gross outstanding claims and claims handling expenses											\$ 9,199,697

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

3. INSURANCE CONTRACTS (continued)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Net estimate of cumulative claims cost											
At the end year of claim	2,633,937	2,291,669	\$ 2,221,332	\$ 3,910,333	\$ 2,092,458	\$ 2,590,235	\$ 2,435,277	\$ 4,836,988	\$ 4,419,436	\$ 4,372,855	
One year later	2,634,214	2,228,275	2,258,398	3,953,600	2,365,658	2,672,479	2,460,891	4,907,007	4,099,541		
Two years later	2,509,918	2,399,615	2,290,053	4,611,290	2,665,117	2,571,126	2,446,483	4,583,474			
Three years later	2,449,234	2,924,255	2,475,984	4,166,166	2,560,658	2,372,635	2,375,774				
Four years later	2,436,260	3,046,163	2,475,984	4,008,696	2,569,095	2,318,641					
Five years later	2,454,674	3,041,091	2,476,944	4,004,666	2,570,736						
Six years later	2,454,674	3,037,912	2,476,944	3,898,954							
Seven years later	2,454,674	3,057,912	2,476,944								
Eight years later	2,454,674	3,046,106									
Nine years later	2,454,674										
Current estimate of cumulative claims cost											
claims cost	2,454,674	3,046,106	2,476,944	3,898,954	2,570,736	2,318,641	2,375,774	4,583,474	4,099,541	4,372,855	32,197,699
Cumulative payments	2,454,674	3,029,969	2,233,624	3,891,298	2,558,894	2,275,192	2,310,235	3,432,120	2,769,011	2,732,077	27,687,094
Net outstanding claims	-	16,137	243,320	7,656	11,842	43,449	65,539	1,151,354	1,330,530	1,640,778	4,510,605
Net IBNR											1,070,000
Gross internal adjusting Facility											217,941
											488,727
Total net outstanding claims including claims handling expense											\$ 6,287,273

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

3. INSURANCE CONTRACTS (continued)

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrence, expected loss ratios and claims development.

Results of sensitivity testing based on expected loss ratios are as follows, impact on pre-tax income:

	Property claims		Auto claims		Liability Claims	
	2020	2019	2020	2019	2020	2019
5% increase/decrease in loss ratios						
Gross	\$ 245,022	\$ 228,519	\$ 278,317	\$ 274,901	\$ 36,974	\$ 35,896
Net	\$ 211,021	\$ 191,034	\$ 229,280	\$ 227,323	\$ 31,757	\$ 30,944

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

(d) LIABILITY ADEQUACY TEST

At each reporting date the Company performs a liability adequacy test on its insurance liabilities less deferred policy acquisition expenses to ensure the carrying value is adequate, using current estimates of future cash flows, which take into account the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognized as an expense to comprehensive income. It is recognized initially by writing off the deferred policy acquisition expense and subsequently by recognizing an additional unearned premiums.

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

3. INSURANCE CONTRACTS (continued)

(e) REINSURERS' SHARE OF PROVISIONS FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, consist of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense on the same basis as revenue on the underlying policies being reinsured.

Amounts recoverable from the reinsurer are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of \$300,000 (2019 - \$275,000) in the event of a property claim, an amount of \$325,000 (2019 - \$300,000) in the event of an automobile claim and \$325,000 (2019 - \$300,000) in the event of a liability claim. Effective for the 2020 year, the Company has accepted a 10% co-participation on the excess of loss on the property line of business. The Company also obtained reinsurance which limits the Company liability to \$900,000 (2019 - \$825,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% (2019 - 80%) of gross net earned premiums incurred.

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability. Changes in due from reinsurer recorded in the statement of financial position are as follows:

Due from Reinsurers

	2020	2019
Balance, beginning of the year	\$ 14,824	\$ 167,392
Submitted to reinsurer	589,451	1,715,848
Received from reinsurer	(284,439)	(1,868,416)
Balance, end of the year	\$ 319,836	\$ 14,824

Reinsurance is placed with Farm Mutual Reinsurance Plan Inc., a Canadian registered reinsurer. Management monitors the creditworthiness of Farm Mutual Reinsurance Plan Inc. by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

3. INSURANCE CONTRACTS (continued)

Changes in the reinsurers' share of provision for unpaid claims recorded in the statement of financial position and their impact on net premiums earned are as follows:

Reinsurers' share of provision for unpaid claims

	2020	2019
Balance, beginning of the year	\$ 3,339,060	\$ 4,516,436
New claims reserve	562,508	-
Change in prior years reserve	(310,806)	657,864
Submitted to reinsurer	(678,338)	(1,835,240)
Balance, end of the year	\$ 2,912,424	\$ 3,339,060
Expected settlement		
Within one year	\$ 539,386	\$ 192,046
More than one year	2,373,038	3,147,014
	\$ 2,912,424	\$ 3,339,060

(f) SALVAGE AND SUBROGATION RECOVERABLE

In the normal course of business, the Company obtains the ownership of damaged property, which they resell to various salvage operations. Unsold property is valued at its estimated net realizable value.

Where the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties. These claims are reflected at amounts expected to be received from the subrogated parties net of related costs.

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

4. INVESTMENTS

(a) RECOGNITION AND INITIAL MEASUREMENT

The Company recognizes debt instruments on the date on which they are originated. Equity instruments are recognized on the settlement date, which is the date that the asset is received by the Company. The instruments are initially measured at fair value.

(b) CLASSIFICATION AND SUBSEQUENT MEASUREMENT

The Company classifies its debt instruments (term deposits) as FVTPL because the Company manages the debt instruments and evaluates their performance on a fair value basis in accordance with a documented investment strategy and the instruments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The Company's pooled funds are redeemable at the option of the holder and therefore considered debt instruments under IFRS 9 that do not give rise to cash flows that are solely payments of principal and interest and therefore are classified as FVTPL.

The Company classifies its equity instruments in listed and unlisted companies, as FVTPL.

The debt and equity instruments are subsequently measured at fair value where the net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognized in comprehensive income.

(c) DERECOGNITION

The Company derecognizes investments when the contractual rights to the cash flows from the investment expires or the Company transfers the investment. On derecognition, the difference between the carrying amount at the date of derecognition and the consideration received is recognized in comprehensive income.

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

4. INVESTMENTS (continued)

(d) RISKS

The following table provides cost and fair value of investments by type of security and issuer.

	December 31, 2020		December 31, 2019	
	Cost	Fair Value	Cost	Fair Value
Term deposits	\$ 4,528,230	\$ 4,564,442	\$ 6,340,036	\$ 6,340,036
Bonds				
Canadian corporate	200,000	200,000	-	-
Equity investments				
Canadian corporate	200,000	198,959	200,000	200,000
Pooled funds				
Canadian fixed income	6,899,268	6,996,324	6,585,788	6,544,944
Canadian equity	2,526,200	3,082,367	1,947,388	2,561,153
Foreign equity	473,634	547,939	536,291	587,863
	9,899,102	10,626,630	9,069,467	9,693,960
Other investments				
Fire mutuals guarantee fund	16,942	16,942	16,689	16,689
Total investments	\$ 14,844,274	\$ 15,606,973	\$ 15,626,192	\$ 16,250,685

The Company is exposed to credit risk relating to its debt holdings in its investment portfolio.

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

The maximum exposure to investment credit risk is the carrying value of investments.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure credit risk.

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client. Claim payments are funded by current operating cash flow including investment income.

The Company also maintains a minimum of 5% of its investible assets in cash and money market investments to manage short-term liquidity issues.

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

4. INVESTMENTS (continued)

The maturity profile of the bonds and the underlying investments of the fixed income pooled funds held at year end are as follows:

	Within 1 Year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2020					
Bonds - Canadian corporate	\$ -	\$ -	\$ -	\$ 200,000	\$ 200,000
Pooled funds - Canadian fixed income	60,316	4,445,279	2,490,729	-	6,996,324
	\$ 60,316	\$ 4,445,279	\$ 2,490,729	\$ 200,000	\$ 7,196,324
Percent of total	1 %	62 %	35 %	2 %	
December 31, 2019					
Bonds - Canadian corporate	\$ -	\$ -	\$ -	\$ -	\$ -
Pooled funds - Canadian fixed income	49,166	4,124,627	2,371,151	-	6,544,944
	\$ 49,166	\$ 4,124,627	\$ 2,371,151	\$ -	\$ 6,544,944
Percent of total	1 %	63 %	36 %	-	%

The rate of return of the pooled funds portfolio held is 4.56% at December 31, 2020 (2019 - 4.18%).

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods to measure liquidity risk.

Market factors that will impact fair value of investments include three types of risk: currency risk, interest rate risk, and equity risk.

The Company's investment policy operates within the guidelines of the Insurance Act of Ontario. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk.

Currency risk relates to the Company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Company is exposed to currency risk due to the foreign pooled fund held. If the Canadian dollar changed 10% in relation to all other foreign currencies, with all other variables held constant, this could impact the fair value of the pooled fund by \$54,794 (2019 - \$58,787). These changes would be recognized in comprehensive income.

The Company is exposed to interest risk through its interest bearing investments (fixed income pooled funds).

At December 31, 2020, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income pooled fund by \$381,913 (2019 - \$332,249). These changes would be recognized in comprehensive income.

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

4. INVESTMENTS (continued)

The Company's portfolio includes equity pooled funds. At December 31, 2020, a 10% movement in the stock markets, with all other variables held constant, would have an estimated effect on the fair value of the equity pooled fund of \$363,030 (2019 - \$314,902). This change would be recognized in comprehensive income.

The Company's investment policy limits investment in total equities to a maximum of 25% of the market value of the portfolio. Investments in any single issuer shall be limited to a maximum of 8% of the market value of the equity portfolio.

Equities are monitored by the Board of Directors and holdings are adjusted following each quarter to ensure holdings are in compliance with the investment policy.

There have been no significant changes from the previous year in the exposure to this risk or policies, procedures and methods used to measure market risk.

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the exit price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
December 31, 2020				
Term deposits	\$ 4,564,442	\$ -	\$ -	\$ 4,564,442
Bonds - Canadian corporate	-	-	200,000	200,000
Equity investments - Canadian corporate	-	-	198,959	198,959
Pooled funds	-	7,488,840	3,137,790	10,626,630
Other investments	-	16,942	-	16,942
Total	\$ 4,564,442	\$ 7,505,782	\$ 3,536,749	\$ 15,606,973
December 31, 2019				
Term deposits	\$ 6,340,036	\$ -	\$ -	\$ 6,340,036
Bonds - Canadian corporate	-	-	-	-
Equity investments - Canadian corporate	-	-	200,000	200,000
Pooled funds	-	6,614,771	3,079,189	9,693,960
Other investments	-	16,689	-	16,689
Total	\$ 6,340,036	\$ 6,631,460	\$ 3,279,189	\$ 16,250,685

There were no transfers between Level 1, Level 2 and Level 3 for the years ended December 31, 2020 and 2019.

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

5. INVESTMENT AND OTHER INCOME (EXPENSE)

	2020	2019
Interest income	\$ 487,911	\$ 463,243
Dividend income	119,976	142,690
Investment fees	(81,338)	(78,662)
Realized gain on disposal of investments	163,504	201,226
Unrealized gains on investments	137,977	444,576
Other income	27,012	4,528
	\$ 855,042	\$ 1,177,601

6. CAPITAL MANAGEMENT

For the purpose of capital management, the Company has defined capital as policyholders' surplus.

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators require property and casualty companies to comply with capital adequacy requirements. This test compares a Company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors that are dependent on the risks associated with the Company's assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest-sensitive assets and liabilities to changes in interest rates. The regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement or if deemed necessary.

7. COMMISSIONS AND INSPECTION OF RISKS

	2020	2019
Commission expense	\$ 2,145,721	\$ 1,804,715
Commission income	(79,336)	(73,182)
Inspection of risks	61,887	81,474
	\$ 2,128,272	\$ 1,813,007

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

8. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2020	2019
Bad debt expense	\$ 1,940	\$ 2,559
Depreciation	51,618	42,597
Education, fees and travel	159,283	220,283
Employee benefits	290,459	282,487
Information technology	364,576	346,666
Office expense and maintenance	265,551	266,330
Postage and telephone	28,790	32,915
Printing and stationery	26,310	30,255
Professional services	28,584	60,790
Provincial premium tax	23,995	22,181
Salaries and directors fees	724,821	737,520
Sundry	120,250	119,375
Less: reallocation to claims expense	(434,558)	(436,228)
	\$ 1,651,619	\$ 1,727,730

9. SALARIES, BENEFITS AND DIRECTORS FEES

	2020	2019
Total salaries, benefits, directors fees and agent commissions	\$ 1,548,998	\$ 1,491,294

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

10. INCOME TAXES

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized in net income except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

The significant components of tax (recovery) expense included in net income are composed of:

	2020	2019
Current tax expense (recovery)		
Based on current year taxable income	\$ 605,000	\$ 392,000
Adjustments for over provision in prior periods	-	(22,963)
	605,000	369,037
Deferred tax expense		
Origination and reversal of temporary differences	6,400	(3,100)
	\$ 611,400	\$ 365,937

Reasons for the difference between tax (recovery) expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2019 - 26.5%) are as follows:

	2020	2019
Income before income taxes	\$ 2,369,608	\$ 1,538,177
Expected (recovery) taxes based on the statutory rate of 26.5% (2019 - 26.5%)	627,946	407,617
Canadian dividend income	(13,250)	(22,738)
Other timing differences	(11,376)	3,642
Other non-deductible expenses	1,680	5,633
Donation carryforward	-	(2,154)
	\$ 605,000	\$ 392,000

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

11. STRUCTURED SETTLEMENTS, FIRE MUTUALS GUARANTEE FUND AND FINANCIAL GUARANTEE CONTRACTS

The Company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the Company's liability to its claimants is substantially transferred. Although the Company remains exposed to the credit risk that life insurers fail to fulfill their obligations.

The Company is a member of the Fire Mutuals Guarantee Fund (the Fund). The Fund was established to provide payment of outstanding policyholders' claims if a member Company becomes bankrupt. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

The Company is a member of the Farm Mutual Reinsurance Plan Inc. (the Plan), which is a general reinsurer that shares in the insurance risks originally accepted by the member insurance companies. As a member of the Plan, the Company may be required to contribute additional capital to the Plan in the form of subordinated debt should the Plan's capital fall below a prescribed minimum.

These exposures represent financial guarantee contracts. The Company accounts for financial guarantee contracts in accordance with IFRS 4, Insurance Contracts.

12. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in comprehensive income and is provided over the useful life of the assets using the declining balance method for buildings and furniture and fixtures and straight line for computer hardware.

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

INTANGIBLE ASSETS

Intangible assets consist of computer software which are not integral to the computer hardware owned by the Company. Software is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 15 years. The depreciation expense is included in other operating and administrative expenses in the statement of comprehensive income.

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Property, plant and equipment					Intangible assets
	Land	Buildings	Computer hardware	Furniture and equipment	Total	Computer Software
Cost						
Balance at January 1, 2019	\$ 265,087	\$ 446,146	\$ 71,528	\$ 170,749	\$ 953,510	\$ 47,101
Additions	-	210,502	10,717	294	221,513	-
Disposals	-	-	(1,511)	-	(1,511)	-
Balance on December 31, 2019	265,087	656,648	80,734	171,043	1,173,512	47,101
Additions	-	1,800	4,438	16,727	22,965	-
Disposals	-	-	(5,126)	-	(5,126)	-
Balance on December 31, 2020	\$ 265,087	\$ 658,448	\$ 80,046	\$ 187,770	\$ 1,191,351	\$ 47,101
Accumulated depreciation						
Balance at January 1, 2019	\$ -	\$ 233,642	\$ 61,886	\$ 108,540	\$ 404,068	\$ 31,400
Depreciation expense	-	18,668	8,234	12,555	39,457	3,140
Disposals	-	-	(1,511)	-	(1,511)	-
Balance on December 31, 2019	-	252,310	68,609	121,095	442,014	34,540
Depreciation expense	-	26,843	8,343	13,292	48,478	3,140
Disposals	-	-	(5,126)	-	(5,126)	-
Balance on December 31, 2020	\$ -	\$ 279,153	\$ 71,826	\$ 134,387	\$ 485,366	\$ 37,680
Net book value						
December 31, 2019	\$ 265,087	\$ 404,338	\$ 12,125	\$ 49,948	\$ 731,498	\$ 12,561
December 31, 2020	\$ 265,087	\$ 379,295	\$ 8,220	\$ 53,383	\$ 705,985	\$ 9,421

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

13. INVESTMENT PROPERTY

The Company purchased an investment property consisting of land and a building located at 14118 Belmont Road, Belmont, Ontario, which was held to earn rental income during the year. The investment property was initially recorded at cost and subsequently carried at fair value with any changes going through profit and loss. Fair value was determined through an external valuation performed by a local real estate brokerage.

	2020	2019
Balance, beginning of the year	\$ 324,000	\$ -
Acquisitions	-	335,410
Increase(decrease) in fair value	36,000	(11,410)
Balance, end of the year	\$ 360,000	\$ 324,000

Rental income and related expenses were recognized through comprehensive income.

14. PENSION PLANS

DEFINED BENEFIT PLAN

The Company makes contributions on behalf of its employees to "The Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies". Eligible employees participate in the defined benefit plan. The defined benefit plan specifies the amount of the retirement benefit to be received by the employee based on the number of years the employee has contributed and his/her final average earnings. Under the terms of the Ontario Mutual Insurance Association Pension Plan, the Company is liable for the obligations of other companies participating in the pension should they be unable to satisfy their respective funding requirements.

The Company is one of a number of employers who have pooled the assets and liabilities of the pension plan to take advantage of economies of scale in making investment decisions and in minimizing expenses. The information to account for the plan as a defined benefit plan is not readily available for each company to determine its share of the assets and liabilities of the plan. In the event of a wind-up or withdrawal from the plan, the Company is responsible for its portion of the deficit and all expenses as determined by the plan actuary.

The amount contributed to the plan for 2020 was \$127,506 (2019 - \$118,120). The contributions were made for current service and these have been recognized in comprehensive income. The current service amount is determined by the plan actuary using the projected accrued benefit actuarial cost method. The Company had a 2.22% (2019 - 2.21%) share of the total contributions to the plan in 2020.

Expected contributions to the plan for the next annual reporting period amount to \$127,959.

The defined benefit plan has been closed to future eligible employees effective July 1, 2013. Future eligible employees will become part of a defined contribution plan. The amount contributed to the defined contribution plan for 2020 was \$15,529 (2019 - \$9,615).

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

15. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors and management:

	2020	2019
Compensation		
Short-term employee benefits and directors' fees	\$ 726,076	\$ 698,779
Total pension and other post-employment benefits	71,065	61,933
	\$ 797,141	\$ 760,712
Premiums written	\$ 49,129	\$ 48,601
Claims paid	\$ -	\$ 3,303

Amounts owing to and from key management personnel at December 31, 2020 are \$nil (2019 - \$nil) and \$7,696 (2019 - \$12,044) respectively. The amounts are included in accounts payable and accrued liabilities and other receivables on the statement of financial position.

THE WESTMINSTER MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020

16. STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET EFFECTIVE

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2021 or later that the Company has decided not to adopt early.

The Company has not yet determined the extent of the impact of the following new standards, interpretations and amendments, which have not been applied in these financial statements.

IFRS 17 Insurance Contracts supersedes IFRS 4 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires entities to recognize profits as it delivers insurance services. The effective date for IFRS 17 is January 1, 2023. The Company has not yet determined the impact of adoption, however it is expected to significantly impact the overall financial statements.

17. SIGNIFICANT EVENT

During the year, the global outbreak of COVID-19 (coronavirus) has continued to have a significant impact on business through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence.