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

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.

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):

(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

	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

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, 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	436,579	--	731	437,310
Unrealized Loss	(1,455)	--	(386)	(1,841)
Total				
Number of Positions	150	1	1	152
Fair Value	$ 518,048	$ 2,351	$ 345	$ 520,744
Carrying Value	528,651	2,676	731	532,058
Unrealized Loss	(10,603)	(325)	(386)	(11,314)

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

2. Investments (continued):

The carrying amounts are shown by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Fair values of term deposits, bonds and common and preferred shares are measured using approximate quoted market values based on the latest bid prices. Financed premiums represent the portion of our insureds monthly premium payments that are not yet due. Certain of our insureds have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly installments. The insured pays an additional premium for this option, reflecting handling costs and the investment income that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional premium is essentially an interest payment on the balance of the unpaid premium and is recognized as income over the period of the policy. The fair value of financed premiums, which are realized over the term of the related policies of up to one year, approximates their carrying amount.

Management has reviewed currently available information regarding those investments whose estimated fair value is less than their carrying amount and ascertained that the carrying amounts are expected to be recovered. Debt securities whose carrying amount exceeds market value can be held until maturity when management expects to receive the principal amount.

All of the Company s fixed term investments have fixed interest rates. The coupon rates for the Company s fixed term investments range from 1.66% to 13.00% at December 31, 2003 and 0.94% to 13.00% at December 31, 2002. As the fair value, carrying amounts and face amounts are not materially different, the effective rates of interest based on fair values would not be materially different from the coupon rates.

The Company limits its investment concentration in any one investee or related group of investees to less than 5% of the Company s investments.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

2. Investments (continued):

Net investment income for the years ended December 31 is comprised as follows:

	2003	2002	2001
Investment income:			
Interest on short-term investments	$ 7,731	$ 4,431	$ 6,457
Interest on bonds	53,633	50,317	29,654
Dividends	5,145	3,951	2,652
Premium finance	12,269	8,539	9,861
Other	3,461	565	5,550
Gross investment income	82,239	67,803	54,174
Investment expenses	3,870	2,948	1,621
Net investment income	$78,369	$64,855	$52,553

Net realized gains for the years ended December 31, 2003, 2002, and 2001 were $55,032,000, $16,259,000, and $12,079,000, respectively. Included in net realized gains were adjustments to the carrying value of investments for declines in market value considered other than temporary of $3,496,000, $6,592,000 and $1,200,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

As at December 31, 2003, bonds and term deposits with an estimated fair value of $29,772,000 (2002 $28,621,000) were on deposit with regulatory authorities.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

3. Capital assets

	Cost	Accumulated Amortization	2003 Carrying Value
Land	$ 5,607	$ --	$ 5,607
Building and leasehold improvements	47,513	3,901	43,612
Furniture and equipment	9,971	5,679	4,292
Computers and software development	29,019	16,184	12,835
Automobiles	1,435	800	635
Total	$93,545	$26,564	$66,981

	Cost	Accumulated Amortization	2002 Carrying Value
Land	$ 5,650	$ --	$ 5,650
Building and leasehold improvements	21,628	4,299	17,329
Furniture and equipment	9,328	6,125	3,203
Computers and software development	29,460	12,541	16,919
Automobiles	1,759	879	880
Total	$67,825	$23,844	$43,981

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

4. Share capital:

Authorized:
Unlimited number of common shares

Share transactions consist of the following:

	Shares Issued	Stock Options	Weighted-Average	Amount

			Exercise Price	
Balance as at December 31, 2000	34,056,597	1,371,338	$ 8.00	$148,481
Issued July 12, 2001	5,750,000			68,315
Issued December 19, 2001	8,625,000			138,073
Stock options:				
Granted in year		367,500	$ 7.80	
Exercised in year	225,609	(225,609)	6.04	1,363
Forfeited in year		(59,668)	6.96	
Balance as at December 31, 2001	48,657,206	1,453,561	$ 8.30	$356,232
Stock options:				
Granted in year		425,500	$ 19.66	
Exercised in year	137,006	(137,006)	7.00	960
Forfeited in year		(29,835)	11.39	
Balance as at December 31, 2002	48,794,212	1,712,220	$ 11.17	$357,192
Issued July 3, 2003	6,100,000			99,137
Issued July 11, 2003	610,000			9,929
Stock options:				
Granted in year		525,000	13.53	
Exercised in year	325,582	(325,582)	7.40	2,410
Forfeited in year		(19,503)	11.88	
Expired in year		(206,000)	14.75	
Balance as at December 31, 2003	55,829,794	1,686,135	$ 12.19	$468,668

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

4. Share capital (continued):

Share issue expenses of $2,991,000, net of applicable income taxes of $1,695,000 were deducted from the amount of share capital issued on July 3, 2003 and July 11, 2003. Share issue expenses of $7,948,000, net of applicable income taxes of $4,049,000, were deducted from the amount of share capital issued on July 12, 2001 and December 19, 2001.

(a) During the year ended December 31, 2003, options to acquire 325,582 shares (2002 137,006; 2001 225,609 shares) were exercised at prices from $4.30 to $11.50 per share (2002 $4.30 to $14.50 per share; 2001 $4.00 to $14.50 per share).

(b) The weighted average number of shares outstanding for the years ended December 31, 2003, 2002 and 2001 were 52,306,647, 48,742,622 and 37,202,057, respectively. On a diluted basis, the weighted average number of shares outstanding for the years ended December 31, 2003, 2002 and 2001 were 52,770,878, 49,427,348 and 37,856,100, respectively.

5. Stock-based compensation:

(a) The Company has established a stock option incentive plan for directors, officers and key employees of the Company and its subsidiaries. For December 31, 2003, the maximum number of common shares that may be issued under the plan is 4,800,000 (2002 3,400,000) common shares. The maximum number of common shares available for issuance to any one person under the stock option plan is 5% of the common shares outstanding at the time of the grant. The exercise price is based on the market value of the shares at the time the option is granted. In general, the options vest evenly over a three-year period and are exercisable for periods not exceeding 10 years.

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

The following tables summarize information about stock options outstanding as at December 31, 2003, December 31, 2002 and December 31, 2001:

December 31, 2003

Exercise Price	Date of Grant	Expiry Date	Remaining Contractual Life (Years)	Number Outstanding	Number Exercisable
$ 13.53	10-Feb-03	10-Feb-03	9.2	521,500	--
$ 19.66	21-Feb-02	21-Feb-12	8.2	416,500	138,833
$ 7.80	22-Feb-01	22-Feb-11	7.2	235,177	140,177
$ 4.30	24-Feb-00	24-Feb-10	6.2	337,256	337,256
$ 11.50	25-Feb-99	25-Feb-04	0.2	175,702	175,702
Total			**7.1**	**1,686,135**	**791,968**

5. Stock-based compensation (continued):

December 31, 2002

Exercise Price	Date of Grant	Expiry Date	Remaining Contractual Life (Years)	Number Outstanding	Number Exercisable
$ 19.66	21-Feb-02	21-Feb-12	9.2	421,500	--
$ 7.80	22-Feb-01	22-Feb-11	8.2	293,340	84,667
$ 4.30	24-Feb-00	24-Feb-10	7.2	497,845	302,336
$ 11.50	25-Feb-99	25-Feb-04	1.2	293,535	293,535

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

$ 18.78	23-Apr-98	23-Apr-03	0.3	12,000	12,000
$ 14.50	19-Feb-98	19-Feb-03	0.2	194,000	194,000
Total			**6.0**	**1,712,220**	**886,538**

December 31, 2001

Exercise Price	Date of Grant	Expiry Date	Remaining Contractual Life (Years)	Number Outstanding	Number Exercisable
$ 7.80	22-Feb-01	22-Feb-11	9.2	346,500	--
$ 4.30	24-Feb-00	24-Feb-10	8.2	565,190	147,516
$ 11.50	25-Feb-99	25-Feb-04	2.2	322,203	211,034
$ 18.78	23-Apr-98	23-Apr-03	1.3	16,000	16,000
$ 14.50	19-Feb-98	19-Feb-03	1.2	199,000	199,000
$ 8.40	24-Apr-97	24-Apr-02	0.3	4,000	4,000
$ 8.75	20-Feb-97	20-Feb-02	0.2	668	668
Total			**6.0**	**1,453,561**	**578,218**

At December 31, 2003, 2002 and 2001 the number of options exercisable is 791,968, 886,538 and 578,218, respectively, with weighted average prices of $9.21, $10.58 and $10.87, respectively.

The Company determines the fair value of options granted using the Black-Scholes option pricing model. The per share weighted average fair value of options granted during 2003, 2002 and 2001 was $6.11, $8.39 and $5.14. The Company will not record any compensation expense for stock options granted in prior years. When these stock options are exercised, the Company will include the amount of proceeds in share capital. The impact on net income and earnings per share if the Company had measured the compensation element of stock options granted based on the fair value on the date of grant on all outstanding stock options on their grant date is disclosed as follows:

5. Stock-based compensation (continued):

	2003	2002	2001
Stock option expense included in employee compensation expense	$ 678	$ --	$ --

Net income, as reported	$85,283	$79,532	$44,931
Additional expense that would have been recorded if all outstanding stock options granted before January 1, 2003 had been expensed	1,656	1,890	1,057
Pro forma net income	$83,627	$77,642	$43,874
Earnings per share			
Basic earnings per share			
As reported	$1.63	$1.63	$1.21
Pro forma	1.60	1.59	1.18
Diluted earnings per share			
As reported	$1.62	$1.61	$1.19
Pro forma	1.58	1.57	1.16

The fair value of the options granted was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2003	2002	2001
Risk-free interest rate	5.54%	5.54%	5.65%
Dividend yield	0.0%	0.0%	0.0%
Volatility of the expected market price of the Company's Common shares	56.0%	59.1%	62.2%
Expected option life (in years)	5.5	5.4	5.5

The Black-Scholes option valuation model was developed for use in estimating fair value of traded options which have no vesting restrictions and are fully transferable. As the Company s employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the above pro forma adjustments are not necessarily a reliable single measure of the fair value of the Company s employee stock options.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

5. Stock-based compensation (continued):

(b) The Company has an employee share purchase plan where qualifying employees can choose each year to have up to 5% of their annual base earnings withheld to purchase the Company s common shares. The Company matches one half of the employee contribution amount, and its contributions vest immediately. All contributions are used by the plan administrator to purchase common shares in the open market. The Company s contribution is expensed as paid and for the years ended December 31, 2003, 2002 and 2001 totalled $392,000, $367,000 and $252,000, respectively.

6. Underwriting policy and reinsurance ceded:

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophe or other events that cause unfavourable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers. The Company is not relieved of its primary obligation to the policyholder as a result of the reinsurance transaction.

Failure of reinsurers to honour their obligations could result in losses to the Company, consequently, the Company continually evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvency.

The Company follows the policy of underwriting and reinsuring contracts of insurance, which limits the company s net exposure to the following maximum amounts:

	Years ended December 31		
	2003	2002	2001
Property claims			
- Canadian operations	$500	$500	$500
- U.S. operations	U.S.$500	U.S.$500	U.S.$500
Canadian - private passenger automobile liability claims	$2,500	$1,000	$1,000
Other liability claims	U.S.$1,000	U.S.$1,000	U.S.$1,000

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

6. Underwriting policy and reinsurance ceded (continued):

In addition, the company has obtained catastrophe reinsurance protection which provides coverage in the event of a series of events. This reinsurance limits its net retained exposure and provides coverage up to certain maximum per occurrence amounts in excess of the retained loss as follows:

	Years ended December 31		
	2003	2002	2001
Canada			
- Retained loss	$5,000	$1,500	$1,500
- Maximum coverage	$45,000	$38,500	$23,500
United States			
- Retained loss	U.S.$5,000	U.S.$5,000	U.S.$1,000
- Maximum coverage	U.S.$45,000	U.S.$80,000	U.S.$14,000

During the year ended December 31, 2001, maximum coverage was maintained for homeowners risks in Florida of U.S.$40,000,000.

The amounts deducted for reinsurance ceded from net premiums earned, claims incurred and commissions and premium taxes for the years December 31, 2003, 2002 and 2001 were as follows:

	2003	2002	2001
Net premiums earned	$129,899	$91,698	$51,099
Claims incurred	96,652	33,256	35,705
Commissions and premium taxes	24,690	14,600	12,745

The amount of assumed premiums written was $329,702,000, $198,086,000 and $149,777,000 for the years ended December 31, 2003, 2002 and 2001, respectively. The amount of assumed premiums earned was $291,149,000, $191,970,000 and $142,715,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

7. Income taxes:

(a) The Company s provision for income taxes, compared to statutory rates is summarized as follows:

	2003	2002	2001
Provision for taxes at Canadian statutory marginal income tax rate	$ 28,433	$ 27,304	$ 22,621
Non-taxable investment income	(838)	(832)	(282)
Foreign operations subject to different tax rates	(32,722)	(36,455)	(9,106)
Non-deductible goodwill amortization	--	--	2,786
Change in tax rates and other	(2,514)	1,187	(5,936)
Provision for (recovery of) income taxes	$ (7,641)	$ (8,796)	$ 10,083

(b) The components of future income tax balances are as follows:

	2003	2002
Future income tax assets:		
Losses carried forward	$ 30,569	$ 34,089
Unpaid claims and unearned premiums	36,382	32,663
Investments	5,926	1,713
Share issue expenses	3,920	2,985
Contingent commission accruals	4,436	--
Other	4,385	4,639
Future income tax assets	85,618	76,089
Future income tax liabilities:		
Deferred policy acquisition costs	(9,399)	(12,248)
Investments	(1,157)	(786)
Goodwill and intangible assets	(2,878)	(2,843)
Other	--	(707)
Future income tax liabilities	(13,434)	(16,584)
Net future income tax assets	$ 72,184	$ 59,505

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

7. Income taxes (continued):

(c) Amounts and expiration dates of the operating loss carryforward are as follows:

Year of net operating loss	Expiration date	Net operating loss
Canadian operations:		
2002	2009	$17,741
2003	2010	37,323
U.S. operations:		
1995	2010	961
1997	2012	2,701
1998	2018	1,153
2000	2020	402
2001	2021	21,883
2002	2022	5,737

(d) If the Company believes that all of its future income tax assets will not result in future tax benefits, it must establish a valuation allowance for the portion of these assets that it thinks will not be realized. Based predominantly upon a review of the Company s anticipated future earnings, but also including all other available evidence, both positive and negative, the Company has concluded it is more likely than not that its net future income tax assets will be realized.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

8. Unpaid claims:

(a) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company s experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company s claim departments personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims such as property claims, tend to be more reasonably predictable than long-tailed claims, such as general liability and automobile accident benefit claims which are less predictable.

Consequently, the process of establishing the provision for unpaid claims is complex and imprecise as it relies on the judgement and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provision necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

8. Unpaid claims: (continued)

(b) Provision for unpaid claims:

The Company completes an annual evaluation of the adequacy of unpaid claims at the end of each financial year. This evaluation includes a re-estimation of the liability for unpaid claims relating to each preceding financial year compared to the liability that was originally established. The results of this comparison and the changes in the provision for unpaid claims for the years ended December 31, 2003, 2002 and 2001 were as follows:

	2003	2002	2001
Unpaid claims - beginning of year - net	$ 1,066,356	$ 487,229	$ 342,776
Net unpaid claims of subsidiaries acquired	--	207,840	--
Provision for claims occurring:			
In the current year	1,599,196	1,152,507	588,942
In prior years	196,783	101,079	33,874
Claims paid during the year relating to:			
The current year	(644,801)	(491,352)	(303,783)
The prior years	(505,170)	(382,051)	(189,801)
Currency translation adjustment	(198,075)	(8,896)	15,221
Unpaid claims - end of year - net	1,514,289	1,066,356	487,229
Reinsurers' and other insurers' share of unpaid claims	155,445	134,198	102,734
Unpaid claims end of year	$ 1,669,734	$ 1,200,554	$ 589,963

The results for the years ended December 31, 2003, 2002 and 2001 were adversely affected by the evaluation of unpaid claims related to prior years. In 2002 and 2001 adverse development of Ontario automobile claims (including standard and non-standard automobile, motorcycle, commercial auto and long haul trucking) was the primary reason for the unpaid claims deficiency as well as development in non-standard automobile claims in southeastern United States. In 2003, adverse development on unpaid claims came from Ontario and Alberta automobile claims and non-standard automobile claims in southeastern United States.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

8. Unpaid claims: (continued)

Ontario Automobile

Ontario private passenger automobile contributed $32.8 million in 2003 and $26.4 million in 2002 of prior year claims development. The increase in fraudulent claims, the erosion of the tort threshold and accelerating health cost inflation contributed to the required increase in claims liabilities related to prior years. Evolving case law and the erosion of the tort threshold in Ontario has led to an extension of the reporting period during which a plaintiff may bring suit. Also, beginning in 2000, we identified significantly increased frequency and severity trends in health care cost in Ontario where we are required to offer unlimited coverage and much higher liability limits than our other markets. The estimated provisions related to automobile accident benefit claims were also increased as the assumed inflation rate and severity factors previously utilized were found to be inadequate based on actual development experienced in 2003.

Alberta Automobile

Alberta non-standard automobile business contributed $34.5 million of the prior years claims development in 2003, compared to $16.3 million in 2002. An increase in average reserves due to the continued escalation in bodily injury claim settlements was the reason for the adverse claims development in 2002 and 2003 in Alberta, where we increased existing case reserves based on actual settlement patterns.

Southeastern United States Non-Standard Automobile

Adverse development of unpaid losses incurred accounted for approximately $24.1 million and $25.3 million in 2003 and 2002 reported incurred losses, respectively. Similar to Ontario, Florida has experienced a significant acceleration in fraudulent claims activity over the last several years. Continued cost escalation of loss adjusting expenses and an increase in the number of files litigated required upward adjustments to open claims reserves for both the current and prior years as the unfavourable legal environment has resulted in the inflation of claims payments beyond our original estimates.

Canadian and U.S. Operations Trucking

Trucking business contributed $32.4 million to the 2003 prior years claims development, compared to $20.6 million in the same period in 2002. Increases in reserves were due to larger than anticipated settlements, particularly in the U.S., which required upward adjustments to open claim files. Average claim file reserves were increased to reflect this pattern of settlement. Case reserves were increased to reflect the increased cost on injury claims similar to the development experienced on the Ontario automobile business.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

8. Unpaid claims: (continued)

(c) The fair value of unpaid claims and adjustment expenses, gross and recoverable from reinsurers, has been omitted because it is not practicable to determine fair value with sufficient reliability.

9. Acquisitions:

In 1999 the Company acquired all of the outstanding shares of Hamilton Investments, Inc. (Hamilton). All consideration was payable in cash, part of which was paid at closing, with the remaining payments based on the earnings of Hamilton for the fiscal years 1999 to 2003. The present value of the guaranteed future payments was accrued at the date of acquisition. The additional consideration payable for the years ended December 31, 2003, 2002 and 2001 was $2,163,000, $2,369,000 and $2,336,000, respectively. At December 31, 2003 no contingent consideration based on earnings was payable.

On April 5, 2002, the Company acquired all of the outstanding common and preferred shares of American Country Holdings, Inc. for a purchase price of $37.8 million. The results of American Country s operations have been included in the consolidated financial statements since March 31, 2002. American Country owns all the outstanding shares of American Country Insurance Company, an insurer of taxicabs based in Chicago, Illinois.

The following table summarizes the estimated fair value of the assets acquired and the liabilities assumed at the date of acquisition:

Cash and investments	$216,885
Accounts receivable	102,986
Other tangible assets	35,708
Intangible assets	
Contracts	3,782
Insurance licenses	3,553
Goodwill	20,110
Total assets	383,024
Bank indebtedness	15,794
Insurance liabilities	304,200
Accounts payable	22,454
Other liabilities	570
Total liabilities	343,018
Purchase price	$ 40,006

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

10. Segmented information:

The Company provides property and casualty insurance and other insurance related services in three reportable segments: Canada, the United States and corporate and other insurance related services. The Company s Canadian and United States segments include transactions with the Company s reinsurance subsidiaries. At the present time, other insurance related services are not significant. Results for the Company s operating segments are based on the Company s internal financial reporting systems and are consistent with those followed in the preparation of the consolidated financial statements. The segmented information for December 31, 2003 is summarized as follows:

	Canada	United States	Corporate and Other	Total
Gross premiums written	$ 654,877	$ 1,981,945	$ --	$ 2,636,822
Net premiums earned	554,334	1,827,650	--	2,381,984
Investment income (loss)	33,631	45,528	(790)	78,369
Net realized gains (losses)	12,495	42,563	(26)	55,032
Interest expense	--	13,077	7,906	20,983
Amortization of capital assets	767	5,378	1,333	7,478
Amortization of intangible assets	--	854	--	854
Net income tax expense (recovery)	(7,652)	9,685	(9,674)	(7,641)
Net income (loss)	(16,670)	95,936	6,017	85,283
Total assets	$ 1,154,646	$2,415,966	$ 59,823	$ 3,630,436
Underwriting profit (loss)	(65,383)	31,461	--	(33,922)
Claims ratio	83.7%	71.5%	--	74.3%
Expense ratio	28.1%	26.8%	--	27.1%
Combined ratio	111.8%	98.3%	--	101.4%

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

10. Segmented information (continued):

The segmented information for December 31, 2002 is summarized below:

	Canada	United States	Corporate and Other	Total
Gross premiums written	$ 490,754	$ 1,633,937	$ --	$ 2,124,691
Net premiums earned	415,227	1,322,527	--	1,737,754
Investment income (loss)	24,059	41,583	(787)	64,855
Net realized gains (losses)	(2,574)	17,084	1,749	16,259
Interest expense	--	10,508	1,766	12,274
Amortization of capital assets	748	7,529	1,081	9,358
Net income tax expense (recovery)	(6,005)	(3,751)	960	(8,796)
Amortization of intangible assets	--	716	--	716
Net income (loss)	(13,042)	88,708	3,866	79,532

Total assets	$ 1,299,918	$ 1,670,807	$ 13,709	$ 2,984,434
Additions to goodwill	--	20,110	--	20,110
Additions to intangible assets	--	7,335	--	7,335
Underwriting profit (loss)	(34,902)	37,514	--	2,612
Claims ratio	78.3%	69.2%	--	71.4%
Expense ratio	30.1%	28.0%	--	28.4%
Combined ratio	108.4%	97.2%	--	99.8%

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

10. Segmented information (continued):

The segmented information for December 31, 2001 is summarized below:

	Canada	United States	Corporate and Other	Total
Gross premiums written	$ 356,049	$ 709,213	$ --	$1,065,262
Net premiums earned	321,926	550,904	--	872,830
Investment income	25,035	27,289	229	52,553
Net realized gains	7,579	4,426	74	12,079
Interest expense	--	10,262	1,137	11,399
Amortization of capital assets	644	3,132	1,361	5,137
Net income tax expense	2,941	6,730	412	10,083
Goodwill amortization	701	5,105	50	5,856
Net income	14,925	27,080	2,926	44,931
Total assets	$ 633,545	$1,075,538	$69,661	$1,778,744
Underwriting profit (loss)	(9,826)	17,463	--	7,636
Claims ratio	73.5%	68.9%	--	70.6%
Expense ratio	29.6%	27.9%	--	28.5%
Combined ratio	103.1%	96.8%	--	99.1%

The Company s gross premiums written are derived from the following business lines and geographical areas:

	2003	2002	2001
Business Line			
Personal Lines:			
Non-Standard Auto	37%	39%	51%

Standard Auto	4%	2%	3%
Motorcycle	2%	2%	4%
Property (including Liability)	1%	2%	3%
Warranty	1%	1%	2%
Other Specialty Lines	1%	1%	1%
Total Personal Lines	46%	47%	64%
Commercial Lines:			
Trucking	31%	32%	24%
Commercial Auto	11%	8%	5%
Property (including Liability)	10%	11%	5%
Other Specialty Lines	2%	2%	2%
Total Commercial Lines	54%	53%	36%
Total Gross Premiums Written	100%	100%	100%

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

10. Segmented information (continued):

	2003	2002	2001
Geographical Area			
United States:			
California	13%	11%	4%
Florida	12%	12%	13%
Illinois	10%	11%	15%
Texas	7%	7%	6%
South Carolina	3%	4%	5%
Alabama	2%	3%	4%
Pennsylvania	2%	3%	3%
Other	26%	26%	17%
Total United States	75%	77%	67%
Canada:			
Ontario	12%	10%	16%
Alberta	6%	6%	7%
Quebec	5%	5%	8%
Other	2%	2%	2%
Total Canada	25%	23%	33%
Total Gross Premiums Written	100%	100%	100%

11. Indebtedness and subsequent events:

(a) Bank indebtedness:

On February 23, 1999, the Company entered into a U.S.$100 million unsecured credit facility with a syndicate of banks. Under this facility the Company has the option to borrow at a floating rate equivalent to the banks prime rate or for a fixed term at a fixed rate of LIBOR plus a spread based on the Company s credit rating or upon the ratio of funded debt to total capitalization, whichever is higher. The facility is for a fixed term of five years and one day and was fully drawn on March 5, 1999 for general corporate purposes. During each of the years ended December 31, 2003, 2002 and 2001 the Company repaid U.S.$5 million. The facility matures on March 5, 2004 and the Company anticipates refinancing the facility prior to its maturity.

In March, 1999, the Company entered into interest rate swap contracts whereby the Company fixed its rate on this U.S.$100 million debt at 5.91% plus a spread based on the Company s credit rating or upon the ratio of funded debt to total capitalization, whichever is higher, for the period of the facility. The fair values of the liabilities under the swap contracts at December 31, 2003, 2002 and 2001 were $1,506,000, $8,632,000 and $7,479,000, respectively.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

11. Indebtedness and subsequent events (continued):

(a) Bank indebtedness (continued):

In May, 2002, the Company entered into a $66.5 million revolving credit facility with a syndicate of banks which was renewed in May, 2003. The facility is a 364 day revolving credit facility at a floating interest rate determined based on the type of loan and the Company s senior unsecured debt rating. As at December 31, 2003, $50,275,000 (2002 $33,076,000) was outstanding under this facility with an effective interest rate of approximately 3% (2002 3%).

(b) Senior unsecured debentures:

On December 6, 2002, the Company issued $78 million of 8.25% unsecured senior debentures with a maturity date of December 31, 2007. The debentures are redeemable prior to the maturity date, at the Company s option, providing at least 30 days notice to debenture holders. Interest on the debentures is payable semi-annually in arrears. The net proceeds to the Company were $77,087,420.

(c) Subordinated indebtedness:

Between December 4, 2002 and December 16, 2003, six subsidiary trusts of the Company issued U.S.$90.5 million of 30 year capital securities to third parties in separate private transactions. In each instance, a corresponding floating rate junior subordinated deferrable interest debenture was then issued by Kingsway America Inc. to the trust in exchange for the proceeds from the private sale. The floating rate debentures bear interest at the rate of the London interbank offered interest rate for three-month U.S. dollar deposits, plus spreads ranging from 3.85% to 4.20%, but until dates ranging from December 4, 2007 to January 8, 2009, the interest rates will not exceed 12.45% to 12.75%. The Company has the right to call each of these securities at par anytime after five years from their issuance until their maturity. The net proceeds to the Company were $95,613,000 in 2003 and $22,198,000 in 2002 after deducting expenses of $6,273,000 and $1,438,000, respectively.

(d) Subsequent events:

On January 29, 2004, a subsidiary of the Company, Kingsway America Inc. completed the sale of U.S.$100 million 7.50% senior notes due 2014 in a private offering. The notes are fully and unconditionally guaranteed by the Company. The notes will be redeemable at Kingsway America s option on or after February 1, 2009. On February 4, 2004, Kingsway America repaid U.S.$34.5 million outstanding under the $66.5 million revolving credit facility described in (a) above.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

12. Contingent liabilities:

(a) Legal Proceedings:

In connection with its operations, the Company and its subsidiaries are, from time to time, named as defendants in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, such actions have generally been resolved with minimal damages or expense in excess of amounts provided and the Company does not believe that it will incur any significant additional loss or expense in connection with such actions.

(b) Statutory Requirements:

Statutory policyholders capital and surplus of the Company s insurance subsidiaries was $816.2 million and $654.3 million at December 31, 2003 and 2002, respectively.

The Company s subsidiaries are subject to certain requirements and restrictions under their respective statutory insurance legislations including minimum asset requirements and dividend restrictions. For the year 2003, under the various insurance regulatory restrictions, based on the Company s December 31, 2003 financial statements, the Company s insurance and reinsurance subsidiaries would have aggregate dividend capacity of $212.9 million (2002 $180.3 million).

(c) Letters of Credit:

On October 4, 2002 the Company entered into a syndicated U.S.$350 million letter of credit facility. The letter of credit facility is principally used to collateralize inter-company reinsurance balances for statutory capital management purposes. The Company pledges securities to collateralize the utilized portion of the letter of credit facility. At December 31, 2003 and 2002 the letter of credit facility utilization was U.S.$306.3 million and U.S.$304.6 million, respectively.

Also from time to time, the Company pledges securities to third parties to collateralize liabilities incurred under its policies of insurance. At December 31, 2003 and 2002, the amount of pledged securities was U.S.$33.9 million and U.S.$49.2 million, respectively.

13. Fair value disclosure:

The fair value of financial assets and liabilities, other than investments (note 2), unpaid claims (note 8) and interest rate swaps (note 11) approximate their carrying amounts.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

14. Reconciliation of Canadian and United States Generally Accepted Accounting Principles:

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada. The significant differences between Canadian GAAP and U.S. GAAP, which affect the Company s consolidated financial statements, are described below:

The following table reconciles the consolidated net income as reported under Canadian GAAP with net income and other comprehensive income in accordance with U.S. GAAP:

	2003	2002	2001
Net income based on Canadian GAAP	$ 85,283	$ 79,532	$ 44,931
Impact on net income of U.S. GAAP adjustments, net of tax:			
Deferred start-up costs (a)	938	1,052	1,037
Goodwill amortization (b)	--	--	116
Equity accounting (c)	983	1,237	281
Gain on sale of USA Insurance Group (c)	(1,451)	--	--
Net income based on U.S. GAAP *	$ 85,753	$ 81,821	$ 46,365
Other comprehensive income adjustments:			
Change in unrealized gain on investments classified as available for sale (d)	19,976	20,973	11,996
Change in fair value of interest rate swaps (e)	7,126	(1,152)	(7,479)
Less: related future income taxes	6,170	4,949	2,512
Other comprehensive income adjustments	20,932	14,872	2,005
Currency translation adjustments in the period (f)	(105,403)	(4,409)	11,447
Other comprehensive income (loss)	(84,471)	10,463	13,452
Total comprehensive income	$ 1,282	$ 92,284	$ 59,817
*Basic earnings per share based on U.S. GAAP net income	$1.64	$1.68	$1.25
*Diluted earnings per share based on U.S. GAAP net income	$1.63	$1.66	$1.22

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

14. Reconciliation of Canadian and United States Generally Accepted Accounting Principles (continued):

The following table reconciles shareholders equity as reported under Canadian GAAP with shareholders equity in accordance with U.S. GAAP:

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

	2003	2002
Shareholders' equity based on Canadian GAAP	$ 704,959	$ 612,925
Other comprehensive income	37,490	16,558
Cumulative net income impact:		
Deferred start-up costs (a)	(1,043)	(1,981)
Goodwill amortization (b)	(1,213)	(1,213)
Equity accounting (c)	1,618	635
Gain on sale of USA Insurance Group (c)	(1,451)	--
Shareholders' equity based on U.S. GAAP	$ 740,360	$ 626,924

Statement of Financial Accounting Standards (SFAS) No. 130 Reporting Comprehensive Income requires the Company to disclose items of other comprehensive income in a financial statement and to disclose accumulated balances of other comprehensive income or loss in the equity section of the Company s consolidated balance sheet. Comprehensive income, which incorporates net income, includes all changes in equity during a period, except those resulting from investments by, and distributions to, owners. There is no requirement to disclose comprehensive income under Canadian GAAP. Total cumulative other comprehensive income (loss) amounted to $(56,823,000) and $27,648,000 as at December 31, 2003 and 2002, respectively.

(a) Deferred start-up costs:

Under Canadian GAAP, start-up costs of Avalon Risk Management, Inc. are deferred and amortized over a five year period commencing from the date the start-up period ended. Under U.S. GAAP, such costs are expensed in the periods in which the expenditures are incurred.

14. Reconciliation of Canadian and United States Generally Accepted Accounting Principles (continued):

(b) Goodwill amortization:

As per Note 1(e), effective January 1, 2002, all existing goodwill which is currently included in the Company s Consolidated Balance Sheets ceased to be amortized to income over time for both Canadian and U.S. GAAP, and is subject to a periodic impairment review to ensure that the fair value remains greater than, or equal to, book value. Any excess of book value over fair value will be charged to income in the period in which the impairment is determined. The Company adopted this new standard prospectively. As a result of the adoption of this new standard, no goodwill amortization was recorded in the twelve months ended December 31, 2002 and 2003.

Under Canadian GAAP, guarantee fund assessment liabilities were estimated and accrued at the date of acquisition, which resulted in an increase in the amount of goodwill recorded. Under U.S. GAAP, such costs are expenses in the periods in which the liabilities are estimated.

Prior to January 1, 2002, under Canadian GAAP, the amortization of goodwill was shown as the final item in the Statement of Operations, net of applicable taxes, whereas under U.S. GAAP this presentation was not permitted and the applicable taxes would be included in the income tax expense on the Statement of Operations. As a result, under U.S. GAAP, the applicable taxes of $818,000 for the twelve months ended December 31, 2001 would be reclassified to increase the goodwill amortization and decrease the income tax expenses. Goodwill amortization would be classified with expenses under U.S. GAAP.

(c) Equity accounting:

Under Canadian GAAP, the Company s 25% equity investment in USA Group was carried at cost as the Company did not have significant influence over the investee. Under U.S. GAAP the Company is deemed to have significant influence because the Company s equity investment exceeds 20%, and the equity method of accounting is used. This method recognizes the Company s share of net income or loss of the investee. Also, under U.S. GAAP goodwill is recognized, and prior to December 31, 2001 was being amortized over a period of 10 years.

The Company disposed of its equity investment in USA Group in November, 2003 and had to reverse a portion of the gain under U.S. GAAP due to the difference in the cost base of the investment under Canadian and U.S. GAAP.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

14. Reconciliation of Canadian and United States Generally Accepted Accounting Principles (continued):

(d) Portfolio investments:

Under Canadian GAAP, portfolio investments are carried at cost or amortized cost, and where a decline in value of an investment is considered to be other than temporary, a write-down of the investment to its estimated recoverable amount is recorded. Under U.S. GAAP, such investments would be classified as available for sale and are marked to market after write-downs for other than temporary declines in values, and the unrealized gain or loss, net of any future income taxes, is recorded as other comprehensive income, a component of shareholders equity.

(e) Accounting for Derivative Instruments and Hedging Activities:

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133), as amended by Statements No. 137 and 138, which established accounting and reporting standards for derivative instruments and for hedging activities. Under FAS 133, all derivative instruments, including certain derivative instruments embedded in other contracts, are recognized as either assets or liabilities in the balance sheet at their fair values, and changes in such fair values must be recognized immediately in earnings unless specific hedging criteria are met. The Company adopted this statement effective January 1, 2001 for purposes of its U.S. GAAP reconciliation. The Company has purchased interest rate swap contracts that are designated as cash flow hedges against the amounts borrowed under the unsecured credit facility. The terms of the swaps match those of the unsecured credit facility, and were entered into to minimize the Company s exposure to fluctuations in interest rates. The change in the fair value of interest rate swap contracts is reflected in other comprehensive income.

(f) Currency translation adjustments:

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. 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.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

14. Reconciliation of Canadian and United States Generally Accepted Accounting Principles (continued):

(g) Future accounting pronouncements:

The Company does not expect the adoption of any known proposed accounting pronouncements to have a material impact on its consolidated financial statements.

15. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

16. Supplemental Condensed Consolidating Financial Information:

Kingsway America Inc. (KAI) issued senior notes which are fully and unconditionally guaranteed by the Company. The following is condensed consolidating financial information for the Company as of December 31, 2003 and 2002 and for the three years ended December 31, 2003, 2002 and 2001, with a separate column for each of KAI as Issuer, the Company (KFSI) as Guarantor and the other businesses of the Company combined (the Non-Guarantor Subsidiaries). For the purposes of the condensed consolidating financial information, the Company carries its investments under the equity method.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

Condensed Consolidating Statement of Operations
For the year ended December 31, 2003

	KFSI (the Guarantor)	KAI (the Issuer)	Other subsidiaries (the Non-Guarantor subsidiaries)	Consolidation adjustments	Total
Revenues					
Net premiums earned	$ --	$ --	$2,381,984	$ --	$2,381,984
Investment related income	(816)	24,255	109,962	--	133,401
Management fees	46,040	2,849	--	(48,889)	--
	45,224	27,104	2,491,946	(48,889)	2,515,385
Expenses					
Claims incurred	--	--	1,784,091	(13,954)	1,770,137
Commissions and premium taxes	--	--	503,158	--	503,158
Other expenses	40,975	11,475	125,950	(34,935)	143,465

Interest expense	7,906	--	13,077	--	20,983
	48,881	11,475	2,426,276	(48,889)	2,437,743
Income before income taxes	(3,657)	15,629	65,670	--	77,642
Income taxes	(9,674)	5,272	(3,239)	--	(7,641)
Equity in undistributed net income of subsidiaries	79,266	13,475	--	(92,741)	--
Net income	$85,283	$23,832	$ 68,909	$(92,741)	$ 85,283

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

Condensed Consolidating Statement of Operations
For the year ended December 31, 2002

	KFSI (the Guarantor)	(the KAI Issuer)	Other subsidiaries (the Non-Guarantor subsidiaries)	Consolidation adjustments	Total
Revenues					
Net premiums earned	$ --	$ --	$1,813,208	$ (75,454)	$1,737,754
Investment related income	960	2,381	77,773	--	81,114
Management fees	38,001	2,153	--	(40,154)	--
	38,961	4,534	1,890,981	(115,608)	1,818,868
Expenses					
Claims incurred	--	--	1,323,780	(83,451)	1,240,329
Commissions and premium taxes	--	--	379,123	(7,072)	372,051
Other expenses	32,369	7,334	122,451	(38,676)	123,478
Interest expense	1,766	--	10,508	--	12,274
	34,135	7,334	1,835,862	(129,199)	1,748,132
Income before income taxes	4,826	(2,800)	55,119	13,591	70,736
Income taxes	960	(976)	(8,780)	--	(8,796)
Equity in undistributed net income of subsidiaries	75,666	(3,608)	--	(72,058)	--
Net income	$79,532	$(5,432)	$ 63,899	$ (58,467)	$ 79,532

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

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

Condensed Consolidating Statement of Operations
For the year ended December 31, 2001

	KFSI (the Guarantor)	(the KAI Issuer)	Other subsidiaries (the Non-Guarantor subsidiaries)	Consolidation adjustments	Total
Revenues					
Net premiums earned	$ --	$ --	$872,830	$ --	$872,830
Investment related income	304	2,208	62,120	--	64,632
Management fees	29,516	1,762	--	(31,278)	--
	29,820	3,970	934,950	(31,278)	937,462
Expenses					
Claims incurred	--	--	623,163	(7,084)	616,079
Commissions and premium taxes	--	--	167,176	--	167,176
Other expenses	25,297	2,168	93,836	(39,363)	81,938
Interest expense	1,136	--	10,263	--	11,399
	26,433	2,168	894,438	(46,447)	876,592
Income before income taxes	3,387	1,802	40,512	15,169	60,870
Income taxes	412	612	9,059	--	10,083
Amortization of goodwill, net of applicable income tax	--	--	5,856	--	5,856
Equity in undistributed net income of subsidiaries	41,956	12,724	--	(54,680)	--
Net income	$44,931	$13,914	$ 25,597	$(39,511)	$ 44,931

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidating Financial Statements

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

Condensed Consolidating Balance Sheet
As at December 31, 2003

	KFSI (the Guarantor)	(the KAI Issuer)	Other subsidiaries (the Non-Guarantor subsidiaries)	Consolidation adjustments	Total
Assets					
Investments in subsidiaries	$739,653	$461,943	$ 802,724	$(2,004,320)	$ --
Cash	23,302	2,473	115,108	--	140,883
Investments	2,523	--	2,509,529	--	2,512,052
Goodwill and other intangible assets	--	--	75,800	10,040	85,840
Other assets	35,428	33,800	2,362,164	(1,539,731)	891,661
	$800,906				