



KINGSWAY GENERAL  
INSURANCE COMPANY

YORK FIRE & CASUALTY  
INSURANCE COMPANY

JEVCO  
INSURANCE COMPANY

UNIVERSAL CASUALTY  
COMPANY

SOUTHERN UNITED FIRE  
INSURANCE COMPANY

AMERICAN SERVICE  
INSURANCE COMPANY

WALSHIRE  
ASSURANCE COMPANY

HAMILTON  
INVESTMENTS

AVALON  
RISK MANAGEMENT

KINGSWAY REINSURANCE

## CORPORATE PROFILE

KINGSWAY FINANCIAL SERVICES INC. is one of the fastest growing property and casualty insurance companies in North America with a proven track record of profitability. The Company is focused on building operating excellence through nine wholly-owned subsidiaries:

- KINGSWAY GENERAL INSURANCE COMPANY
- YORK FIRE & CASUALTY INSURANCE COMPANY
- JEVCO INSURANCE COMPANY
- UNIVERSAL CASUALTY COMPANY
- SOUTHERN UNITED FIRE INSURANCE COMPANY
- AMERICAN SERVICE INSURANCE COMPANY, INC.
- WALSHIRE ASSURANCE COMPANY
- HAMILTON INVESTMENTS, INC.
- AVALON RISK MANAGEMENT, INC.

Kingsway's primary business is the insuring of automobile risks for drivers who do not meet the criteria for coverage by standard automobile insurers. The Company also operates in standard automobile, commercial automobile, property, motorcycle and other specialty markets, where limited competition and an emphasis on underwriting profit provide the opportunity for above-average returns. Headquartered in Mississauga, Ontario, Kingsway employs approximately 1,000 people in Canada and the United States.

KINGSWAY FINANCIAL SERVICES INC.'s shares are listed on the Toronto Stock Exchange, under the trading symbol "KFS".

## KINGSWAY MISSION

*To build operating excellence through a select group of profitable, well-managed, niche insurance companies in Canada and the United States.*



## CONTENTS

Kingsway At A Glance	Gatefold
Operating Highlights	1
Financial Highlights	2
Strategies & Objectives	4
Message to Shareholders	5
Canadian Operations	10
U.S. Operations	12
Additional Operations	15
Management's Discussion and Analysis	16
Management's Responsibility for Financial Reporting	29
Auditors' Report	30
Consolidated Financial Statements	31
Supplemental Financial Information	41
Directors and Officers	43
Shareholder Information	44
Corporate Directory	45

K I N G S W A Y A T A G L A N C E



KINGSWAY FINANCIAL

CANADIAN OPERATIONS

KINGSWAY GENERAL  
INSURANCE COMPANY

JEVCO  
INSURANCE COMPANY

YORK FIRE & CASUALTY  
INSURANCE COMPANY



In Canada, Kingsway now operates in all ten provinces and two territories.

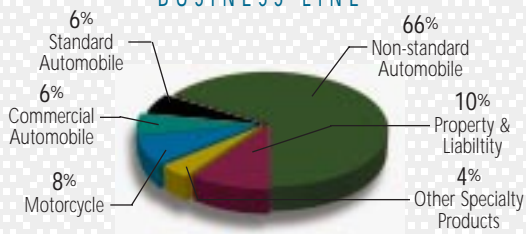
UNIVERSAL CASUALTY  
COMPANY

• ARK Insurance Agency, Inc.

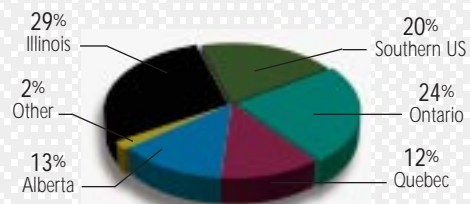
AMERICAN SERVICE  
INSURANCE COMPANY

• AOA Payment Plan, Inc.

1998  
GROSS PREMIUMS BY  
BUSINESS LINE



1998  
GROSS PREMIUMS BY  
GEOGRAPHICAL AREA



# SERVICES INC.

## U.S. OPERATIONS

AVALON  
RISK MANAGEMENT, INC.

KINGSWAY AMERICA INC.

KINGSWAY  
REINSURANCE

- Kingsway Reinsurance Corporation, Barbados
- Kingsway Reinsurance (Bermuda) Ltd.

SOUTHERN UNITED FIRE  
INSURANCE COMPANY

- Funding Plus of America, Inc.
- Consolidated Insurance Management Corp.

WALSHIRE  
ASSURANCE COMPANY

- Lincoln General Insurance Company
- Yorktowne Insurance Company

HAMILTON  
INVESTMENTS, INC.

- U.S. Security Insurance Company
- Appco Finance Corporation



With five acquisitions in the United States in 1998 and early 1999, Kingsway is now licensed in 40 states.



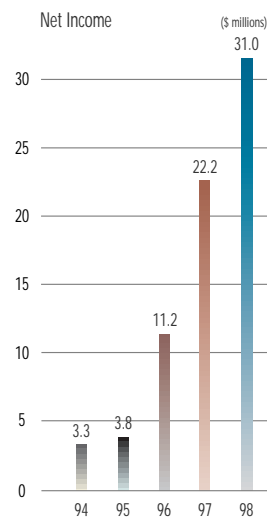
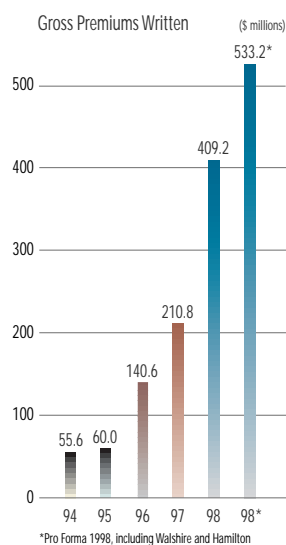
## OPERATING HIGHLIGHTS

- Improved underwriting profits for Kingsway's Canadian operations.
- Formed new U.S. holding company, Kingsway America Inc., through which the acquisition of five U.S. specialty insurers were completed:
  - UNIVERSAL CASUALTY COMPANY (January, 1998)
  - SOUTHERN UNITED FIRE INSURANCE COMPANY (January, 1998)
  - AMERICAN SERVICE INSURANCE COMPANY, INC. (March, 1998)
  - WALSHIRE ASSURANCE COMPANY (December, 1998)
  - HAMILTON INVESTMENTS, INC. (January, 1999)
- Formed AVALON RISK MANAGEMENT, INC., an agency operation that services transportation and logistics companies throughout the United States.
- Increased geographic diversification across North America. The Kingsway group is now licensed to operate in 40 states, as well as all 10 Canadian provinces and two territories.
- Completed two-for-one share split in May 1998, improving the market liquidity of Kingsway's shares.
- Received senior debt rating of BBB- from Standard & Poor's. The investment grade rating confirms the financial strength and stability of the Kingsway group.
- A.M. Best "A" Excellent ratings re-confirmed for KINGSWAY GENERAL INSURANCE COMPANY, YORK FIRE & CASUALTY INSURANCE COMPANY and LINCOLN GENERAL INSURANCE COMPANY.



## FINANCIAL HIGHLIGHTS

- Record net income of \$31.0 million, a 40% increase over 1997
- Net income before tax increased 82% to \$51.4 million
- Earnings per share increased 18% to \$0.86, despite a 20% increase in the average number of shares outstanding
- Return on equity of 13.4%
- Underwriting profit of \$19.1 million, a 161% increase over 1997, and the ninth consecutive year of underwriting profit
- Gross premiums written of \$409.2 million, a 94% increase over 1997
- Investment and premium finance income almost doubled to \$37.6 million
- Book value per share increased by 17% to \$6.96
- Invested assets per share increased by 79% to \$17.65

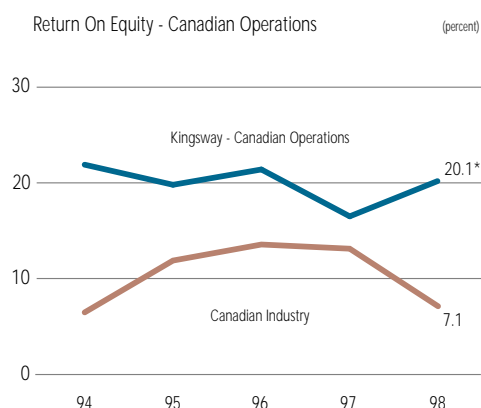


FINANCIAL HIGHLIGHTS

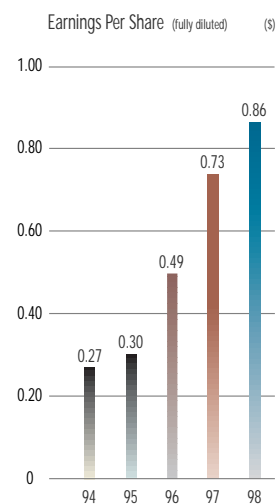
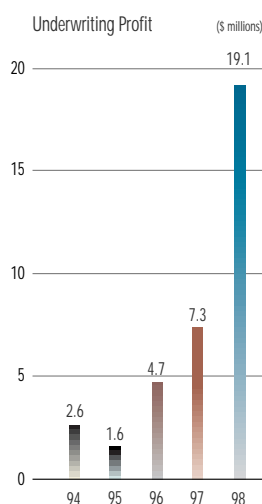
	Year ended December 31	
	1998	1997
Gross Premiums Written	\$ 409,200	\$ 210,795
Net Premiums Earned	314,651	174,462
Net Income	31,011	22,151
Earnings Per Share		
Basic	\$0.86	\$0.74
Fully diluted	\$0.86	\$0.73
Book Value Per Share	\$6.96	\$5.95
Return on Equity	13.4%	16.5%
Canadian Operations	20.1%	16.5%
Industry - Canada†	7.1%	12.9%
U.S. Operations	9.4%	n.a.
Industry - U.S.††	9.4%	n.a.
Combined Ratio	93.9%	95.8%
Canadian Operations	92.0%	95.8%
Industry - Canada†	107.6%	103.0%
U.S. Operations	97.0%	n.a.
Industry - U.S.††	105.0%	n.a.
Total Assets	\$ 1,012,776	\$ 511,229
Underwriting Profit	\$ 19,075	\$ 7,319
Shares Outstanding (as at year end)	35,903,872 *	35,829,836 *

\* Per share amounts are after giving effect to the two for one subdivision of shares on May 8, 1998.

† Sources: 1998 - IBC, *Perspective*, March 1999; 1997 - IAO, *The Quarterly Report*, 3<sup>rd</sup> Quarter, 1998  
 †† Source: 1998 estimate. *A.M.Best Review Preview*, January 1999



\* Sources: 1998 - IBC, *Perspective*, March 1999  
 1997- IAO, *The Quarterly Report*, 3rd Quarter, 1998



## STRATEGIES & OBJECTIVES

### OPERATING STRATEGY

Kingsway's significant growth over the past year is a direct result of a disciplined operating strategy. This strategy incorporates the following principles:

- 1 Focus on good risks within specialty, niche insurance markets, where limited competition allows for a good spread of risk and above-average returns.
- 2 Emphasis on positive underwriting margins, conservative investment policies and low combined expense ratios to achieve higher quality earnings.
- 3 Refusal to sacrifice underwriting profitability to increase volumes.
- 4 Ability to terminate unprofitable product lines quickly.
- 5 Pursue select acquisitions in attractive markets that enhance shareholder value.

### OBJECTIVES AND ACCOMPLISHMENTS

At Kingsway we believe in setting objectives that are ambitious yet realistic. These objectives will constantly evolve as we view the execution of our strategies and respond to opportunities in the marketplace. Our commitment is to achieve these objectives over a rolling five-year period.

We have identified the following three key objectives:

**Achieve an after-tax return of greater than 15% on our shareholders' equity**

- *Kingsway's return on equity for 1998 was 13.4%, and it has averaged 18.6% over the past five years and 22.4% over the last nine years.*

**Produce a five-year average combined ratio of 96% or less, with no year higher than 98%**

- *Kingsway's combined ratio for 1998 was 93.9%, and it has averaged 95.2% for the last five years.*

**Increase net premiums by, on average, at least 15% annually**

- *In 1998, Kingsway's net premiums earned grew by 80%, and over the past five years it has grown by an annual average of 96%.*

We are convinced that the best way to maximize shareholder value is to consistently achieve or outperform our stated objectives.

*A shareholder who invested \$1,000 in our initial public offering in December 1995, three years later on December 31, 1998, would have an investment with a market value of \$4,800, which is a 480% return on their initial investment.*



## MESSAGE TO SHAREHOLDERS

## TO OUR SHAREHOLDERS

It is with great pleasure that I report another excellent year of growth and a substantial increase in profit for the Kingsway group of companies. We now have over \$1 billion dollars in assets. Since 1995 we have increased gross premiums written from \$60 million to over \$400 million in 1998. Premium growth in the United States has been substantial due to the various acquisitions completed during the year. What is more important is the increase in net income, from \$22 million in 1997 to \$31 million in 1998. The profit before tax is even more impressive, with an increase to \$51 million from \$28 million in 1997. With the recent acquisitions, we expect premiums written to be well over a half billion dollars in 1999.

The tax benefit from York Fire was totally utilized in 1997, resulting in a higher tax rate in 1998. The tax rate will stabilize at a lower combined rate in 1999, as a higher percentage of our business is now being produced in the United States and Barbados, where the tax rates are lower. 1998 was also the first year that we were able to use Kingsway Reinsurance, our reinsurance division in Barbados to provide a reinsurance vehicle for our companies in the United States.

This has allowed the companies to consider future growth without the concern of capital restraints. It also means that the Kingsway group of companies will prosper even more by retaining a greater portion of the premiums written.

## REVIEW OF OPERATIONS

During 1998, we used the money we raised in 1997 for acquisitions. In January, we completed our first U.S. acquisition, Universal Casualty Company, which is located in Niles, Illinois, a suburb of Chicago. Universal Casualty writes non-standard automobile business in the Chicago area and has about 10% of that market. Shortly thereafter,



William G. Star  
Chairman, President and  
Chief Executive Officer

## MESSAGE TO SHAREHOLDERS

we acquired Southern United Fire Insurance Company of Mobile, Alabama. Southern United writes non-standard automobile business in numerous southern states. Its primary markets are Alabama and Louisiana, but the Company also does business in Georgia, Mississippi, and more recently Texas. Our third acquisition was American Service Insurance Company, which is also based in the Chicago area. It is located in Rosemont, Illinois and also has about 10% of the non-standard automobile market in the Chicago area. With two non-standard automobile companies in the Chicago area, Kingsway has become one of the leaders in that market, with about 20% market share.

In addition to acquiring three insurance companies very early in 1998, we also created an agency operation, Avalon Risk Management. Avalon's head office and largest operating office is located in Schaumburg, Illinois, near Chicago. During the year, we also opened branch offices in Boston, New York, Atlanta, Miami, Houston, Los Angeles and Seattle. Avalon's primary business is the servicing of customs brokers and freight forwarders throughout the United States and we expect it will be a major provider of U.S. customs bonds, importer bonds and marine cargo business. In 1998, we also opened an office in Schaumburg for Kingsway America, which is the holding company for the insurance company operations in the United States. Kingsway America is responsible for the planning, financial reporting and administration of our newly acquired companies.

Late in the year, we signed agreements to acquire Walshire Assurance Company and Hamilton Investments. The Walshire acquisition was completed in December 1998, and therefore did not affect the premium income for the group during the year. The acquisition of Hamilton Investments was not completed until January 1999. Walshire, headquartered in York, Pennsylvania, is a specialist in long-haul trucking, which is a line we are familiar with in Canada as well. Since it is licensed in 39 states, we expect it will become a major contributor to premium growth and provide a platform for the introduction of our core product lines into new markets. Walshire has also received approval from

the Treasury Department to issue surety bonds in the United States. Hamilton Investments, located in Miami, Florida, provides non-standard automobile insurance in the Florida market. Hamilton provides us with a license in the fast growing Florida market, along with a seasoned team of insurance professionals.

## FUTURE PLANS

We are pleased with our progress to date in the area of acquisitions. In 1997, it was necessary to raise a substantial amount of capital to allow us to continue growing through acquisitions, as well as internally. This move has proven successful and premium volume has increased substantially during 1998. We have now invested all of this capital and will realize the full benefits in 1999 and 2000. In early 1999, we decided to take advantage of the debt market to provide a better return on equity. Since we expect that the cost of debt will be less than the earnings from the investments we have made, the result should be accretive to earnings. Although we are not totally satisfied at this point with our 1998 return on equity of 13.4%, it is still substantially better than the industry average, and we will continue to work towards our goal of having a return on equity of greater than 15%.

While we will see strong internal growth in 1999, through increased premiums and the retention of reinsurance premiums within the Kingsway group, we will also consider opportunities to acquire additional companies that can be accretive to earnings and enhance shareholder value.

## MARKET OPPORTUNITIES

Kingsway has become known as a specialty insurance company, and as a result, we are offered many opportunities to quote on unusual and specialty products. We continue to look for opportunities and new product lines, but will concentrate on our core markets. Non-standard automobile will continue to be an important product for us, particularly in the United States, where we will have a better geographic distribution and a greater opportunity for growth.

## MESSAGE TO SHAREHOLDERS

However, now that we are involved in numerous other lines, we are less dependent on the non-standard automobile market. We expect to see substantial growth in all our companies, as our newly acquired companies are now adequately capitalized and provided with an excellent reinsurance vehicle through Kingsway Reinsurance in Barbados.

We are the leading provider of motorcycle insurance in Canada through Jevco and Kingsway General, and we expect this product will be well accepted in the United States. We are working on programs for Southern United, Hamilton Investments and Universal Casualty to market our motorcycle product in 1999. We also anticipate that there will be opportunities to use the Walshire's licenses to open up new markets for non-standard automobile and motorcycle insurance. We expect substantial growth in the states in which we are now licensed by introducing our successful products.

## OUTLOOK

During 1998, we experienced an unusual amount of competition in the non-standard automobile lines in Ontario.

Our business in Ontario declined by a substantial amount, whereas our business in Alberta increased. We believe the rates for automobile insurance in Ontario are too low, but due to competition for market share a number of companies have pursued non-standard business at inadequate rates. We have not competed for this business because we feel it is just a matter of time before these companies realize that it is unprofitable to do business at such low rates, and the business will return to us at more reasonable rates. We are still convinced that it is better to write less business at a higher profit than to compete with other companies at reduced rates just for the sake of volume. We believe that prices will strengthen and we will again have an opportunity for growth in the Ontario market.

We are very pleased with the progress we have made in both Alberta and Quebec since we opened offices in those provinces. Our automobile business in Alberta has now grown to a far greater size than Ontario. With the introduction of our new computer system, which is year 2000 compliant, we have now been able to convert Alberta to a full-service branch.

## MESSAGE TO SHAREHOLDERS

Although our emphasis on acquisitions and internal growth will be concentrated in the United States during 1999, we will not overlook the Ontario market. However, we must concentrate on the markets that are profitable and have the best opportunities at this time. Through acquisitions we have been successful in building a highly skilled group of insurance professionals experienced in strategic geographic areas. Their product expertise and knowledge of local markets is the key to profitable growth.

**ACKNOWLEDGEMENTS**

Without the dedication and support of all employees in the many companies we now own, Kingsway would not have been able to grow at the rate it has. We appreciate the support of our very loyal staff and I know that we can count on them to build the Company even more in the coming years. It is important to note that many of the employees are also shareholders and, as such, they treat this Company as their company, not simply as a place to work. This past year has been a very unusual year for the stock market and we appreciate the confidence of those shareholders that have continued to support our Company during this period of stock market volatility. I am confident they will be rewarded during the many good years ahead.



William G. Star  
Chairman, President & Chief Executive Officer  
February 25, 1999

## B U I L D I N G O P E R A T I N G E X C E L L E N C E



From left:  
William G. Star, President & C.E.O.  
W. Shaun Jackson, Executive Vice President & C.F.O.

Kingsway continues to build on its track record of operating profitable specialty insurance companies in attractive niche markets. Already well established in Canada with operations coast to coast, the Company in 1998 began building its presence in the United States. During 1998 and early 1999, Kingsway acquired five specialty insurers licensed to sell insurance in a total of 40 states, formed Kingsway America Inc., a holding company for its U.S. insurance operations and also formed Avalon Risk Management, an agency operation. While the subsidiaries in the Kingsway group of companies operate independently, there is the potential for important synergies. These synergies include the introduction of successful products to other companies in the group.

## C A N A D I A N O P E R A T I O N S

In Canada, Kingsway operates through three wholly-owned subsidiaries:

- Kingsway General Insurance Company
- York Fire & Casualty Insurance Company
- Jevco Insurance Company

In 1998, Kingsway's Canadian operations contributed \$208.9 million or 51% of the Company's gross premiums, and produced an underwriting profit of \$15.4 million. The Canadian operations achieved a combined ratio of 92% (industry average 107.6%†), and posted an annual return on equity of 20.1% (industry average 7.1%†).

K I N G S W A Y G E N E R A L  
I N S U R A N C E C O M P A N Y

**K**INGSWAY GENERAL INSURANCE COMPANY (Kingsway General) is a specialty insurer, incorporated in Ontario. Kingsway General is licensed to write

business in every province of Canada, but operates primarily in Ontario, Alberta, Quebec and British Columbia. Kingsway General's main business is non-standard automobile insurance, or the insuring of automobile risks for drivers with worse-than-average driving records. Kingsway General also operates in the commercial automobile, motorcycle, property and other specialty markets, and has an extensive network of 3,000 independent brokers from coast to coast.

In 1998, Kingsway General wrote \$140.8 million in gross premiums, a decrease of 5% from 1997, and emerged as the significant supplier of non-standard automobile insurance in Alberta and one of the largest suppliers of motorcycle insurance in Ontario. Kingsway General also maintained profitability despite lower volume due to increased competition and competitive under-pricing in the Ontario automobile market.

Key plans for Kingsway General in 1999 include: expanding its commercial automobile insurance business, expanding its long-haul trucking business into Alberta and the Maritimes, and further developing its taxi-cab and non-standard automobile business in Quebec.



From left:  
G. Steven Smith, Executive Vice President & C.O.O.  
Richard F. Davis, Assistant Vice President  
Ralph Golberg, Assistant Vice President

## O F F I C E R S

William G. Star  
President & C.E.O.

G. Steven Smith  
Executive Vice President  
& C.O.O.

W. Shaun Jackson  
Vice President & C.F.O.

Richard F. Davis  
Assistant Vice President

Ralph Golberg  
Assistant Vice President

Robert Wong  
Secretary-Treasurer

Eileen Lascelles  
Assistant-Secretary

## D I R E C T O R S

Howard Laxton  
William G. Star

James R. Zuhlke

† Source: IBC Perspective, March 1999

**Y**ORK FIRE & CASUALTY INSURANCE  
COMPANY (York Fire) is incorporated

**YORK FIRE & CASUALTY  
INSURANCE COMPANY**



in Ontario, and licensed to operate in

Ontario and Alberta. York Fire offers traditional property and casualty insurance products, such as personal automobile, property and commercial insurance, as well as specialty products, such as mature and abstainers' automobile and homeowners programs. York Fire targets customers living in rural areas, where there is less competition than in urban centres.

In 1998, York Fire wrote \$35.3 million in direct premiums, an 11.4% increase over 1997. York Fire also successfully converted to a new in-house computer system. As a result of industry consolidation, York Fire was able to appoint new brokers in 1998 bringing its total number of independent brokers in Ontario to 200. With new brokers, enhanced broker incentive programs and the new computer system, York Fire is positioned to explore new opportunities in other provinces and continue its strong growth in 1999.



From left:  
Eileen Lascelles, Executive Vice President & G.M.  
Thomas Walton, Marketing & Products Development

**OFFICERS**

William G. Star  
President & C.E.O.

Eileen Lascelles  
Executive Vice President  
& General Manager

W. Shaun Jackson  
Vice President & C.F.O.

Lorraine Skrzydlo  
Secretary-Treasurer

**DIRECTORS**

Brian Freund  
W. Shaun Jackson  
G. Steven Smith  
William G. Star

**J**EVCO INSURANCE COMPANY (Jevco),  
acquired in March 1997, is the largest  
writer of motorcycle insurance in Canada.

**JEVCO  
INSURANCE COMPANY**



Jevco is incorporated in Quebec and is licensed in every Canadian province.

Jevco wrote \$32.8 million in gross premiums in 1998, an 11% decrease from 1997. The decrease is mainly a result of Jevco's decision to remove itself from the unprofitable professional liability market.

In 1998, Jevco also solidified its position as the country's largest motorcycle insurer and made significant progress introducing new products into its markets through its network of 2,900 brokers across Canada.

In 1999, Jevco plans to increase its already strong share of the motorcycle and recreational vehicle markets in all provinces where it currently writes business, through more aggressive marketing and increased visibility. Jevco also plans to increase penetration in the Quebec property insurance market, and launch property insurance products in Alberta, Ontario and the Maritimes.



From left:  
Jacques Muir, Vice President & G.M.  
Mariette Caron, Director, Motoplan

**OFFICERS**

William G. Star  
President & C.E.O.

W. Shaun Jackson  
Executive Vice President  
& C.F.O.

Jacques Muir  
Vice President  
& General Manager

Jean Guy LeClerc  
Secretary-Treasurer

**DIRECTORS**

Bernard Corbeil  
Thomas DiGiacomo  
W. Shaun Jackson  
Jean Lariviere  
Jacques Muir

J. Brian Reeve  
William G. Star

## U. S. O P E R A T I O N S

## KINGSWAY AMERICA



From left:  
James R. Zuhlke, President & C.E.O.  
John B. Proctor, Vice President & C.F.O.

## OFFICERS

William G. Star  
*Chairman*  
James R. Zuhlke  
*President and C.E.O.*  
John B. Proctor  
*Vice President and C.F.O.*  
W. Shaun Jackson  
*Vice President & Secretary*  
G. Steven Smith  
*Vice President*  
Shelly Gobin  
*Assistant Secretary*  
Susan A. King  
*Assistant Secretary*

## DIRECTORS

W. Shaun Jackson  
William G. Star  
James R. Zuhlke

Kingsway started to build its presence in the U.S. market during 1998. The Company completed a total of five acquisitions in 1998 and early 1999:

- Universal Casualty Company
- Southern United Fire Insurance Company
- American Service Insurance Company, Inc.
- Walshire Assurance Company
- Hamilton Investments, Inc.

These companies operate independently under Kingsway America Inc, a subsidiary formed in early 1998. This is consistent with Kingsway's strategy of acquiring well-managed, profitable niche insurance companies that require additional capital to realize their growth potential. These acquisitions have given Kingsway a solid base from which to grow its U.S. operations – the Company's operating subsidiaries are now licensed to do business in 40 states. Kingsway's U.S. operations are positioned for future growth, and will use the strength and resources of the Kingsway group to expand product offerings and geographic penetration.

In 1998, Kingsway's U.S. operations contributed \$200.3 million, or 49% of the Company's gross premiums, and achieved an underwriting profit of \$3.7 million. The U.S. operations achieved a combined ratio of 97% (industry average 105.0%†), and posted an annual return on equity of 9.4% (industry average 9.4%†).

UNIVERSAL CASUALTY  
C O M P A N Y

UNIVERSAL CASUALTY COMPANY (Universal) is a  
non-standard automobile insurance

company, incorporated and licensed to operate in

Illinois. Universal's business is generated through its wholly-owned managing general agent, ARK Insurance Agency, which maintains relationships with approximately 160 producing agents.

Universal is the fifth largest underwriter of non-standard automobile insurance in the metropolitan Chicago market. In 1998, Universal wrote U.S. \$44.4 million in gross premiums, down slightly from 1997, and improved profitability by successfully focusing on its profitable lines of business and territories.

Universal plans to expand into motorcycle and commercial automobile insurance programs in 1999. It will be selectively introducing increased automobile limits (e.g. up to a maximum of U.S. \$100,000/ U.S. \$300,000 for bodily injury and uninsured and underinsured motorists), and applying for a license in Indiana during the year.



From left:  
Marshall Romanz, President & C.E.O.  
Marc Romanz, Executive Vice President

## OFFICERS

Marshall Romanz  
*President & C.E.O.*  
Marc Romanz  
*Executive Vice President & Secretary*  
George Fuchs  
*Vice President, Claims*  
Gary Baker  
*Vice President, Underwriting*  
Matthew Dutkanych  
*Treasurer*

## DIRECTORS

W. Shaun Jackson  
Marc Romanz  
Marshall Romanz  
William G. Star  
James R. Zuhlke



**S**OUTHERN UNITED FIRE INSURANCE COMPANY  
(SUF) is a non-standard automobile

**SOUTHERN UNITED FIRE  
INSURANCE COMPANY**



insurance company, incorporated in

Alabama, and licensed to conduct business in six states, including Alabama, Louisiana, Georgia, Mississippi, Texas and South Carolina. The majority of SUFI's business is produced in the Alabama and Louisiana markets, where SUFI has developed a strong presence. SUFI is one of the top five non-standard automobile insurers in the state of Alabama in terms of premiums written.

In 1998, SUFI wrote U.S. \$53 million in gross premiums, compared with U.S. \$72 million in 1997, choosing to reduce activity in certain territories and implement rate increases in others. SUFI is implementing a targeted expansion program in Texas and Georgia, and has obtained a license to do business in South Carolina.

During 1999, SUFI will continue to focus on improving the profitability of its book of business. With the launch of its new motorcycle product, and expansion into the South Carolina market, SUFI expects 1999 to be a strong year. SUFI's subsidiary, Consolidated Insurance Management Corporation, serves as managing general agent and maintains relationships with over 1,200 agents in SUFI's licensed territories.



From left:  
Al Trovinger, Vice President  
Richard Murray, Vice President

**OFFICERS**

William G. Star  
President

Al Trovinger  
Vice President  
& Secretary

Richard Murray  
Vice President

Leslie DiMaggio  
Vice President & Treasurer

Suzanne Trovinger  
Vice President

Julie Magee  
Vice President

**DIRECTORS**

W. Shaun Jackson  
Charles D. Jordan

William G. Star  
James R. Zuhlke

**A**ERICAN SERVICE INSURANCE COMPANY, INC.  
(American Service) is a non-standard

**AMERICAN SERVICE  
INSURANCE COMPANY**



automobile insurance company, incorporated

in Illinois, and licensed to operate in Illinois, Indiana and Missouri. American Service also owns AOA Payment Plan, Inc., which finances insurance premiums for American Service and other insurance carriers. American Service is the sixth largest underwriter of non-standard automobile insurance in the Chicago area, producing business through a network of approximately 170 agents.

American Service wrote U.S. \$43.6 million in gross premiums in 1998, a 6.9% increase over the U.S. \$40.8 million in 1997.

During 1998, American Service maintained its market share in the important Illinois market, expanded into Indiana, and introduced commercial vehicle coverage to the Illinois market. A new state license is pending in Wisconsin. It also successfully launched a new suburban taxi-cab program.

American Service plans in 1999 to continue expansion into Indiana and to broaden its Indiana license to include full property and casualty lines. It also plans to develop its business in the non-metropolitan areas of Illinois, and enter the non-standard markets in Missouri and Wisconsin.



From left:  
Howard Zirn, Chairman  
John Clark, President & C.E.O.  
Craig Lochner, Vice President & C.F.O.

**OFFICERS**

Howard Zirn  
Chairman

John Clark  
President & C.E.O.

Craig Lochner  
Vice President & C.F.O.  
& Secretary-Treasurer

**DIRECTORS**

W. Shaun Jackson  
Craig Lochner

William G. Star  
Howard Zirn  
James R. Zuhlke



## WALSHIRE ASSURANCE COMPANY

WALSHIRE ASSURANCE COMPANY (Walshire) is an insurance holding company, headquartered in York, Pennsylvania. Through its primary subsidiary,

Lincoln General Insurance Company (Lincoln), it provides commercial property and casualty insurance coverage primarily to the trucking industry. Lincoln is licensed in 39 states and is listed as a U.S. Treasury approved insurer. Personal property and casualty coverage is offered through Yorktowne Insurance Company, a subsidiary of Walshire.

Walshire did not renew many of its larger fleet accounts in late 1998 and early 1999, because pricing in this highly competitive market was inadequate. Instead, the Company increased its focus on good risks in the smaller trucking market, which should result in decreased premiums written and improved profitability. In 1998, Walshire wrote U.S. \$44 million in direct premiums through its insurance subsidiaries.

Walshire will continue its focus on the more profitable owner-operator and smaller fleet trucking risks in 1999. Through its licenses in 39 states, Walshire provides Kingsway with significant growth opportunities in new markets for non-standard automobile, motorcycle, and business written by Avalon Risk Management.



From left,  
Kenneth R. Taylor, President  
Gary J. Orndorff, Vice President, Treasurer

### OFFICERS

Kenneth R. Taylor  
President  
Gary J. Orndorff  
Vice President, Treasurer  
& Assistant-Secretary

### DIRECTORS

Brian Freund  
Arthur Miller  
Gary J. Orndorff  
J. Brian Reeve  
William G. Star  
Kenneth R. Taylor  
James R. Zuhlke



## HAMILTON INVESTMENTS, INCORPORATED

HAMILTON INVESTMENTS, INC. is the holding company which owns all of the shares of U.S.

Security Insurance Company ("USSI"), Appco

Finance Corporation ("Appco"), Insurance Management Services, Inc. ("IMS"), Corporate Claims Services, Inc. ("CCS") and Auto Body Tech, Inc. ("ABT"). USSI is an insurance company, incorporated and licensed to carry on business in Florida. Its principal lines of business are non-standard automobile and flood insurance. The business is produced through IMS as managing general agent with over 580 producing agents. Appco is one of the largest independent premium finance companies in Florida, providing premium financing for personal lines to a number of insurance companies. CCS, a claims service provider, and ABT, an auto body repair facility, provide services for USSI and is a preferred repair facility for several other insurance companies.

In 1998, USSI wrote U.S. \$31 million in gross premiums and IMS wrote U.S. \$9 million of premiums under a companion facility with another insurance company. During the year, Appco financed 62,000 contracts amounting to U.S. \$37 million.

USSI expects to increase sales and absorb the IMS companion facility premium volume during 1999. It also plans to expand its premium financing to finance commercial lines products.



From left,  
Roberto Espin, Jr., President & Chairman  
Juan A. Lopez, Treasurer & Secretary

### OFFICERS

Roberto Espin, Jr.  
President & Chairman  
Juan A. Lopez  
Treasurer & Secretary  
Luis Alvarez  
Vice President  
Henry Cuadra  
Vice President  
Lucia Mohamad  
Vice President

### DIRECTORS

Roberto Espin, Jr.  
W. Shaun Jackson  
Juan A. Lopez  
William G. Star  
James R. Zuhlke

Kingsway has additional operations that do not fall directly under its Canadian or U.S. operations. These include Avalon Risk Management, an agency that was launched in 1998, and Kingsway Reinsurance Corporation, the Company's reinsurance subsidiary domiciled in Barbados, which will be used to retain more of the business written by U.S. operations. In early 1999, Kingsway created a new reinsurance subsidiary Kingsway Reinsurance (Bermuda) Ltd., to retain some of the risks written by Canadian operations.

**A**VALON RISK MANAGEMENT, INC.  
was formed by Kingsway in 1998.

Avalon's primary business is the servicing of

transportation and logistics companies throughout the United States. Avalon's headquarters is in Schaumburg, Illinois, near Chicago. It also has seven other offices strategically located in major port cities throughout the United States. Avalon's main products are customs bonds and cargo insurance, which are sold through third-party logistics firms. Avalon also provides logistics firms with coverage for their own operations, including professional liability, cargo legal liability, bailee liability and property and casualty insurance.

Avalon plans to build on its initial success and increase market share in its niche markets in 1999. It will continue providing clients with exceptional service and insurance programs that are tailored to meet their specific needs.

## AVALON RISK MANAGEMENT, INCORPORATED



From left,  
Gary C. Bhojwani, President  
Scott Wollney, Vice President, National Accounts

#### OFFICERS

Gary C. Bhojwani  
*President*  
W. Shaun Jackson  
*Treasurer*  
Denise Lee Hruby  
*Secretary*

#### DIRECTORS

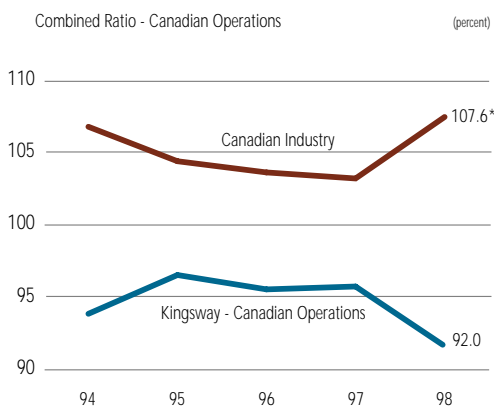
Gary C. Bhojwani  
W. Shaun Jackson  
William G. Star

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Company's consolidated financial statements and notes to the financial statements which are included in this annual report.

### OVERVIEW

Kingsway continues to follow a disciplined approach to underwriting by refusing to sacrifice underwriting profitability in order to increase premium revenue. The Company believes that property and casualty insurance is an excellent business if this discipline is followed. It provides profit from both underwriting and the investment income on shareholders' invested

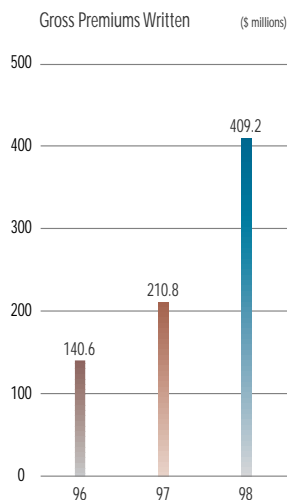


\* Sources: 1998 - IBC, *Perspective*, March 1999  
1997 - IAO, *The Quarterly Report*, 3rd Quarter, 1998

equity. Unfortunately, many property and casualty insurance companies are willing to sacrifice underwriting profitability in order to obtain the use of policyholders' premium dollars.

1998 marked Kingsway's profitable entry into the United States insurance market, while all three of its Canadian operations produced outstanding results. Kingsway General and York Fire continued to produce profitable underwriting results. The results of Jevco, which included an underwriting profit, were very satisfying following the turnaround in its operations that started after the acquisition by Kingsway in early 1997.

Despite almost doubling the size of the Company's premium revenue, Kingsway was able to reduce its combined ratio by almost two full percentage points. 1998 marked the ninth consecutive year of underwriting profit for the Kingsway group. Kingsway achieved a record underwriting profit of \$19.1 million, an increase of 161% over 1997's previous record of \$7.3 million. For the last six fiscal years, Kingsway has produced a combined ratio consistently in the 94% to 96% range, well below industry averages in Canada and the United States.



### REVENUES

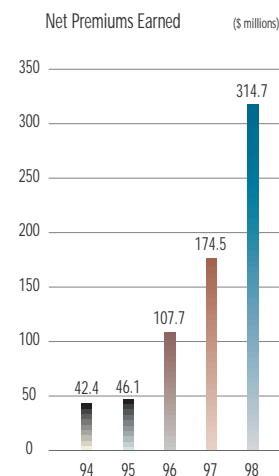
Revenues reflected in the consolidated financial statements are derived from insurance premiums earned and from investment income and premium finance income.

#### Premium income

Gross premiums written increased by 94% to \$409.2 million in 1998, from \$210.8 million in 1997. Direct premiums written from Canadian operations were \$208.9 million compared to \$210.8 million in 1997. The small decline is a result of limited premium growth in the Company's major Canadian market, Ontario. Gross premiums written in the Company's first year of U.S. operations amounted to \$200.3 million.

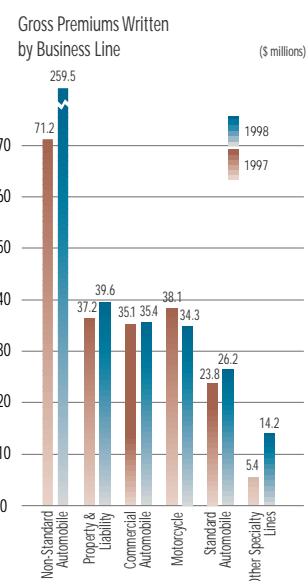
MANAGEMENT'S DISCUSSION AND ANALYSIS

Net premiums earned increased by 80% during 1998 to \$314.7 million, compared with \$174.5 million earned in 1997. The percentage increase in net premiums was less than the increase in gross premiums as a result of third party quota-share reinsurance treaties in force when Kingsway acquired its U.S. subsidiaries. Net premiums earned from U.S. operations amounted to \$122.7 million, which is almost 61% of the U.S. gross premiums written. During 1999, Kingsway expects to retain more of this profitable business within its group. Net premiums earned from Canadian operations were \$191.9 million, an increase of 10% over the \$174.5 million earned in 1997.



Unearned premiums increased by 110% to \$188.8 million at the end of 1998, from \$89.9 million at the beginning of the year. With the Company's history of nine consecutive years of underwriting profit, the equity in the unearned premiums should result in further underwriting profits to be recorded on these unearned premiums during 1999. Assuming a 96% combined ratio on these premiums would result in an underwriting profit of approximately \$7.6 million during 1999.

Non-standard automobile continues to be the main product of the group. Premiums for this line increased to \$259.5 million from \$71.2 million in 1997, an increase of 265% due mainly to the Company's U.S. expansion. Premiums from non-standard automobile in Canada continue to show declines in Kingsway's major market, Ontario, due to competitive under-pricing and the lowering of underwriting standards by many standard market companies operating in this market. However, the decline in volume in Ontario was compensated almost equally by the increase in volume in Alberta, which has shown strong growth since Kingsway opened an office there in October 1996.



The U.S. acquisitions have further diversified premium revenue geographically, which mitigates risk as Kingsway grows its group in niche insurance products. Premiums from non-standard automobile operations in the U.S. added \$199.2 million to gross premiums written in 1998. Illinois has overtaken Ontario as the largest market and now contributes 29% of the gross premium volume. During early 1998, Kingsway acquired two companies in this market, Universal Casualty Company and American Service Insurance Company, Inc., which both write predominantly non-standard automobile in the Metropolitan Chicago market. Collectively, these two companies have approximately a 20% share of this major metropolitan market.

Motorcycle insurance continues to be a very important line for Kingsway and produced \$34.3 million of premiums in 1998, as compared to \$38.1 million in 1997. The decrease was caused by increased competition in the Ontario market.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*Investment and Premium Finance Income*

By focusing on an underwriting profit, the Company has access to a substantial amount of "float" which is "free money" to invest for the benefit of shareholders. The Company has the use of funds represented by unearned premiums and unpaid claims to invest, and as long as the Company continues to produce an underwriting profit, these funds have no cost. In comparison, most insurance companies produce an underwriting loss and their float therefore has actually been acquired at a cost i.e. their underwriting loss.

The Company provides the option of monthly premium payments on policies, whereby the insured is only required to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. Because premiums for non-standard automobile policies are generally much higher than on policies written by standard market companies, a substantial portion of Kingsway's non-standard automobile written premiums are financed. The Company has limited credit risk on these receivables, as premiums are collected in advance of the period in which they are earned.

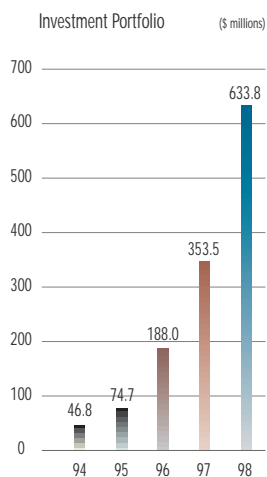
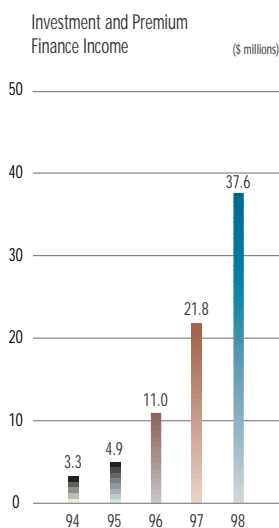
Investment and premium finance income increased by 72% in 1998 to \$37.6 million, compared to \$21.8 million in 1997. This increase in income is attributable to the growth in the investment portfolio and financed premiums receivable, which increased from \$353.5 million at the end of 1997 to \$633.8 million at the end of 1998, an increase of 79%.

The Company's investment portfolio and financed premiums receivable represented \$17.65 for each share outstanding at December 31, 1998, compared to \$9.87 for each share at the end of 1997. Because of the underwriting profits, this provides substantial zero-cost leverage on shareholders' equity of \$6.96 per share at December 31, 1998.

The following table shows the investment yield that the portfolio has provided over the last five years:

<i>(in \$,000's)</i>	1998	1997	1996	1995	1994
Total realized return	37,599	21,836	11,049	4,913	3,336
Change in unrealized gains/(losses)	(2,108)	(3,939)	2,771	716	(381)
Total return	<u>35,491</u>	<u>17,897</u>	<u>13,820</u>	<u>5,629</u>	<u>2,955</u>
Total return yield (%)	7.5%	6.7%	10.4%	9.3%	7.5%
Total realized return (%)	8.0%	8.2%	8.3%	8.1%	8.5%

The Investment Committee of the Board comprises individuals with extensive knowledge, experience and expertise in the area of investments. The Investment Committee closely monitors the performance of external managers to ensure that they provide better-than-average returns for shareholders. External portfolio managers provided excellent returns in 1998, however, they recognize that they must continue to perform for the benefit of Kingsway shareholders.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company, through the recommendations of the Investment Committee of the Board of Directors, has engaged the external expertise of Burgundy Asset Management, Deans Knight Capital Management, Perigee Investment Council, Phillips, Hager and North and Royal Bank of Canada (Caribbean) to manage segregated portfolios of the companies' investments. On behalf of shareholders, Kingsway would like to thank them for their performance this past year.

## REINSURANCE

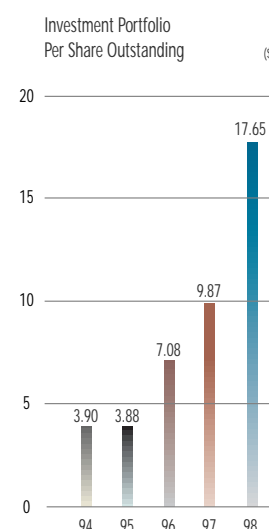
Reinsurance is an industry practice by which insurance companies reduce exposure to potential severe loss occurrences by purchasing protection from other insurance companies referred to as reinsurers. Through relationships with reinsurance partners who have shared in profitable growth, Kingsway has been able to purchase reinsurance coverage at much lower rates, while significantly reducing the amount of risk that subsidiaries retain for their own account.

Since 1986, Employers Reinsurance Company, one of the largest reinsurers in the world, has provided most of Kingsway's reinsurance protection.

The Company's reinsurance arrangements allow it to retain most of its written premiums for its own account while minimizing claims exposure. In 1998, the Company retained 78% of premiums written, compared with 89% in 1997, due to the quota-share reinsurance treaties in force at the subsidiaries acquired in the United States.

Because of the adequate capitalization of the group, management's philosophy is to purchase reinsurance to limit the Company's exposure to larger and catastrophic type losses. Most of the non-standard automobile business that the Company writes in the United States is at the minimum statutory liability limits, i.e. U.S. \$20,000 per person, U.S. \$40,000 per occurrence, and Kingsway is comfortable in retaining all of this business within its group. Through the formation of the new subsidiary, Kingsway Reinsurance Corporation, the Company expects to retain more business written by subsidiaries in the United States during 1999.

During 1998, the Company's reinsurance program limited its liability to a maximum amount on any one loss of \$1 million in the event of a property or liability claim, and \$1.5 million per occurrence in the event of a catastrophe. These retentions are small relative to industry averages and represent only 0.4% and 0.6% respectively of the Company's surplus of \$250.1 million at December 31, 1998. The Company had aggregate protection against catastrophic losses during 1998 of \$15 million, which has been increased for 1999 to \$25 million.



## M A N A G E M E N T ' S D I S C U S S I O N A N D A N A L Y S I S

## C L A I M S I N C U R R E D A N D U N P A I D C L A I M S

Provisions are established for unpaid claims by the case method as claims are reported. The provisions are subsequently adjusted during the course of settlement as additional information becomes known. A provision is also made for management's calculation of factors affecting the future development of claims, including claims incurred but not reported ("IBNR") based on the volume of business currently in force and the historical experience on claims.

As time passes, more information about the claims become known and the provision estimates are appropriately adjusted upward or downward to reflect this additional knowledge. Because of the elements of uncertainty in this estimation process, and the extended time it can take to settle many of the more substantial claims, several years of experience are required before a meaningful comparison of actual losses to the original provisions can be developed.

Provisions for unpaid claims are established to reflect the estimate of the full amount of all expected costs of all unsettled claims at the balance sheet date, including incurred but not reported claims. Actual claims costs will vary from the estimate for a variety of reasons, including additional information with respect to the facts and circumstances of the claim and awards of pre-settlement interest. The provisions for unpaid claims are not discounted to take into consideration the time value of money, although claims will be settled over a period of time, over which the Company derives additional income from investing the funds set aside to pay future claims.

The development of the provision for claims is shown by the difference between estimates of claims as of the initial year end and the re-estimated liability at each subsequent year end. This is based on actual payments in full or partial settlement of claims, plus re-estimates of the claims required for claims still open or claims still unreported. Favourable development, or reserve redundancy, means that the original claim estimates were higher than subsequently determined. Unfavourable development, or reserve deficiency, means that the original claim estimates were lower than subsequently determined. The Company's desire is to ensure that it continues to show favourable development so that future changes in claim estimates benefit future earnings.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

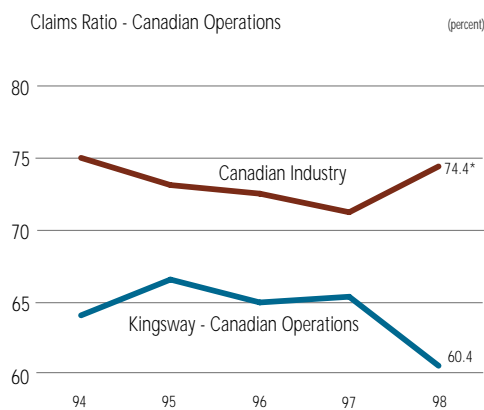
The following table illustrates the unpaid claims provisions, net of recoveries from reinsurers, established for the years ended December 31, 1991 to 1997 compared to the re-estimation of those liabilities as at December 31, 1998:

(\$'000's)	1997	1996	1995	1994	1993	1992	1991
Unpaid claims originally established - end of year	\$123,372	\$65,142	\$24,322	\$16,987	\$10,945	\$11,648	\$12,261
<b>Cumulative paid as of:</b>							
One year later	46,266	31,309	13,665	12,384	5,984	4,329	4,176
Two years later		42,108	19,404	18,633	8,032	6,615	6,589
Three years later			25,273	22,066	10,347	7,910	8,394
Four years later				25,456	11,739	9,255	9,464
Five years later					12,576	10,210	10,395
Six years later						10,517	11,193
Seven years later							11,247
<b>Incurred loss as of:</b>							
One year later	110,503	62,022	27,705	22,776	11,395	10,621	11,470
Two years later		65,122	27,467	25,628	12,187	10,290	11,050
Three years later			31,707	25,580	12,256	10,550	10,808
Four years later				27,589	12,164	10,167	11,001
Five years later					13,004	9,999	10,805
Six years later						10,245	10,883
Seven years later							10,952
<b>As at December 31, 1998</b>							
Cumulative (deficiency) redundancy	12,869	20	(7,385)	(10,602)	(2,059)	1,403	1,309
Cumulative (deficiency) redundancy as a % of unpaid claims originally established	10.4%	0.0%	(30.4)%	(62.4)%	(18.8)%	12.0%	10.7%

For the year ended December 31, 1998, the reserve redundancy on the unpaid claims established at December 31, 1997 amounted to \$12.9 million, which is approximately 10% of the net unpaid claims as of December 31, 1997. Similar to many companies in the Canadian property and casualty insurance industry, the Company experienced reserve deficiencies on accident years 1993 and 1994 as a result of the automobile legislation in force during those years under Bill 164. As a result of late reported claims and the difficulty in estimating claims under Bill 164, the unpaid claims liabilities set as of the end of fiscal years, 1993, 1994 and 1995 showed reserve deficiencies, which are reflected in subsequent years in the table above. This legislation was repealed and replaced by Bill 59 in Ontario on November 1, 1996. Bill 59 eliminated many of the problems of late reported claims that were prevalent under Bill 164.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Despite the doubling in size of the Company, the claims ratio for the year ended December 31, 1998 was 61.6%, compared with 65.3% for 1997. The claims ratio for the Canadian operations was 60.4%, which continued to



\* Sources: 1998 - IBC, *Perspective*, March 1999  
1997 - IAO, *The Quarterly Report*, 3rd Quarter, 1998

outperform the Canadian industry average of 74.4%† for the ninth consecutive year. In fact, Kingsway's margin over the industry continued to widen in 1998 as many companies, particularly in the Ontario market, were willing to lower their prices in order to attract more business and therefore produce worse underwriting results than in 1997. The ice storm in Quebec in early 1998 was also a significant cost to the Canadian industry, however, due to Kingsway's diversified operations and low reinsurance retention points, this catastrophe had little effect on Kingsway's claims ratio for 1998.

The loss ratio for the U.S. operations was 63.5%, compared to the average for the U.S. industry of 76.2%††. During 1998, the majority of the Company's business in the United States was derived from non-standard automobile. The claims incurred in the United States relate primarily to non-standard automobile, physical damage and liability, at the minimum statutory limits, which are typically U.S. \$20,000 per person, U.S.\$40,000 per occurrence maximum.

## EXPENSES, EXCLUDING CLAIMS INCURRED

The Company's expense ratio continues to be below industry levels. The expense ratio for 1998 increased slightly to 32.3%, compared with 30.5% in 1997. The increase is attributable to general and administrative expenses, which were 12.7% of premiums earned, compared to 10.6% in 1997. The general and administrative expenses were higher as a percentage of net premiums earned, due to the large amount of quota-share business ceded to reinsurers in the United States. General and administrative costs incurred are commensurate with levels of gross premiums written. Under quota-share contracts, the third party reinsurers pay the company a commission to compensate for the expenses incurred to obtain and administer the policies. This commission revenue is recorded as a reduction in the commission expense.

The acquisitions of Jevco, Universal Casualty, Southern United, American Service and Walshire required that goodwill amortization of approximately \$3.2 million be charged against earnings in 1998 under generally accepted accounting principles ("GAAP"). When Kingsway buys a business, it is usually for a premium over the GAAP net worth, since most companies worth purchasing don't come at a discount to their net worth (York Fire was an exception). Under GAAP,

† Source: IBC *Perspective*, March 1999  
†† Source: 1998 estimate. A.M.Best *Review Preview*, January 1999

MANAGEMENT'S DISCUSSION AND ANALYSIS

the premium paid over GAAP net worth has to be recorded as goodwill in the balance sheet, and amortized over a period no longer than 40 years. Kingsway has conservatively chosen 15 years.

Eventually the acquisition goodwill will be written off, however, the economic value of the acquired businesses is expected to increase as Kingsway makes acquisitions for growth and to enhance the value for its shareholders.

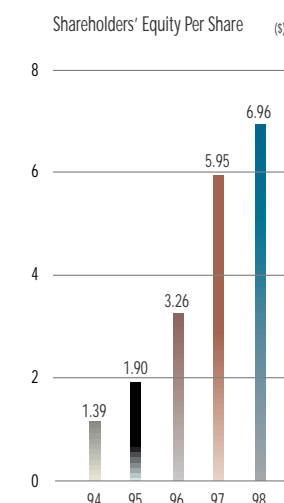
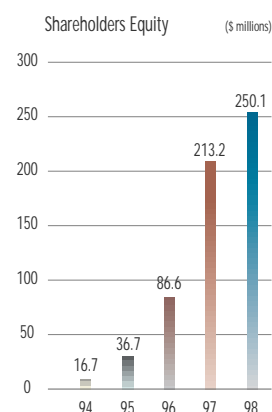
CAPITAL RESOURCES

As a result of the Company's continued profitability, shareholders' equity increased to \$250.1 million at December 31, 1998, compared with \$213.2 million at December 31, 1997. Shareholders' equity per share outstanding was \$6.96 at December 31, 1998, an increase of \$1.01 or 17% compared to the \$5.95 per share at December 31, 1997.

The Company does not intend to declare regular dividends on its common shares in the foreseeable future. As long as its business continues to grow, Kingsway intends to reinvest earnings to enable the Company to further increase premium volumes and shareholder value, with a targeted average return on equity of over 15% or more over time. The Company's average return on equity for the past nine fiscal years has been 22.4%.

During 1998, Kingsway received a investment grade rating of BBB- from Standard & Poor's, a primary debt rating agency in North America. On February 23, 1999, the Company entered into a U.S. \$100 million unsecured credit facility with a syndicate of two Canadian and two U.S. banks. This facility is for a fixed term of five years and one day and under this facility the Company has the option to borrow at a floating rate according to banks' prime lending rate, or for a fixed term at a fixed rate of LIBOR plus a spread which is commensurate with the Company's credit rating. On March 5, 1999, the Company drew down the facility in full and entered into interest rate swap transactions whereby the Company swapped the LIBOR rate for a fixed rate of 5.91% for the period of the facility.

Kingsway General, York Fire and Lincoln General are rated "A" excellent by A.M. Best, the primary rating agency for insurance companies. Kingsway General passed all eight of the TRAC ratio tests at December 31, 1998 and has had a profitability ranking of A (highest) for the last nine years. York Fire passed seven of the TRAC ratio tests at December 31, 1998 and December 31, 1997. Jevco passed six of the TRAC ratio tests at December 31, 1998, which is an improvement from December 31, 1997 when it passed three tests. TRAC is a service which compiles and presents key financial and underwriting information on property and casualty insurers in Canada.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company's Employee Share Purchase Plan allows all employees, following one year of service with the Company, to contribute up to 5% of their salary, and the Company matches 50% of the employees' contribution. Approximately half of Canadian employees who are eligible to participate have participated. During 1999, Kingsway will be introducing the Plan for its employees in the United States.

### LIQUIDITY

The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. Management believes that the Company has the flexibility to obtain, from internal sources, the funds needed to fulfill its cash requirements during the current financial year and also to satisfy regulatory capital requirements.

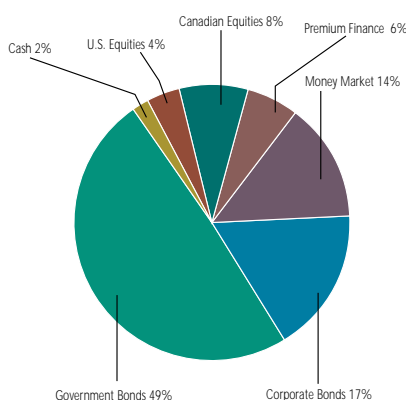
The Company's insurance operations create liquidity by collecting and investing premiums from new and renewal

business in advance of earning those premiums and paying claims. This creates a liquid float of money that the Company holds on behalf of its policyholders. The Company earns investment income on this "float" until it pays the claim and as long as the Company continues to grow, or does not shrink, the "float" should also grow and can be invested for the benefit of shareholders.

As at December 31, 1998, the Company's investment portfolio, including premium finance receivables, amounted to \$633.8 million, an increase of 80% over the value of the portfolio at December 31, 1997.

The Company's portfolio is comprised primarily of short-term securities, including Treasury Bills, Bankers Acceptances, Government Bonds and Corporate Bonds (the majority of which are rated A or higher).

Investment Portfolio



### RISK FACTORS

#### *Unpaid Claims Liabilities*

The Company maintains provisions for unpaid claims liabilities to provide for its estimated ultimate liability for claims.

These provisions do not represent an exact calculation of liability, but are estimates involving actuarial and statistical projections at a given point in time of what the Company expects to be the cost of the ultimate settlement and administration of known and unknown claims. The provisions are based on facts and circumstances then known, estimates of future trends in claims severity and other variable factors, such as future inflation increases, but without reflecting the time value of money.

Although the Company's management believes its overall provision levels are adequate to satisfy its obligations

## MANAGEMENT'S DISCUSSION AND ANALYSIS

under existing policies, actual losses may deviate, perhaps substantially, from the amounts reflected in the Company's financial statements. To the extent provisions prove to be inadequate or redundant, the Company would have to amend such provisions and reflect this change through earnings in future periods. Kingsway had unpaid claims provisions of \$446.2 million on the balance sheet at December 31, 1998.

### *Pricing*

Prices in the insurance and reinsurance industry are cyclical and can fluctuate quite dramatically. With under-reserving, competitors can price below underlying costs for many years and still survive. Competitors may be willing to write premiums at inadequate rates in order to maintain or grow their volumes.

Kingsway's strategy is to refuse to sacrifice underwriting profitability to increase volume. This strategy may result in declines in volume when competitors are willing to write business at inadequate rates.

### *Regulation*

Property and casualty insurance companies are subject to regulation by government agencies. At times, governments may attempt to limit auto insurers' profits for political reasons. Consequently, it is possible that future regulatory changes or developments may impede rate increases or other actions that the Company might want to take to enhance its operating results or fundamentally change the business environment in which the Company operates.

### *Dependence on Key Personnel*

The Company's success will largely depend upon the efforts and abilities of various key personnel. The departure of such key personnel from the Company could have a material adverse effect on the Company's operations.

Kingsway operates as a holding company through subsidiaries that have their own management and operate autonomously, which mitigates the risk of dependence on a small number of key personnel.

### *Reinsurance Recoverables*

The availability and cost of reinsurance are subject to prevailing market conditions that are beyond the control of the Company and may affect the Company's level of business and profitability. Reinsurance ceded does not relieve the Company of its ultimate liability to its insureds in the event that any reinsurer is unable to meet its obligations under the reinsurance contracts. Kingsway had \$167.3 million recoverable from reinsurers and other insurers at December 31, 1998, which is recoverable from well capitalized reinsurers and other insurers.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### *Catastrophes*

Property and casualty insurers are subject to claims arising out of catastrophes. Catastrophes can be caused by various events, including hurricanes, earthquakes, hail, fires and explosions, and the incidence and severity of catastrophes are inherently unpredictable. To contain the potential impact of catastrophes, the Company utilizes reinsurance to limit its claims exposure. In 1999, the Company has protection of up to \$25 million in excess of \$1.5 million per occurrence.

### *Competition*

The property and casualty insurance industry is highly competitive and fragmented in both Canada and the United States. Changes to the financial services legislation in Canada in 1992 allowed banks and trust companies to own insurance companies. Legislation currently prevents banks and trust companies from distributing or promoting insurance through their branch networks, but they may market insurance products through subsidiaries that use their customer lists.

### *Investments*

Approximately 66% of the Company's investment portfolio is comprised of fixed income securities. Due to declines in recent years in the yields on fixed income securities, the Company currently faces the risk that as these securities mature, the funds may have to be reinvested at lower rates than prior to maturity.

### *Concentration of Business*

As highlighted in Note 8 to the financial statements, approximately 72% (1997 – 50%) of the Company's gross premiums written were attributable to the automobile insurance business. To the extent that this sector of the insurance business is affected adversely for any reason, the Company's operations will be disproportionately affected commensurate with its substantial reliance on this business. This risk is limited somewhat by the Company's geographic diversification, as indicated in Note 8 to the financial statements.

### *Year 2000*

The Company has assessed its and its subsidiaries' vulnerability to the Year 2000 problem and in particular segmented the various information system processes required to operate its businesses. On a segmented basis, each subsidiary maintains paper filings of all insurance policies in force and considers itself to have a moderate dependence on information technology. Beginning in 1996, each subsidiary has carried out a program identifying the scope of its

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Year 2000 problem. The nature of the Company's business, and the independence of each subsidiary, reduces the Company's exposure to the Year 2000 problem.

Each of the subsidiaries' management information systems, premium processing and claims reporting systems run independently of each other. An inventory of hardware, software and embedded chips used in the internal processes was carried out. This included identification of third party products and services used. These were assessed as to the risk presented by each system or program, some of which were more critical than others to each subsidiary's operations and a course of action was determined for dealing with each problem system.

With respect to each subsidiary's own system, solutions generally involved one or more of the modification or repair of a system, the redesign of processes used in that system, or the replacement of a system or program with one that is Year 2000 compliant. These solutions have been substantially implemented and tested to determine if each subsidiary is Year 2000 compliant, although there cannot be certainty that they will not fail.

With respect to third party products and services, each subsidiary has requested confirmation that these are or will be Year 2000 compliant. Verbal or written assurances have been received from most suppliers and the subsidiaries will be following up with those who have not replied. However, the actual correction of the Year 2000 problems of such systems is a matter that is not in the control of the Company and its subsidiaries, and it remains dependent upon each provider for the completion of its program within the required time frame.

The Company and its subsidiaries are on schedule in their Year 2000 program and believe that they will complete all phases of it prior to December 31, 1999; however, the nature of the issues involved is such that there can be no certainty that this will be achieved. The Company believes that it has the necessary resources and personnel to complete its program at the level of costs currently being incurred and has no contingency plan. All costs to date, amounting to approximately \$335,000 (1997- \$ nil), have been fully expensed, except in the case of new purchases and development of software or equipment amounting to approximately \$1.3 million (1997 - \$789,000), where accounting rules require capitalization.

With respect to its insured policyholders and liability exposure, the insurance subsidiaries have excluded Year 2000 coverage where applicable.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*Expansion*

The Company intends to continue its expansion and diversification, and to the extent that these activities may not be as profitable as the Company's existing business lines, net income may be affected. Moreover, the expansion of the business of the Company and its insurance subsidiaries will depend upon the ability of management to successfully implement the Company's strategy. There is no assurance of future internal growth in the principal subsidiaries of the Company. While management currently plans to make further acquisitions, there is no assurance that acquisitions will be made, as such transactions will depend on various factors, including price and other terms and conditions that must be negotiated with possible vendors.

**OUTLOOK**

Opportunities for growth for 1999 exist in many areas of the Company's operations. In Canada, Kingsway faces lower pricing by many competitors in order to maintain their level of the premium writings. This has been reflected in the poorer underwriting results and the deterioration in profitability of the Canadian insurance industry, which showed a combined ratio of 107.6%<sup>†</sup> in 1998 compared to 103.0%<sup>†</sup> in 1997. In addition, many insurance companies have been unable in 1998 to derive the same level of investment returns through realized gains that were available in 1997. Consequently, the return on equity of the Canadian industry declined from 12.9%<sup>†</sup> in 1997 to 7.1%<sup>†</sup> in 1998.

Management believes that the poor underwriting results experienced by the Canadian industry in 1998 will continue for many companies during 1999. Lack of investment gains and the significant reinvestment risk that many of the these companies face, as their fixed income portfolios mature, will also result in market conditions tightening. Management believes that this will focus companies on improving underwriting profitability through increased pricing of risks, which should create many opportunities for growth in Kingsway.

In the United States, Kingsway sees many opportunities for growth, including the introduction of the motorcycle product and the acquisitions of Hamilton Investments and Walshire, which will be included in results for the first time during the first quarter of 1999. The acquisition of Walshire provides Kingsway with access to a very large market through the 39 state licenses that it holds. The acquisition of Hamilton provides access to the very large, and growing, Florida market.

Management sees many opportunities for growth through acquisition in a U.S. industry that is extremely fragmented, overcapitalized, highly competitive and overall shows premium growth that is lower than the rate of inflation. These factors typically lead to consolidation. Management believes these conditions will create many opportunities for selective acquisitions in 1999 at more reasonable prices than were prevalent during 1997 and 1998.

<sup>†</sup> Sources: 1998 - IBC, *Perspective*, March 1999; 1997 - IAO, *The Quarterly Report*, 3<sup>rd</sup> Quarter, 1998

<sup>††</sup> Source: 1998 estimate. A.M.Best *Review Preview*, January 1999



## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements and the financial information in the annual report have been prepared by management.

The financial statements have been prepared by management in accordance with generally accepted accounting principles, as described in note 1 to the consolidated financial statements. The financial statements include certain amounts which are based on management's estimates and judgements using information available up to the date of their submission to the Board of Directors for approval. Management has determined such amounts on a reasonable basis, and are satisfied that the consolidated financial statements contained in this annual report present fairly the Company's financial position and results of operations and that the financial information contained elsewhere in this annual report is consistent with the consolidated financial statements.

The accounting procedures and related systems of internal control are designed to provide reasonable assurance that the assets are safeguarded and that the financial records are reliable.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements, on the recommendation of the Audit Committee. The Audit Committee also considers, for review by the Board and approval by the shareholders, the appointment of the external auditors.

The consolidated financial statements have been audited by KPMG LLP whose report outlines the scope of their examination and their opinion on the consolidated financial statements.

The Company's insurance subsidiaries have appointed the following independent actuaries to provide opinions, in accordance with accepted actuarial practices, on the appropriateness of the amount of unpaid claims liabilities reflected in the consolidated balance sheets:

TILLINGHAST, TOWERS PERRIN  
Kingsway General Insurance Company  
York Fire & Casualty Insurance Company  
Jevco Insurance Company  
Southern United Fire Insurance Company

KPMG LLP  
Lincoln General Insurance Company  
Yorktowne Insurance Company

ERNST AND YOUNG LLP  
Universal Casualty Company

MILLER, RAPP, HERBERS, & TERRY, INC.  
American Service Insurance Company

STERGIOU & GRUBER RISK CONSULTANTS, INC.  
U.S. Security Insurance Company



William G. Star  
President and Chief Executive Officer



W. Shaun Jackson  
Executive Vice President and  
Chief Financial Officer

## AUDITORS' REPORT

We have audited the consolidated balance sheets of Kingsway Financial Services Inc. as at December 31, 1998 and December 31, 1997 and the consolidated statements of operations and retained earnings and changes in financial position for the years then ended. 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 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, 1998 and December 31, 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants  
Toronto, Canada  
February 19, 1999,  
except as to note 9(c)  
which is as of March 5, 1999.

## CONSOLIDATED BALANCE SHEETS

### ASSETS

As at December 31 (In thousands of dollars)	1998	1997
Cash	\$ 7,179	\$ 5,780
Investments (note 2)	620,450	343,741
Accrued investment income	6,153	3,946
Accounts receivable and other assets	70,082	27,779
Due from reinsurers and other insurers (note 4)	167,343	81,425
Deferred policy acquisition costs	38,691	18,543
Income taxes recoverable	2,552	245
Future income taxes	13,754	17,258
Capital assets	20,770	6,373
Goodwill	65,802	6,139
	\$ 1,012,776	\$ 511,229

### LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:		
Bank indebtedness (note 9)	\$ 100,863	\$ -
Accounts payable and accrued liabilities	23,003	8,611
Unearned premiums (note 4)	188,810	89,885
Unpaid claims (notes 4 and 6)	446,245	198,186
Deferred service charges	3,790	1,299
	762,711	297,981
Shareholders' equity:		
Share capital (note 3)	164,509	165,147
Currency translation adjustment	6,444	-
Retained earnings (note 10(b))	79,112	48,101
	250,065	213,248
	\$ 1,012,776	\$ 511,229

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Howard Laxton  
Director



Bernard Gluckstein  
Director

## CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

As at December 31 (In thousands of dollars, except per share amounts)	1998	1997
Gross premiums written	\$ 409,200	\$ 210,795
Net premiums written	\$ 320,396	\$ 186,813
Revenue:		
Net premiums earned (note 4)	\$ 314,651	\$ 174,462
Investment income	31,716	18,768
Premium finance income	5,883	3,068
	352,250	196,298
Expenses:		
Claims incurred (notes 4 and 6)	193,801	113,909
Commissions and premium taxes (note 4)	61,927	34,801
General and administrative expenses	45,083	19,248
	300,811	167,958
Income before income taxes	51,439	28,340
Income taxes (note 5):		
Current	9,021	4,989
Future	11,407	1,200
	20,428	6,189
Net income	31,011	22,151
Retained earnings, beginning of year	48,101	25,950
Retained earnings, end of year	\$ 79,112	\$ 48,101
Earnings per share (note 3):		
Basic	\$0.86	\$0.74
Fully diluted	\$0.86	\$0.73

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

As at December 31 (In thousands of dollars)	1998	1997
Cash provided by (used in):		
Operating activities:		
Net income	\$ 31,011	\$ 22,151
Items not involving cash:		
Amortization	4,789	1,530
Future income taxes	8,197	(15,552)
Net realized gain on sale of investments	(6,640)	(6,176)
Amortization of bond premiums and discounts	(392)	(1,881)
	36,965	72
Change in non-cash balances:		
Deferred policy acquisition costs	5,647	(2,432)
Due from reinsurers and other insurers	2,121	(16,762)
Unearned premiums	1,093	9,486
Unpaid claims	22,267	68,453
Net changes in other non-cash balances	(5,043)	(10,866)
	63,050	47,951
Financing activities:		
Issuance (cancellation) of share capital, net	(638)	106,110
Share warrant	-	(1,647)
Increase in bank indebtedness	86,569	-
	85,931	104,463
Investing activities:		
Purchase of investments	(1,178,756)	(903,843)
Proceeds from sale of investments	1,164,842	759,039
Financed premiums receivable, net	7,872	(2,416)
Purchase of subsidiaries, net of cash acquired	(138,405)	(2,360)
Additions to capital assets	(3,135)	(1,219)
	(147,582)	(150,799)
Increase in cash during the year	1,399	1,615
Cash, beginning of year	5,780	4,165
Cash, end of year	\$ 7,179	\$ 5,780

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands of dollars)

### 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 all of its wholly owned subsidiaries. The significant subsidiaries are Kingsway General Insurance Company, York Fire & Casualty Insurance Company ("York Fire"), Jevco Insurance Company ("Jevco"), Kingsway Reinsurance Corporation, Kingsway America Inc. and its wholly owned subsidiaries, Universal Casualty Company ("Universal"), Southern United Fire Insurance Company ("SUFI"), American Service Insurance Company, Inc. ("ASIC") and Walshire Assurance Company ("Walshire"). 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.

#### (b) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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.

#### (c) Investments:

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

The excess of purchase cost over the fair value of the net assets of acquired businesses is amortized on a straight-line basis over their estimated useful life which range from ten to fifteen years. The Company assesses the continuing value of goodwill based on the underlying cash flows and operating results of subsidiaries.

#### (f) Deferred policy acquisition costs:

Deferred policy acquisition costs represent certain costs such as commissions and premium taxes related to the acquisition of new and renewal premiums written during the period and are expensed as the related premiums are recorded as income. The method followed in determining the deferred policy acquisition costs limits the deferral to its realizable value by giving consideration to losses and expenses expected to be incurred as premiums are earned.

#### (g) Premium revenue and unearned premiums:

The Company earns motorcycle premiums over the period of risk covered by the policy based on the Company's experience. The Company earns premium revenue on all other lines evenly over the period covered by each individual insurance contract. 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands of dollars)

**(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 obtaining the related policy liability associated with the reinsured policy.

**(j) Translation of foreign currencies:**

Assets and liabilities in foreign currencies are translated into Canadian dollars at year-end exchange rates. 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 operations of the Company's subsidiaries in the United States are self-sustaining. 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".

**(k) Income taxes:**

During the year, the Company adopted the new CICA recommendations for the accounting for income taxes. The new standard requires the use of the liability method for accounting for income taxes.

Under this method, a future income tax asset or liability is recognized relating to the future tax consequences of realizing assets and discharging liabilities at their current carrying amounts.

The income statement tax expense consists of current taxes payable plus or minus the change in the balance sheet asset or liability. The major differences relate to unpaid claims and adjustment expenses, unearned premiums, investments in shares and amortization of capital assets.

The adoption of this policy has been applied retroactively and had no effect on the financial statements of the Company in the current or prior year.

**2. INVESTMENTS:**

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

December 31, 1998			
		Carrying amount	Fair value
Term deposits:		\$ 85,821	\$ 85,845
Bonds:			
Canadian	Government	104,157	105,335
	Corporate	31,482	31,436
U.S.	Government	196,333	196,906
	Corporate	39,966	39,837
Other	Government	9,299	9,347
	Corporate	35,024	35,138
Sub-total		\$ 502,082	\$ 503,844
Preferred shares		14,192	13,636
Common shares		64,657	60,689
Financed premiums		39,519	39,519
		\$ 620,450	\$ 617,688

The maturity profile of the bonds and term deposits investments at their carrying amount as at December 31, 1998 is as follows:

Due in one year or less	\$ 136,781
Due after one year through five years	193,383
Due after five years	171,918
	\$ 502,082

December 31, 1997			
		Carrying amount	Fair value
Term deposits:		\$ 44,921	\$ 44,906
Bonds:			
Canadian	Government	141,494	140,785
	Corporate	51,104	50,765
U.S.	Government	27,602	27,665
	Corporate	5,755	5,839
Sub-total		\$ 270,876	\$ 269,960
Preferred shares		29,162	29,559
Common shares		11,105	10,970
Financed premiums		32,598	32,598
		\$ 343,741	\$ 343,087

The maturity profile of the bonds and term deposits investments at their carrying amount as at December 31, 1997 is as follows:

Due in one year or less	\$ 103,976
Due after one year through five years	89,100
Due after five years	77,800
	\$ 270,876

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands of dollars)

Fair values are considered to approximate quoted market values based on the latest bid prices. The fair value of financed premiums approximates their carrying amount.

Management has reviewed currently available information regarding those investments whose estimated fair value is less than 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.

All of the Company's fixed term investments have fixed interest rates. The coupon rates for the Company's fixed term investments range from 3.1% to 12.4% at December 31, 1998 and from 3.5% to 12.4% at December 31, 1997. As the fair value and carrying amounts are not materially different, the effective rates of interest are not 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.

**3. SHARE CAPITAL:**

Authorized: Unlimited number of common shares

Share transactions consist of the following:

	Shares Issued	Stock Options	Amount
Balance as at January 1, 1997	26,543,732	516,668	\$ 59,037
Issued under share warrant (note 7(a))	375,444		939
Issued August 12, 1997	8,000,000		95,407
Underwriters' over-allotment option Exercised August 28, 1997	800,000		9,408
Stock options granted in year		89,000	
Stock options exercised in year	110,660	(110,660)	356
Balance as at December 31, 1997	35,829,836	495,008	\$165,147
Issued under share warrant (note 7(a))	122,400		306
Normal course issuer bid (note 3(d))	(140,300)		(1,262)
Stock options granted in year		224,000	
Stock options exercised in year	91,936	(91,936)	318
Stock options expired in year		(55,338)	
Balance as at December 31, 1998	35,903,872	571,734	\$164,509

Share issue expenses of \$2,593,000 were deducted from the amount of share capital issued in 1997.

(a) On May 8, 1998 the shareholders approved a resolution to subdivide the Company's common stock on a 2-for-1 basis. The number of shares outstanding and earnings per share amounts reflect this subdivision on a retroactive basis.

(b) The Company has established a stock option incentive plan for directors, officers and key employees of the Company. The maximum number of common shares that may be issued under the plan is 2,400,000 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. At December 31, 1998 and December 31, 1997 options to purchase 571,734 and 495,008 common shares, respectively, were outstanding. The exercise price of the options ranges from \$2.50 to \$18.775 per share and the options expire in the period from December 5, 2000 to April 23, 2003. During 1998, options to acquire 91,936 shares were exercised at price ranges from \$2.50 to \$8.75 per share.

(c) The weighted average number of shares outstanding for 1998 and 1997 were 35,904,332 and 29,955,996, respectively. On a fully diluted basis, the weighted average number of shares outstanding for 1998 and 1997 were 36,442,543 and 30,495,588, respectively. The number of shares outstanding and earnings per share amounts have been retroactively restated to reflect the subdivision described in paragraph (a) above.

(d) On September 8, 1998 the Company obtained approval from the Toronto Stock Exchange to make a normal course issuer bid for its common shares. For the twelve month period ending September 8, 1999 the Company may repurchase up to 1,802,175 shares in total, representing approximately 5% of the outstanding common shares.

**4. 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.

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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands of dollars)

concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvency. The amounts due from reinsurers substantially relate to a single reinsurer, Employers Reinsurance Company, one of the largest reinsurers in the world.

The Company follows the policy of underwriting and reinsuring contracts of insurance, which limits the net exposure of the Company to a maximum amount on any one loss of \$500,000 (1997 - \$200,000) and \$1,000,000 (1997 - \$200,000) in the event of property or liability claims, respectively. In addition, the Company has obtained catastrophe reinsurance which provides coverage in the event of a series of claims arising out of a single occurrence, which limits this exposure to \$1,500,000 per occurrence to a maximum coverage of \$15,000,000. Effective January 1, 1999, the Company has increased its coverage to \$25,000,000 (minimum limit remains unchanged at \$1,500,000).

The amounts deducted for reinsurance ceded from net premiums earned, claims incurred and commissions and premium taxes for the years December 31, 1998 and 1997 were as follows:

	1998	1997
Net premiums earned	\$ 105,250	\$ 26,248
Claims incurred	86,220	21,951
Commissions and premium taxes	28,551	1,183

## 5. INCOME TAXES:

The Company's provision for income taxes, compared to combined federal, provincial and state statutory rates is summarized as follows:

	1998	1997
Provision for taxes at statutory marginal income tax rate	\$ 24,355	\$ 12,611
Non-taxable investment income	(1,099)	(1,104)
Income earned outside Canada	(2,756)	-
Utilization of prior years' losses and other	(72)	(5,318)
Provision for income taxes	\$ 20,428	\$ 6,189

## 6. UNPAID CLAIMS:

### (a) Nature of unpaid claims:

The establishment of the provision for unpaid claims (including adjustment expenses) 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.

Consequently, the process of establishing the provision for unpaid claims 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.

### (b) Provision for unpaid claims:

The Company's insurance subsidiaries have each appointed independent actuaries to provide opinions, in accordance with accepted actuarial practices, on the appropriateness of the amount of unpaid claims liabilities reflected in the consolidated balance sheets as at December 31, 1998 and December 31, 1997. In carrying out their audit, the external auditors make use of the work of the actuaries and their report on the unpaid claims of the Company. The appointed actuaries complete an annual evaluation of the adequacy of unpaid claims at the end of each financial year. This

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands of dollars)

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, 1998 and 1997 were as follows:

	1998	1997
Unpaid claims - beginning of year - net	\$ 123,372	\$ 65,142
Redundancy in estimated unpaid claims, for claims occurring in prior years	(12,869)	(3,120)
Net unpaid claims of subsidiaries acquired	132,764	28,107
Provision for claims occurring in the current year	228,213	118,460
Claims paid during the year	(190,142)	(85,217)
Currency translation adjustment	6,695	-
Unpaid claims - end of year - net	288,033	123,372
Reinsurers' and other insurers share of unpaid claims	158,212	74,814
Unpaid claims - end of year	\$ 446,245	\$ 198,186

The provision for unpaid claims and adjustment expenses does not take into account the time value of money. The Company believes that its overall practices have been consistently applied over many years, and that its provisions for unpaid claims have resulted in reasonable approximations of the ultimate costs of claims incurred. (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.

#### 7. ACQUISITIONS AND SUBSEQUENT EVENT:

The Company's acquisitions are accounted for by the purchase method with the assets and liabilities of the acquired operations being included in the financial statements at their fair values at the date of acquisition.

##### (a) York Fire:

On February 29, 1996 the Company purchased all of the outstanding shares of York Fire. The purchase price agreement provided that the final consideration payable was to be based on the adjusted regulatory capital of York Fire as of December 31, 1995. The

Regulatory Capital, and the consideration payable, was adjusted based on a re-evaluation of the December 31, 1995 policy liabilities as of, December 31, 1996 and 1997. Final settlement was made under the agreement on September 1, 1998, and as a result, the final purchase price and goodwill were increased by \$1.5 million. The Company paid \$1.5 million in cash and issued 754,244 common shares valued at \$2.50 per share for a final purchase price of \$3.4 million.

##### (b) Jevco:

On March 21, 1997 the Company purchased all of the outstanding shares of Jevco. The estimated net assets acquired at fair values were as follows:

	Estimated at date of acquisition	Re-evaluated at December 31, 1998
Tangible assets acquired	\$60,320	\$60,320
Intangible assets acquired	6,280	14,638
Liabilities assumed	(61,880)	(82,781)
Net identifiable assets (liabilities)	4,720	(7,823)
Goodwill	968	7,823
Estimated consideration	\$ 5,688	\$ -

The intangible assets acquired relate to a future tax asset, which recognizes a portion of the unclaimed tax deductions available to offset future taxable income of Jevco.

The Company paid \$3 million in cash at closing. Based on the deficiency in the estimates of Jevco's unpaid claims liabilities at December 31, 1996, and the effect on reinsurance commissions recoverable, which were identified and recorded in 1997, the \$3 million paid at closing has been recorded as a receivable.

##### (c) U.S. Acquisitions:

On January 13, 1998, the Company completed the acquisition of UCC Corporation ("UCC") and ARK Insurance Agency, Inc. UCC is a holding company that owns all of the shares of Universal. Universal is a non-standard automobile insurance company incorporated and licensed to carry on business in Illinois. All consideration will be paid in cash, part of which was paid at closing, with the remainder to be paid based on the earnings of these companies for the fiscal years 1997 to 2000.

On January 23, 1998, the Company acquired Southern United Holdings Inc. which owns all of the shares of SUFI, Funding Plus of America, Inc. and Consolidated Insurance Management Corporation.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands of dollars)

SUFI is a non-standard automobile insurance company incorporated in Alabama which is licensed to carry on business in Alabama, Louisiana, Georgia, Mississippi and Texas. All consideration will be paid in cash, part of which was paid at closing, with the remainder to be paid based on the earnings of these companies for the fiscal years 1997 to 2000.

On March 9, 1998, the Company acquired all of the outstanding shares of American Service Investment Corporation ("American Service"). American Service is a holding company that owns all of the shares of ASIC and AOA Payment Plan, Inc. ASIC is a non-standard automobile insurance company incorporated in Illinois and is licensed to carry on business in Illinois, Indiana and Missouri. All consideration was paid in cash on closing.

The estimated net assets acquired at fair values of the aforementioned subsidiaries acquired, were as follows:

Tangible assets acquired	\$ 290,891
Intangible assets acquired	2,687
Liabilities assumed	(259,039)
Net identifiable assets	34,539
Goodwill	44,217
Estimated consideration	\$ 78,756

**(d) Walshire:**

On December 14, 1998, the Company acquired Walshire whose shares were listed on NASDAQ. Walshire owns all of the shares of Lincoln General Insurance Company, which is an insurer of the transportation industry and is licensed in 39 states. The Company paid Walshire shareholders U.S. \$8.25 per share in cash for all of the 4,491,138 outstanding common shares and U.S. \$50 per share in cash for all of the 128,100 outstanding preferred shares for a total purchase price of approximately U.S. \$43.8 million. All consideration was paid on closing.

The estimated net assets acquired at fair values of the aforementioned subsidiary acquired, were as follows:

Tangible assets acquired	\$ 191,057
Intangible assets acquired	2,780
Liabilities assumed	(139,989)
Net identifiable assets	53,848
Goodwill	14,633
Estimated consideration	\$ 68,481

**(e) Subsequent event:**

On January 8, 1999 the Company acquired all of the outstanding shares of Hamilton Investments, Inc. ("Hamilton"). Hamilton owns all of the shares of U.S. Security Insurance Company ("USSI"), Appco Finance Corporation ("Appco"), Insurance Management Services, Inc. ("IMS"), Corporate Claims Services, Inc. ("CCS") and Auto Body Tech, Inc. ("ABT"). USSI is a non-standard automobile insurance company, incorporated and licensed to carry on business in Florida. Appco is one of the largest independent premium finance companies in Florida, providing premium financing to a number of insurance companies. IMS, a managing general agent, CCS, a claims service provider, and ABT, an auto body repair facility, provide services for a number of insurance companies. In 1998, USSI wrote U.S. \$31.1 million in gross premiums and IMS wrote U.S. \$8.7 million of premiums under a companion facility with another insurance company.

**8. 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. 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, 1998 is summarized below:

	Canada	United States	Corporate and Other	Total
Gross premiums written	\$ 208,877	\$ 200,323	\$ -	\$ 409,200
Revenue	214,047	135,690	2,513	352,250
Interest expense	-	856	1,178	2,034
Goodwill amortization	-	2,549	652	3,201
Net income	20,894	8,722	1,395	31,011
Total assets	360,895	616,542	35,339	1,012,776
Additions to goodwill	-	58,850	4,014	62,864

In 1997, the Company operated in Canada only and did not provide any other insurance related services, consequently, the segmented information for 1997 is contained within the consolidated balance sheet, statement of operations and retained earnings.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands of dollars)

The Company has a concentration of business in automobile and property insurance and geographically in the provinces of Ontario, Alberta and the state of Illinois as summarized below:

Business Line	Gross Premiums Written	
	1998	1997
	%	%
Automobile	72%	50%
Property & Liability	10%	21%
Motorcycle	8%	18%
Commercial Automobile	6%	10%
Other	4%	1%
	100%	100%
Geographical Area		
Illinois	29%	-
Ontario	24%	54%
Southern U.S.	20%	-
Alberta	13%	21%
Quebec	12%	19%
Other	2%	6%
	100%	100%

**9. BANK INDEBTEDNESS AND SUBSEQUENT EVENT:**

(a) On August 27, 1996, the Company entered into a \$25 million unsecured operating credit facility with a Canadian bank. Under this facility, the Company has the option to borrow at the floating rate equivalent to the bank's prime rate, or for a fixed term at a fixed rate of the Bankers Acceptance or LIBOR plus 1%.

On June 30, 1998, the credit facility was amended whereby the principal was increased to \$50 million, and the rate at which the Company could borrow for a fixed term at a fixed rate was amended to Bankers Acceptance or LIBOR, plus 0.4%. On November 10, 1998, the credit facility was further amended to increase the amount of the facility to \$75 million for the period ending March 31, 1999, at which date the facility will revert to \$25 million. At December 31, 1998, the Company had drawn down approximately U.S. \$17 million on this credit facility.

(b) On July 27, 1998, the Company entered into a U.S. \$25 million unsecured operating credit facility with another Canadian bank. Upon draw down of 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 Bankers Acceptance or LIBOR plus 0.5%. On September 22, 1998, the credit facility was amended whereby the principal amount was increased to U.S. \$50 million, provided that should the Company complete a long-term debt financing, the authorized principal amount of the credit will immediately be restored to U.S. \$25 million. At December 31, 1998, the Company had drawn down U.S. \$45.5 million on this credit facility.

(c) On February 23, 1999, the Company entered into a U.S. \$100

million unsecured credit facility with a syndicate of two Canadian and two U.S. 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 commensurate with the Company's credit rating. The facility is for a fixed term of five years and one day and was fully drawn at March 5, 1999, proceeds of which were used to repay all the credit facilities mentioned above as well as for general corporate purposes. The Company entered interest rate swap transactions whereby the Company fixed its rate on this U.S. \$100 million debt at 5.91% plus a spread commensurate with the Company's credit rating for the period of the facility.

**10. 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:**

The Company's insurance subsidiaries are subject to certain requirements and restrictions under their respective statutory insurance legislations including minimum asset requirements and dividend restrictions.

**(c) Uncertainty due to the Year 2000 Issue:**

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effect of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

**11. FAIR VALUE DISCLOSURE:**

The fair value of financial assets and liabilities, other than investments (note 2) and unpaid claims (note 6) approximate their carrying amounts.

**12. COMPARATIVE FIGURES:**

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

## SUPPLEMENTAL FINANCIAL INFORMATION

## EIGHT YEAR FINANCIAL HIGHLIGHTS

(\$ in thousands of dollars, except earnings per share amounts)

	1998	1997	1996	1995	1994	1993	1992	1991
Gross premiums written	\$409,200	\$210,795	\$140,610	\$60,049	\$55,619	\$30,002	\$14,177	\$18,184
Net premiums earned	314,651	174,462	107,679	46,063	42,414	14,386	12,631	15,651
Underwriting profit	19,075	7,319	4,707	1,560	2,591	766	1,913	1,766
Investment income	37,599	21,836	11,049	4,913	3,336	2,107	2,326	2,775
Net income	31,011	22,151	11,162	3,767	3,295	1,583	2,340	2,586
Shareholders' equity	250,065	213,248	86,634	36,677	16,657	13,362	12,379	8,840
Total assets	1,012,776	511,229	248,233	95,601	64,605	46,825	33,975	32,362
Retained earnings	79,112	48,101	25,950	14,788	11,021	7,726	6,743	4,403
Claims ratio (%)								
Company	61.6%	65.3%	64.9%	66.5%	64.0%	57.7%	55.3%	64.9%
Industry - Canada	74.4%	71.2%	72.5%	73.1%	75.0%	76.2%	77.3%	78.0%
Expense ratio (%)								
Company	32.3%	30.5%	30.7%	30.1%	29.9%	36.9%	29.5%	23.8%
Industry - Canada	33.2%	31.8%	31.4%	31.5%	32.0%	33.5%	33.6%	33.4%
Combined ratio (%)								
Company	93.9%	95.8%	95.6%	96.6%	93.9%	94.6%	84.8%	88.7%
Industry - Canada	107.6%	103.0%	103.9%	104.6%	107.0%	109.7%	110.9%	111.4%
Return on equity (%)								
Company	13.4%	16.5%	21.4%	19.8%	21.9%	12.3%	22.1%	34.9%
Industry - Canada	7.1%	12.9%	13.1%	11.5%	6.7%	9.4%	8.5%	9.5%
Investment yield (%)	8.0%	8.2%	8.3%	8.1%	8.5%	7.7%	9.8%	11.7%
Shareholders' equity per share								
At year end	\$6.96	\$5.95	\$3.26	\$1.90	\$1.39	\$1.11	\$1.03	\$1.01
Annual increase	17.0%	82.5%	71.6%	36.7%	25.2%	7.8%	2.0%	29.5%
Earnings per share								
Basic	\$0.86	\$0.74	\$0.52	\$0.31	\$0.27	\$0.13	\$0.22	\$0.32
Fully diluted	\$0.86	\$0.73	\$0.49	\$0.30	\$0.27	\$0.13	\$0.22	\$0.32
Weighted average number of shares outstanding (basic)*	35,904	29,956	21,448	12,260	12,000	12,000	10,416	8,068

All financial information relating to the insurance industry for the years 1991 to 1997 was obtained from IAO Consulting Services Inc., The Quarterly Report, 3rd Quarter, 1998.

Information for the 1998 year was obtained from the preliminary estimates published by the Insurance Bureau of Canada, Perspective, March 1999.

\* In thousands, after giving retroactive effect to the 3 for 1 share subdivision on November 10, 1995 and the two for one share subdivisions on October 10, 1996 and May 8, 1998.

## SUPPLEMENTAL FINANCIAL INFORMATION

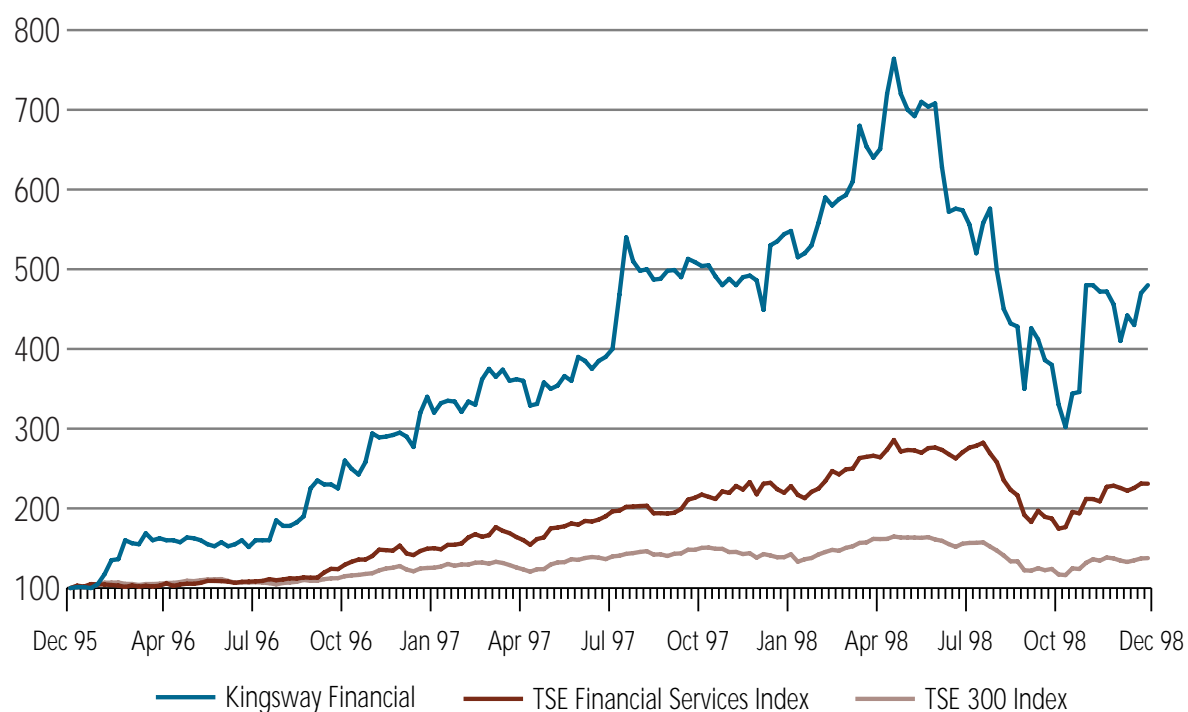
## QUARTERLY RESULTS

	1997				1998			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
(\$ in thousands except per share amounts)								
Gross premiums written	\$32,686	\$75,223	\$54,889	\$47,997	\$95,901	\$123,801	\$100,760	\$88,738
Net premiums earned	33,318	46,252	52,282	42,610	61,940	81,499	92,545	78,667
Net income	4,191	6,321	6,591	5,048	7,456	6,432	9,328	7,795
Earnings per share								
Basic	\$ 0.15	\$ 0.23	\$ 0.22	\$ 0.14	\$ 0.21	\$ 0.18	\$ 0.26	\$ 0.21
Fully diluted	0.15	0.23	0.21	0.14	0.21	0.18	0.26	0.21
Market price per share								
High	\$ 9.75	\$ 10.00	\$ 13.50	\$ 13.88	\$ 17.50	\$ 19.25	\$ 15.50	\$ 12.85
Low	7.75	7.50	9.75	9.00	12.00	13.50	8.25	7.25
Close	8.80	9.98	12.75	13.50	15.20	13.75	8.65	12.00

Per share amounts are after giving effect to the 2 for 1 subdivision of shares on May 8, 1998

## RELATIVE MARKET PERFORMANCE

for the Period December 29, 1995 to December 25, 1998



## DIRECTORS AND OFFICERS

### DIRECTORS

William G. Star  
Chairman, President and  
Chief Executive Officer

John L. Beamish  
President, J. Llewellyn  
Beamish & Associates Inc.

Thomas A. DiGiacomo\*  
President, Tadico Limited

Bernard Gluckstein\*  
Principal, Gluckstein and Associates

Howard Laxton\*  
Investment Broker,  
First Marathon Securities Limited

Murray A. Thompson\*  
Barrister & Solicitor,  
Blaney, McMurtry, Stapells, Friedman

James R. Zuhlke  
President and Chief Executive Officer  
Kingsway America Inc.

\* Members of the Audit Committee

### OFFICERS

William G. Star  
President and Chief Executive Officer

W. Shaun Jackson  
Executive Vice President and  
Chief Financial Officer

Jim Thorndycraft  
Vice President

G. Steven Smith  
Vice President

Eileen Lascelles  
Assistant-Secretary

Shelly Gobin  
Treasurer

Robert Wong  
Assistant-Treasurer

Michael S. Slan  
Secretary  
Barrister & Solicitor  
Fogler, Rubinoff

## SHAREHOLDER INFORMATION

### TRANSFER AGENT & REGISTRAR

Montreal Trust Company  
151 Front Street West  
Toronto, Ontario M5J 2N1

### STOCK EXCHANGE LISTING

The Toronto Stock Exchange  
Trading Symbol 'KFS'

### GENERAL COUNSEL

Fogler, Rubinoff

### AUDITORS

KPMG LLP, Toronto

### INVESTOR RELATIONS

W. Shaun Jackson  
Executive Vice President and  
Chief Financial Officer

### INTERNET ADDRESS

Website: [www.kingsway-financial.com](http://www.kingsway-financial.com)  
E-mail: [info@kingsway-financial.com](mailto:info@kingsway-financial.com)

### HEAD OFFICE

5310 Explorer Drive, Suite 200  
Mississauga, Ontario L4W 5H8  
Tel. (905) 629-7888  
Fax (905) 629-5008

### COMMON SHARES OUTSTANDING

35,903,872 as at December 31, 1998

### ANNUAL MEETING

The annual meeting of shareholders  
will be held on  
Thursday, April 22, 1999 at 4 p.m.  
at the Design Exchange  
234 Bay Street  
Toronto, Ontario



## CORPORATE DIRECTORY

## HEAD OFFICE

5310 Explorer Drive, Suite 200  
Mississauga, Ontario L4W 5H8  
Tel. (905) 629-7888  
Fax (905) 629-5008

## PRIMARY SUBSIDIARIES

Kingsway General  
Insurance Company  
5310 Explorer Drive, Suite 200  
Mississauga, Ontario  
Canada L4W 5H8  
Tel. (905) 629-7888  
Fax (905) 629-5008

York Fire & Casualty  
Insurance Company  
5310 Explorer Drive, Suite 201  
Mississauga, Ontario  
Canada L4W 5H9  
Tel. (905) 629-8444  
Fax (905) 629-5008

Jevco Insurance Company  
2021 Union Avenue, Suite 1150  
Montreal, Quebec  
Canada H3A 2S9  
Tel. (514) 284-9350  
Fax (514) 289-9257

Kingsway America Inc.  
1515 Woodfield Road, Suite 820  
Schaumburg, Illinois  
60173 USA  
Tel. (847) 619-7610  
Fax (847) 619-5275

Universal Casualty Company  
7280 North Caldwell  
Niles, Illinois  
USA 60714  
Tel. (847) 647-5430  
Fax (847) 647-2571

Southern United Fire  
Insurance Company  
One Southern Way  
Mobile, Alabama  
USA 36619  
Tel. (334) 661-8008  
Fax (334) 662-6562

American Service  
Insurance Company  
9801 West Higgins Road, 8th Floor  
Rosemont, Illinois 60018  
USA 60018  
Tel. (847) 318-5800  
Fax (847) 318-0200

Walshire Assurance Company  
*Lincoln General Insurance Company*  
*Yorktowne Insurance Company*  
3350 Whiteford Road  
P.O. Box 3849  
York, Pennsylvania  
USA 17402-0138  
Tel. (717) 757-0000  
Fax (717) 717-0165

Hamilton Investments, Inc.  
*U.S. Security Insurance Company*  
*Appco Finance Corporation*  
3915 Biscayne Boulevard, 4th Floor  
Miami, Florida  
USA 35137  
Tel. (305) 576-1115  
Fax (305) 576-4595

Avalon Risk Management, Inc.  
1300 East Woodfield Road, Suite 512  
Schaumburg, Illinois  
USA 60173  
Tel. (847) 517-4020  
Fax (847) 517-4031

Kingsway Reinsurance Corporation  
Whitepark House, P.O.Box 1174  
Bridgetown, Barbados  
West Indies  
Tel. (246) 436-9929  
Fax (246) 436-9932

Kingsway Reinsurance (Bermuda) Ltd.  
Victoria Hall, 11 Victoria Street  
P.O. HM 1826  
Hamilton, HM HX, Bermuda  
Tel. (441) 298-6640  
Fax (441) 292-1563