KINGSWAY FINANCIAL SERVICES INC
Form 40-F
May 18, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 40-F

[Check one]
[ ] **Registration Statement Pursuant to Section 12 of the Securities Exchange Act of 1934**
or
[X] **Annual Report Pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended: **December 31, 2003** Commission File Number: 1-15212

KINGSWAY FINANCIAL SERVICES INC.

(Exact name of Registrant as specified in its charter)

Ontario	**6331**	**Not Applicable**
(Province or Other Jurisdiction of Incorporation or Organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number, if applicable)*

5310 Explorer Drive, Suite 200, Mississauga, Ontario, Canada L4W 5H8
(905) 629-7888

(Address and telephone number of Registrant s principal executive offices)

Brian Williamson
Kingsway America Inc.
150 Northwest Point Blvd., 6th Floor, Elk Grove Village, Illinois 60007
(847) 871-6400

(Name, address (including zip code) and telephone number (including area code)
of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Shares, no par value	New York Stock Exchange, Inc.

Securities registered or to be registered pursuant to Section 12(g) of the Act. **N/A**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act. **N/A**

For annual reports, indicate by check mark the information filed with this Form:

[X] Annual information form [X] Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

55,829,794 Common Shares outstanding as of December 31, 2003.

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the Exchange Act). If Yes is marked, indicate the filing number assigned to the Registrant in connection with such Rule.

Yes ______ 82- ______ No ___X___

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes ___X___ No ______

Exhibit Index appears on Page 119

KINGSWAY FINANCIAL SERVICES INC.

DOCUMENTS FILED UNDER COVER OF THIS FORM

Document No. 1

KINGSWAY FINANCIAL SERVICES INC.

2003 ANNUAL INFORMATION FORM

May 3, 2004

1. INCORPORATION

Kingsway Financial Services Inc. (KFSI) was incorporated under the Business Corporations Act (Ontario) on September 19, 1989. On November 10, 1995, KFSI filed articles of amendment deleting its private company share restrictions, subdividing KFSI s outstanding common shares on a three for one basis, and deleting the Class A Special Shares and the Class B Special Shares that were previously authorized. On October 11, 1996, KFSI filed articles of amendment to sub-divide the common shares on a two for one basis. On April 27, 1998, KFSI filed articles of amendment to subdivide the common shares on a two for one basis. The principal and registered office of KFSI is located at 5310 Explorer Drive, Suite 200, Mississauga, Ontario, L4W 5H8.

2. INTER-CORPORATE RELATIONSHIPS

KFSI s material subsidiaries and their intercorporate relationship with KFSI as of the most recent financial year end are listed and described in Note 1(a) to the Consolidated Financial Statements of KFSI contained in KFSI s 2003 Annual Report (the Annual Report) which is incorporated herein by reference. All subsidiaries are 100% owned, directly or indirectly, (except for qualifying shares of York Fire & Casualty Insurance Company and Kingsway General Insurance Company held by directors in order to satisfy applicable statutory requirements).

3. GENERAL DEVELOPMENT OF THE BUSINESS

KFSI is a holding company which operates through its wholly owned subsidiaries in the property and casualty insurance business. Since its inception in 1986, Kingsway General Insurance Company (KGIC) has provided property and casualty insurance in specialized lines in Canada, primarily in the automobile insurance market. In 1989, KGIC became a wholly owned subsidiary of KFSI. Since KFSI s initial public offering in 1995, KFSI has made selective acquisitions in Canada and the United States, including its insurance subsidiaries, American Service Insurance Company, Inc., U.S. Security Insurance Company, Jevco Insurance Company, Southern United Fire Insurance Company, Universal Casualty Company, Lincoln General Insurance Company, York Fire & Casualty Insurance Company and American Country Insurance Company.

Significant events that have influenced the general development of the business over the last three years include:

(a) the completion of a public offering of 5,000,000 common shares in July, 2001 for net proceeds of $59,375,000 and the sale of an additional 750,000 common shares granted to KFSI s underwriters as an over allotment option for net proceeds of $8,906,250;

(b) the completion of a public offering of 7,500,000 common shares in December, 2001 for net proceeds of $118,943,000 and the sale of an additional 1,125,000 shares issued to KFSI s underwriters pursuant to the exercise of an over allotment option for net proceeds of $17,820,000;

(c) the acquisition of American Country Holdings Inc. (ACHI) and its subsidiaries in April, 2002 for an acquisition price of approximately U.S.$21.7 million. ACHI is a Chicago based insurer which specializes in taxicab insurance. The transaction was completed as a result of the tendering of 95.2% of the issued common shares of ACHI pursuant to an arm s length tender offer to ACHI s shareholders;

(d) the completion of a syndicated, unsecured credit facility of up to $66.5 million in May, 2002;

(e) the completion in December 2002 of an inaugural public debt offering of $78 million of 8.25% unsecured debentures due December, 2007;

(f) the completion in December, 2002 of a private placement of U.S.$15 million in 30 year floating rate trust preferred securities;

(g) the completion in May 2003 of a private placement of US$17.5 million in 30-year floating rate trust preferred securities;

(h) the completion in May 2003 of a private placement of US$15 million in 30-year floating rate trust preferred securities;

(i) the completion in July 2003 of a public offering only in Canada of 6,710,000 common shares at a price of $16.70 per share resulting in total gross proceeds of $112,100,000;

(j) the completion in September 2003 of a private placement of US$10 million in 30 year floating rate trust preferred securities;

(k) the completion in October 2003 of a private placement of US$20 million in 30 year floating rate trust preferred securities;

(l) the completion in December 2003 of a private placement of US$13 million in 30 year floating rate trust preferred securities; and

(m) the completion in January 2004 of a private placement of US$100 million in 10 year 7.5% senior notes and the completion in March 2004 of the sale of an additional US$25 million of the 10-year 7.5% senior notes; and

(n) the replacement of the Cdn$66.5 million syndicated unsecured facility and the KFSI 1999 term credit facility with a Cdn$150 million syndicated unsecured revolving credit facility.

4. NARRATIVE DESCRIPTION OF THE BUSINESS

In 2003, non-standard automobile business accounted for 37% of KFSI s $2,636.8 million of gross premiums written (GPW) (the total premiums on insurance underwritten before deduction of reinsurance premiums ceded). Non-standard automobile insurance is the insuring of automobile risks for drivers with worse than average driving records primarily as a result of accidents or traffic violations. The commercial trucking line comprised 31% of KFSI s GPW in 2003.

KFSI s premium distribution by line and geographic areas is set out in Note 10 to the Consolidated Financial Statements contained in the Annual Report which is incorporated herein by reference.

In addition to revenue derived from premiums earned, KFSI also derives revenue from premium financing and investment income. This revenue amounted to $133.4 million in 2003 as compared to $81.1 million in 2002.

KFSI has remained a disciplined underwriter. KFSI has earned a profit from its underwriting activities for 11 of the last 14 fiscal years, and as well, KFSI s combined ratio in six of the last nine years has been less than 100%. The selected Supplemental Financial Information set out on page 74 of the Annual Report which is incorporated herein by reference provides details of the gross premiums written, underwriting profits, and key ratios from KFSI s insurance operations compared to industry results for the eight year period ending December 31, 2003 and are incorporated herein by reference.

Employees

As at December 31, 2003, KFSI employed an aggregate of approximately 2,027 personnel, none of whom are unionized.

Liquidity

Capital required for KFSI s business has been obtained from KFSI s public offerings of common shares, its syndicated term and operating lending facilities, the issuance of trust preferred securities and has been internally generated from underwriting and investment profits. KFSI s operations create liquidity by collecting and investing premiums, as more fully discussed on pages 43 to 45 of the Annual Report which are incorporated by reference herein.

Investment Portfolio

The total size of the investment portfolio increased from $1,834 million at the end of 2002 to $2,512 million at December 31, 2003. Returns on a pre-tax basis were 5.3% for the year compared with 4.5% for 2002. The investment portfolio as at December 31, 2003 and December 31, 2002 is comprised of assets from a number of different classes as reflected in Note 2 to the 2003 Consolidated Financial Statements set out on pages 62 and 63 of the Annual Report which are incorporated herein by reference.

Competitive Position

The insurance industry is price competitive in all markets in which KFSI insurance subsidiaries operate. KFSI s subsidiaries employ disciplined underwriting practices with the objective of rejecting underpriced risks. The combined ratio of claims plus underwriting expenses compared to net premiums earned is the traditional measure of underwriting results of property and casualty companies. In any year when the ratio exceeds 100%, it generally indicates that unprofitable business has been underwritten. Through careful underwriting, pricing, risk selection, stringent claims management, and non-renewal of unprofitable policies, KFSI has produced an underwriting profit in 11 of the last 14 years.

KFSI believes that it is better to write less business with higher profits than to compete with other insurers at low premiums to increase volume at the expense of higher combined ratios. In 2003, Kingsway s combined ratio from Canadian and U.S. Operations was 111.8% and 98.3% respectively, compared with the industry averages of 98.7% and 101.1% respectively. In 2003, Canadian operations were particularly impacted as a result of adverse claims development for prior years.

5. SELECTED CONSOLIDATED FINANCIAL INFORMATION

Annual Information

The revenue, net income, net income per share, and total assets of KFSI for each of the last eight years are contained in the Supplemental Financial Information table set out on page 74 of the 2003 Annual Report which is incorporated herein by reference and included as Exhibit 99.5 to this report. Quarterly financial information for the last eight quarters ending December 31, 2003 is contained in the Supplemental Financial Information table on page 75 of the 2003 Annual Report which is incorporated herein by reference and included as Exhibit 99.6 to this report. The total long term financial liabilities of KFSI as at December 31, 2003 was U.S.$90.5 million and Cdn$78 million in comparison to U.S.$100 million and Cdn$78 million at December 31, 2002 and U.S.$90 million at December 31, 2001.

Dividend Policy

The ability of KFSI to pay dividends is largely dependent upon its ability to receive dividends from its subsidiaries. The insurance subsidiaries are regulated and are required to maintain statutory capital in order to write insurance policies. Regulatory authorities may impose, from time to time, additional restrictions which may affect the actual amounts available to KFSI for the payment of dividends.

During the past five years, KFSI has not paid any dividends. KFSI has no intention to declare regular dividends on its common shares in the foreseeable future. Any decision to pay dividends on KFSI s common shares in the future will be dependent upon the financial requirements of KFSI to finance future growth, the financial condition of KFSI and other factors which the Board of Directors of KFSI may consider appropriate in the circumstances.

6. MANAGEMENT S DISCUSSION AND ANALYSIS

Management s discussion and analysis of the financial condition and results of operations which appear on pages 17 to 54 of the Annual Report are incorporated herein by reference.

7. MARKET FOR SECURITIES

The common shares of KFSI are listed on the Toronto Stock Exchange and the New York Stock Exchange (Symbol KFS).

8. DIRECTORS AND OFFICERS

The following table and the notes thereto state the names of all executive officers of the Corporation, all other positions or offices with the Corporation and its subsidiaries now held by them, their principal occupations or employment and the number of Common Shares and Options of the Corporation beneficially owned, directly or indirectly, by each of them, or over which they exert control or direction as of March 25, 2004. The same information relating to the directors of the Corporation is contained in the Election of Directors section of the Management Information Circular of KFSI dated March 25, 2004 filed on Form 6-K on May 17, 2004 and incorporated herein by reference.

Name and Municipality of Residence and Present Principal Occupation	Position with the Corporation	Common Shares of the Corporation beneficially owned, directly or indirectly, or controlled or directed	Number of Options Held
William G. Star Mississauga, ON	Chairman, President and Chief Executive Officer, KFSI	426,813	400,000
W. Shaun Jackson Oakville, ON	Executive Vice-President and Chief Financial Officer, KFSI	57,589	230,000
Frank Amodeo Toronto, ON	Vice-President, KFSI	4,822	15,000
Simon Argent Toronto, ON	Vice-President, Risk Management, KFSI	6,402	6,500
Dennis Fielding	Vice-President, KFSI	3,621	21,000
Shelly Gobin Mississauga, ON	Vice-President and Treasurer, KFSI	35,202	30,167

Frank Amodeo joined KFSI in July, 2001. Prior thereto, Mr. Amodeo was Vice-President and General Manager of Winterthur International (The Citadel General Assurance Company).

Simon Argent joined KFSI in March, 2002 as an Assistant Vice-President. Between April 2001 to March 2002, Mr. Argent was a self-employed investor. Prior thereto, Mr. Argent was Second Vice-President Account Executive at General Reinsurance.

Except as noted above, for the past five years each executive officer has been engaged in his current occupation or in other capacities within the same or a related entity.

As a group, the directors and officers of KFSI own, directly or indirectly or exercise control or direction over 712,400 (1.3% of the total outstanding) common shares of KFSI. The information as to shares owned indirectly or over which control or direction is exercised by the directors and officers, but which are not registered in their names, not being within the knowledge of KFSI, has been furnished by such officers of KFSI.

The Corporation does not have an Executive Committee. Mr. Walsh serves as KFSI s lead director. The Board of Directors has established an Audit Committee comprised solely of outside Directors, namely Messrs. Atkins, Di Giacomo and Walsh. In addition, the Corporation has an Investment Committee comprised of Messrs. Di Giacomo, Star, and Walsh, a Nominating Committee comprised of Messrs. Atkins, Walsh and Reeve, and a Compensation and Management Resources Committee comprised of Messrs. Di Giacomo, Gluckstein and Beamish.

9. ADDITIONAL INFORMATION

KFSI shall provide to any person, upon request to the Secretary of KFSI:

(a) when the securities of KFSI are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities,

(i) one copy of the Annual Information Form of KFSI, together with one copy of any documents, or the pertinent pages of any document, incorporated by reference in the Annual Information Form;

(ii) one copy of the comparative financial statements of KFSI for its most recently completed financial year together with the accompanying report of KFSI s auditor and one copy of any interim financial statements of KFSI subsequent to the financial statements for KFSI s most recently completed financial year;

(iii) one copy of the information circular of KFSI in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any annual filing prepared in lieu of that information circular, as appropriate, and

(b) at any other time, one copy of any other documents referred to in (a) (i), (ii) and (iii) above, provided KFSI may require the payment of a reasonable charge if the request is made by a person who is not a security holder of KFSI.

Additional information, including directors and officers remuneration and indebtedness, the principal holders of KFSI securities, options to purchase securities, and interests of insiders in material transactions, where applicable, is contained in KFSI s Information Circular for its most recent annual meeting of shareholders, which involves the election of directors. Additional financial information is provided in KFSI s comparative financial statements for its most recently completed financial year. Copies of such documents may be obtained upon request from the Secretary of KFSI.

For copies of documents, please contact Mr. Michael Slan, Secretary, Suite 4400, Royal Trust Tower, Toronto-Dominion Centre, Toronto, Ontario, M5K 1G8, Telephone (416) 941-8857, Facsimile (416) 941-8852, E-mail address: mss@foglerubinoff.com.

Document No. 2

Consolidated Financial Statements of

KINGSWAY FINANCIAL SERVICES INC.

Years ended December 31, 2003 and 2002

MANAGEMENT STATEMENT ON RESPONSIBILITY FOR FINANCIAL INFORMATION

Management is responsible for presentation and preparation of the annual consolidated financial statements, Management s Discussion and Analysis (MDA) and all other information in the Company s Annual Report. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and also include a reconciliation to generally accepted accounting principles in the United States. Financial information appearing elsewhere in the Company s Annual Report is consistent with the consolidated financial statements.

The MDA has been prepared in accordance with the requirements of Canadian securities regulators as well as the requirements of Regulation S-K of the Securities Exchange Act of the United States, and their related published requirements.

The consolidated financial statements and information in the MDA necessarily include amounts based on informed judgements and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the financial information management must make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MDA also includes information regarding the estimated impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from management s present assessment of this information because future events and circumstances may not occur as expected.

In meeting its responsibility for the reliability of the consolidated financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls. These controls are designed to provide management with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

We, as Kingsway Financial s Chief Executive Officer and Chief Financial Officer, will be certifying Kingsway Financial s annual disclosure document filed with the SEC (Form 40-F) as required by the United States Sarbanes-Oxley Act.

The Board of Directors oversees management s responsibilities for financial reporting through an Audit Committee, which is composed entirely of directors who are neither officers nor employees of the Company. The Audit Committee reviews the consolidated financial statements and recommends them to the board for approval. The Audit Committee also reviews and monitors weaknesses in the Company s system of internal controls as reported by management or the external auditors.

Role of the Actuary

With respect to the preparation of these financial statements, management prepares a valuation, including the selection of appropriate assumptions, of the Company s obligations at the balance sheet date under insurance policies issued by its subsidiaries. With respect to the preparation of these financial statements, KPMG LLP carries out a review of management s valuation of the unpaid claim liabilities and provides an opinion to the Board of Directors regarding the appropriateness of the unpaid claim liabilities recorded by management to meet all policyholder claim obligations of the Company at the balance sheet date. The work to form that opinion includes an examination of the sufficiency and reliability of data, and review of the valuation process used by management. The independent actuary is responsible for assessing whether the assumptions and methods used for the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation, and associated regulations and directives. In performing the review of these liabilities determined by management, which are by their very nature inherently variable, the actuary makes assumptions as to future loss ratios, trends, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Company and the nature of the insurance policies.

The valuation is based on projections of future claims and claim adjustment expenses on claims incurred at the balance sheet date. It is certain that actual future claims and claim adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, the projections make no provision for new classes or claim categories not sufficiently recognized in the claims database.

Management is responsible for the accuracy and completeness of the underlying data used in the valuation. The actuary s report outlines the scope of the review and the opinion.

Role of the Auditor

The external auditors, KPMG LLP , have been appointed by the shareholders. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and to report thereon to the shareholders. In carrying out their audit, the auditors make use of the work of the independent actuary and their report on the claim liabilities of the Company. The shareholders auditors have full and unrestricted access to the Board of Directors and the Audit Committee to discuss audit, financial reporting and related findings. The auditors report outlines the scope of their audit and their opinion.

/s/ William G. Star	/s/ W. Shaun Jackson
William G. Star	W. Shaun Jackson
President & Chief Executive Officer	Executive Vice President & Chief Financial Officer
February 10, 2004	

AUDITORS REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Kingsway Financial Services Inc. as at December 31, 2003 and December 31, 2002 and the consolidated statements of operations, retained earnings and cash flows for each of the years in the three-year period ended December 31, 2003. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and December 31, 2002 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2003 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
February 10, 2004

APPOINTED ACTUARY S REPORT

KPMG LLP has reviewed management s valuation, including the selection of appropriate assumptions and methods, of the unpaid claims liabilities of the insurance and reinsurance subsidiaries of Kingsway Financial Services Inc. for its consolidated balance sheets at December 31, 2003 and 2002 and their changes in the statement of operations for each of the years in the three year period ended December 31, 2003 in accordance with accepted actuarial practice.

In our opinion, the unpaid claims liabilities are appropriate and the consolidated financial statements fairly present its results.

KPMG LLP

Claudette Cantin, F.C.I.A.
February 10, 2004

KINGSWAY FINANCIAL SERVICES INC.

Consolidated Balance Sheets

As at December 31
(In thousands of Canadian dollars)

	2003	2002
Assets		
Cash	$ 140,883	$ 244,921
Investments (notes 2 and 12(c))	2,512,052	1,833,744
Accrued investment income	21,189	16,223
Accounts receivable and other assets	387,052	334,603
Due from reinsurers and other insurers (note 6)	176,295	164,742
Deferred policy acquisition costs	167,960	178,574
Income taxes recoverable	--	3,851
Future income taxes (note 7)	72,184	59,505
Capital assets (note 3)	66,981	43,981
Goodwill and intangible assets (note 1(e))	85,840	104,290
	$ 3,630,436	$2,984,434
Liabilities and Shareholders' Equity		
Liabilities:		
Bank indebtedness (note 11(a))	$ 153,895	$ 170,390
Accounts payable and accrued liabilities	128,797	122,606
Income taxes payable	2,589	--
Unearned premiums (note 6)	776,481	776,323
Unpaid claims (notes 6 and 8)	1,669,734	1,200,554
Senior unsecured debentures (note 11(b))	78,000	78,000
Subordinated indebtedness (note 11(c))	115,981	23,636
	2,925,477	2,371,509
Shareholders' equity:		
Share capital (note 4)	468,668	357,192
Contributed surplus (note 5)	678	--
Currency translation adjustment	(94,313)	11,090
Retained earnings (note 12(b))	329,926	244,643
	704,959	612,925
Contingent liabilities (note 12)		
	$ 3,630,436	$2,984,434

See accompanying notes to consolidated financial statements.

On behalf of the Board:

/s/ David H. Atkins Director

/s/ F. Michael Walsh Director

APPOINTED ACTUARY S REPORT

KINGSWAY FINANCIAL SERVICES INC.

Consolidated Statements of Operations

Years ended December 31
(In thousands of Canadian dollars, except per share amounts)

	2003	2002	2001
Gross premiums written	$ 2,636,822	$2,124,691	$1,065,262
Net premiums written	$ 2,518,711	$2,009,963	$1,014,960
Revenue:			
Net premiums earned (note 6)	$ 2,381,984	$ 1,737,754	$ 872,830
Net Investment income (note 2)	78,369	64,855	52,553
Net realized gains (note 2)	55,032	16,259	12,079
	2,515,385	1,818,868	937,462
Expenses:			
Claims incurred (notes 6 and 8)	1,770,137	1,240,329	616,079
Commissions and premium taxes (note 6)	503,158	372,051	167,176
General and administrative expenses	142,611	122,762	81,938
Interest expense	20,983	12,274	11,399
Amortization of intangible assets	854	716	--
	2,437,743	1,748,132	876,592
Income before income taxes	77,642	70,736	60,870
Income taxes(recovery) (note 7):			
Current	11,482	4,410	6,665
Future	(19,123)	(13,206)	3,418
	(7,641)	(8,796)	10,083
Net income before goodwill	85,283	79,532	50,787
Amortization of goodwill, net of applicable income tax	--	--	5,856
Net income	$ 85,283	$ 79,532	$ 44,931
Earnings per share (note 4):			
Basic	$ 1.63	$ 1.63	$ 1.21
Diluted	$ 1.62	$ 1.61	$ 1.19

See accompanying notes to consolidated financial statements.

KINGSWAY FINANCIAL SERVICES INC.

Consolidated Statements of Retained Earnings

Years ended December 31
(In thousands of Canadian dollars)

	2003	2002	2001
Retained earnings, beginning of year	$244,643	$165,111	$ 120,180
Net income	85,283	79,532	44,931
Retained earnings, end of year	$329,926	$244,643	$165,111

See accompanying notes to consolidated financial statements.

KINGSWAY FINANCIAL SERVICES INC.

Consolidated Statements of Cash Flows

Years ended December 31
(In thousands of Canadian dollars)

	2003	2002	2001
Cash provided by (used in):			
Operating activities:			
Net income	$ 85,283	$ 79,532	$ 44,931
Items not affecting cash:			
Amortization of goodwill and intangibles	854	716	6,674
Amortization of capital assets and deferred charges	9,208	9,358	5,137
Future income taxes	(25,526)	(11,157)	(873)
Net realized gains	(55,032)	(16,259)	(12,079)
Amortization of bond premiums and discounts	14,828	3,746	(4,856)
	29,615	65,936	38,934
Change in non-cash balances:			
Deferred policy acquisition costs	(44,847)	(79,898)	(36,370)
Due from reinsurers and other insurers	(125,954)	1,863	5,377
Unearned premiums	135,505	303,012	131,028
Unpaid claims	749,024	370,193	132,279
Increase in contributed surplus	678	--	--
Net change in other non-cash balances	(126,097)	(60,722)	(63,920)
	617,924	600,384	207,328
Financing activities:			
Increase of share capital, net	111,476	960	207,751
Increase (decrease) in bank indebtedness	16,077	26,952	(7,035)
Increase in senior unsecured debentures	--	78,000	--
Increase in subordinated indebtedness	101,886	23,636	--
	229,439	129,548	200,716
Investing activities:			
Purchase of investments	(6,615,029)	(4,396,825)	(2,277,643)
Proceeds from sale of investments	5,700,353	3,857,050	1,958,678

Financed premiums receivable, net	110	7,768	(7,546)
Purchase of subsidiaries, net of cash acquired (note 9)	--	(36,908)	(2,336)
Additions to capital assets	(36,835)	(12,296)	(12,837)
	(951,401)	(581,211)	(341,684)
Increase in cash during the year	(104,038)	148,721	66,360
Cash, beginning of year	244,921	96,200	29,840
Cash, end of year	$ 140,883	$ 244,921	$ 96,200
Supplementary disclosure of cash information:			
Cash paid for:			
Interest	$ 20,357	$ 12,186	$ 11,701
Income taxes	8,727	3,034	9,909

See accompanying notes to consolidated financial statements.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

1. Summary of significant accounting policies:

Kingsway Financial Services Inc. (the Company) was incorporated under the Business Corporations Act (Ontario) on September 19, 1989. The Company is a financial services holding company which, through its subsidiaries, is engaged in property and casualty insurance.

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries all of which are wholly-owned. Acquisitions are accounted for by the purchase method, whereby the results of acquired companies are included only from the date of acquisition, and divestitures are included up to the date of disposal. Assets and liabilities of the acquired companies are included in the financial statements at their fair values at the date of acquisition.

The following is a list of our material subsidiaries, all of which are 100% owned, directly or indirectly, (except for qualifying shares of York Fire & Casualty Insurance Company and Kingsway General Insurance Company held by directors in order to satisfy applicable statutory requirements), with the jurisdiction of incorporation indicated in brackets: American Country Holdings Inc. (Illinois); American Country Insurance Company (Illinois); American Country Financial Services Corp. (Illinois); American Country Underwriting Agency Inc. (Illinois); American Country Professional Services Corp. (Illinois); American Service Investment Corporation (Illinois); American Service Insurance Company, Inc. (Illinois); ARK Insurance Agency Inc. (Illinois); Avalon Risk Management, Inc. (Illinois); Appco Finance Corporation (Florida); AOA Payment Plan Inc. (Illinois); Hamilton Risk Management Company (Florida); Insurance Management Services Inc. (Florida); U.S. Security Insurance Company (Florida); Auto Body Tech Inc. (Florida); Corporate Claim Services Inc. (Florida); Jevco Insurance Company (Canada); Kingsway America Inc. (Delaware); Kingsway Nova Scotia Finance, ULC (Nova Scotia); Kingsway General Insurance Company (Ontario); Kingsway Reinsurance (Bermuda) Ltd. (Bermuda); Kingsway Reinsurance Corporation (Barbados); Kingsway U.S. Finance Partnership (Delaware); Kingsway U.S. Funding Inc. (Delaware); Kingsway U.S. Tier II Finance Partnership (Delaware); Southern United Holding, Inc. (Alabama); Consolidated Insurance Management Corp. (Alabama); Funding Plus of America (Alabama); Southern United Fire Insurance Company (Alabama); Southern United General

Agency of Texas, Inc. (Texas); UCC Corporation (Nevada); Universal Casualty Company (Illinois); Walshire Assurance Company (Pennsylvania); Lincoln General Insurance Company (Pennsylvania); Yorktowne Premium Finance Company (Pennsylvania); and York Fire & Casualty Insurance Company (Ontario).

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

1. Summary of significant accounting policies (continued):

(b) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined.

(c) Investments:

Fixed term investments are carried at amortized cost providing for the amortization of the discount or premium on a constant yield basis to maturity. Investments in common and preferred shares are carried at cost. Where a decline in value of an investment is considered to be other than temporary a writedown of the investment is recorded.

(d) Investment income:

Investment income is recorded as it accrues. Dividend income on common and preferred shares is recorded on the ex-dividend date. Gains and losses on disposal of investments are determined and recorded as at the settlement date, and are calculated on the basis of average cost.

(e) Goodwill and other intangible assets:

When the Company acquires a subsidiary or other business where we exert significant influence, we determine the fair value of the net tangible and intangible assets acquired and compare them to the amount paid for the subsidiary or business acquired. Any excess of the amount paid over the fair value of those net assets is considered to be goodwill.

Goodwill is tested at least annually for impairment to ensure that its fair value is greater than or equal to the carrying value. Any excess of carrying value over fair value is charged to income in the period in which the impairment is determined. At December 31, 2003 and 2002 goodwill was $81,284,000 and $97,725,000, respectively.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

1. Summary of significant accounting policies (continued):

(e) Goodwill and other intangible assets (continued):

When the Company acquires a subsidiary or other business where we exert significant influence, we may acquire intangible assets, which are recorded at their fair value at the time of the acquisition. Intangible assets with a definite useful life are amortized to income on a straight-line basis over the defined useful life. The Company writes down the value of an intangible asset with a definite useful life when the undiscounted cash flows are not expected to allow for full recovery of the carrying value. At December 31, 2003 and 2002 intangible assets with a definite useful life, net of accumulated amortization, were $1,689,000 and $3,037,000, respectively.

Intangible assets with an indefinite useful life are not subject to amortization and are tested at least annually for impairment to ensure that its fair value is greater than or equal to its carrying value. Any excess of carrying value over fair value is charged to income in the period in which the impairment is determined. At December 31, 2003 and 2002 the Company had intangible assets with an indefinite life of $2,867,000 and $3,528,000, respectively.

Amortization of intangible assets reported in the Consolidated Statements of Operations for the years ended December 31, 2003, 2002 and 2001 was $854,000, $716,000 and $nil, respectively. There were no write-downs of goodwill or intangible assets due to impairment during the years ended December 31, 2003, 2002, and 2001.

Prior to January 1, 2002 the Company amortized goodwill arising from acquisitions made before July 1, 2001 over the estimated useful life of the asset acquired. Amortization of goodwill was recorded net of applicable income taxes in the Consolidated Statements of Operations. Goodwill amortization of $5,856,000, net of applicable taxes of $818,000, was included in income for the year ended December 31, 2001.

(f) Deferred policy acquisition costs:

The Company defers brokers commissions, premium taxes and other underwriting and marketing costs relating to the acquisition of premiums written to the extent they are considered recoverable. These costs are then expensed as the related premiums are earned. The method followed in determining the deferred policy acquisition costs limits the deferral to its realizable value by giving consideration to estimated future claims and expenses to be incurred as premiums are earned. Changes in estimates, if any, are recorded in the accounting period in which they are determined. Anticipated investment income is included in determining the realizable value of the deferred policy acquisition costs.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

1. Summary of significant accounting policies (continued):

(f) Deferred policy acquisition costs (continued):

Effective October 1, 2002, on a prospective basis, the Company began deferring other underwriting and marketing costs relating to the acquisition of premiums. The impact of this change was an increase to income before income taxes of $11,348,000 for the year ended December 31, 2003 (2002 $6,589,000). Had these costs been taken into account in the deferral of policy acquisition costs in prior years, the impact on the financial statements would not have been significant.

(g) Premium revenue and unearned premiums:

The Company earns premium revenue over the period covered by each individual insurance contract in proportion to the insurance protection provided. For motorcycle premiums, a higher percentage of the premiums is earned during the summer months, which is the motorcycle riding season in Canada. For all other lines of business, the premiums are earned evenly over the contract period. Unearned premiums represent the portion of premiums written related to the unexpired risk portion of the policy at the year- end.

The reinsurers share of unearned premiums is recognized as amounts recoverable using principles consistent with the Company s method for determining the unearned premium liability.

(h) Unpaid claims:

The provision for unpaid claims includes adjustment expenses and represents an estimate for the full amount of all expected costs, including investigation, and the projected final settlements of claims incurred on or before the balance sheet date. The provision does not take into consideration the time value of money or make an explicit provision for adverse deviation.

These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. All provisions are periodically reviewed and evaluated in the light of emerging claim experience and changing circumstances. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the accounting period in which they are determined.

1. Summary of significant accounting policies (continued):

(i) Reinsurance:

Net premiums earned and claims incurred are recorded net of amounts ceded to, and recoverable from, reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims are recorded separately from estimated amounts payable to policyholders. Unearned premiums and deferred policy acquisition costs are also reported before reduction for business ceded to reinsurers and the reinsurers portion is classified with amounts due from reinsurers.

Amounts recoverable from reinsurers are estimated and recognized in a manner consistent with the Company s method for determining the related policy liability associated with the reinsured policy.

(j) Translation of foreign currencies:

Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at year-end exchange rates and non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction date. Translation gains and losses are included in the current income. Income and expenses are translated at the exchange rates in effect at the date incurred. Realized gains and losses on foreign exchange are recognized in the statement of operations.

The Company reports its results in Canadian dollars. The operations of the Company s subsidiaries in the United States and Barbados are self-sustaining. These subsidiaries hold all of their assets and liabilities and report their results in U.S. dollars. As a result, the assets and liabilities of these subsidiaries are translated at the year-end rates of exchange. Revenues and expenses are translated at the average rate of exchange for each year. The unrealized gains and losses, which result from translation are deferred and included in shareholders equity under the caption currency translation adjustment . The currency translation account will change with fluctuations in the U.S. to Canadian dollar exchange rate.

(k) Income taxes:

The Company follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

1. Summary of significant accounting policies (continued):

(l) Stock-based compensation plan:

The Company has a stock-based compensation plan which is described in Note 4. Effective January 1, 2003, the Company adopted on a prospective basis the fair-value method of accounting for stock-based compensation awards granted to employees and non-employee directors for options granted on or after that date. Under the new policy, the Company determines the fair value of the stock options on their grant date and records the fair value as a compensation expense over the period that the stock options vest, with a corresponding increase to contributed surplus. When these stock options are exercised, the amount of proceeds, together with the amount recorded in contributed surplus, are recorded in share capital. Employee compensation expense increased and net income decreased by $678,000 during 2003 as a result of this change in accounting policy.

No compensation expense is recognized for stock options granted prior to January 1, 2003. The consideration paid by employees and non-employee directors on exercise of stock options is credited to share capital.

(m) Capital assets

Capital assets are reported in the financial statements at depreciated cost. Depreciation of property and equipment has been provided by the straight-line method over the estimated useful lives of such assets. The useful lives range from 15-40 years for building and leasehold improvements, 5-7 years for furniture and equipment and 3-5 years for computers and software development.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

2. Investments:

The carrying amounts and fair values of investments are summarized below:

December 31, 2003

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

	Carrying amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair value
Term deposits	$ 285,715	$ 22	$ 237	$ 285,500
Bonds:				
Canadian - Government	221,572	4,608	111	226,069
- Corporate	139,416	5,018	429	144,005
U.S. - Government	393,211	3,214	2,477	393,948
- Corporate	737,184	7,581	6,171	738,594
Other - Government	169,074	153	1,692	167,535
- Corporate	230,915	290	1,418	229,787
Sub-total	$2,177,087	$20,886	$12,535	$2,185,438
Preferred shares - Canadian	500	12	--	512
Common shares - Canadian	116,620	24,065	690	139,995
- U.S.	136,931	21,947	1,148	157,730
Financed premiums	80,914	--	--	80,914
	$2,512,052	$66,910	$14,373	$2,564,589

The maturity profile of the bonds and term deposits investments at their carrying amounts and fair values as at December 31, 2003 is as follows:

	Carrying Amount	Fair Value
Due in one year or less	$ 605,157	$ 605,487
Due after one year through five years	1,153,498	1,155,027
Due after five years through ten years	314,696	319,880
Due after ten years	103,736	105,044
	$2,177,087	$2,185,438

2. Investments (continued):

	December 31, 2002			
	Carrying amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair value
Term deposits	$ 506,575	$ 1	$ 65	$ 506,511
Bonds:				

Canadian - Government	130,736	3,993	--	134,729
- Corporate	82,650	3,288	837	85,101
U.S. - Government	152,644	6,768	19	159,393
- Corporate	248,729	10,118	918	257,929
Other - Government	158,294	2,068	2	160,360
- Corporate	282,353	5,275	--	287,628
Sub-total	$1,561,981	$31,511	$ 1,841	$1,591,651
Preferred shares - Canadian	2,045	2	22	2,025
Common shares - Canadian	125,563	9,207	6,137	128,633
- U.S.	57,341	3,156	3,314	57,183
Financed premiums	86,814	--	--	86,814
	$1,833,744	$43,876	$11,314	$1,866,306

The maturity profile of the bonds and term deposits investments at their carrying amounts and fair values as at December 31, 2002 is as follows:

	Carrying Amount	Fair Value
Due in one year or less	$ 636,726	$ 638,163
Due after one year through five years	699,514	717,493
Due after five years through ten years	179,809	188,190
Due after ten years	45,932	47,805
	$1,561,981	$1,591,651

The following tables highlight the aggregate unrealized loss position, by security type, of holdings in an unrealized loss position as at December 31, 2003 and 2002. The tables segregate the holdings based on the period of time the securities have been continuously held in an unrealized loss position.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

2. Investments (continued):

	December 31, 2003			
	0-6 months	6-12 months	over 12 months	Total
Common Shares				
Number of Positions	22	2	18	42
Fair Value	$ 26,708	$ 5,926	$ 7,318	$ 39,952
Carrying Value	28,070	5,992	7,728	41,790
Unrealized Loss	(1,362)	(66)	(410)	(1,838)
Preferred Shares				
Number of Positions	--	--	--	--
Fair Value	$ --	$ --	$ --	$ --
Carrying Value	--	--	--	--

Unrealized Loss	--	--	--	--
Term Deposits and Bonds				
Number of Positions	163	40	5	208
Fair Value	$ 849,612	$ 288,624	$ 907	$ 1,139,143
Carrying Value	855,812	294,538	1,328	1,151,678
Unrealized Loss	(6,200)	(5,914)	(421)	(12,535)
Total				
Number of Positions	185	42	23	250
Fair Value	$ 876,320	$ 294,550	$ 8,225	$ 1,179,095
Carrying Value	883,882	300,530	9,056	1,193,468
Unrealized Loss	(7,562)	(5,980)	(831)	(14,373)

				December 31, 2002
	0-6 months	6-12 months	over 12 months	Total
Common Shares				
Number of Positions	119	1	--	120
Fair Value	$ 82,037	$ 2,351	$ --	$ 84,388
Carrying Value	91,163	2,676	--	93,839
Unrealized Loss	(9,126)	(325)	--	(9,451)
Preferred Shares				
Number of Positions	1	--	--	1
Fair Value	$ 887	$ --	$ --	$ 887
Carrying Value	909	--	--	909
Unrealized Loss	(22)	--	--	(22)
Term Deposits and Bonds				
Number of Positions	30	--	1	31
Fair Value	435,124	$ --	$ 345	$ 435,469
Carrying Value				