



Kingsway Financial Services Inc.

2000 Annual Report



Strength through *Discipline* and *Diversity*

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. 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 niche markets, where limited competition and an emphasis on underwriting profit provide the opportunity for above-average returns.

Kingsway 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 Financial Services Inc. Head Office, Mississauga, Canada

Kingsway Financial Services Inc.'s shares are listed on the Toronto Stock Exchange, under the trading symbol "KFS". Headquartered in Mississauga, Ontario, Kingsway employs approximately 1,000 people in Canada and the United States.

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The Kingsway *Difference*

Strength through *Discipline* and *Diversity*

Discipline

- Focus on profitable underwriting
 - Disciplined pricing
 - Stringent claims handling
 - Expense controls
- Gradual and careful expansion of new business
- Conservative investment strategy

Diversity

- Focus on niche insurance markets where competition is limited
- Write business across Canada and the United States
- Diversify by product line

This strategy has enabled the Company to grow at a much faster rate than the North American property and casualty insurance industry. At the same time, the Company has outperformed the underwriting profitability of the industry by a wide margin in each of the past eleven years.

Kingsway General

York Fire

Jevco

Universal Casualty

Southern United

American Service

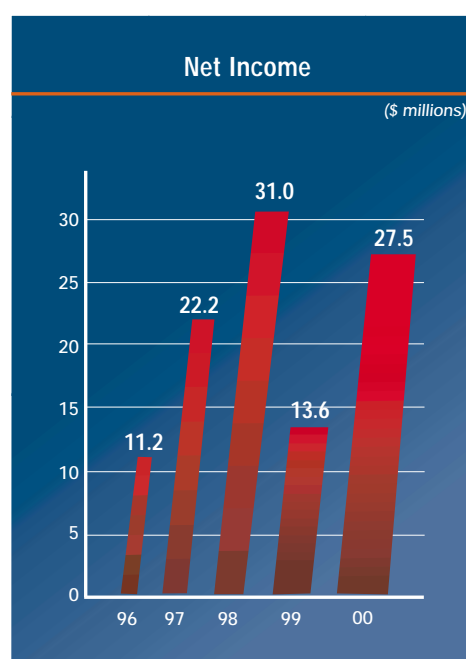
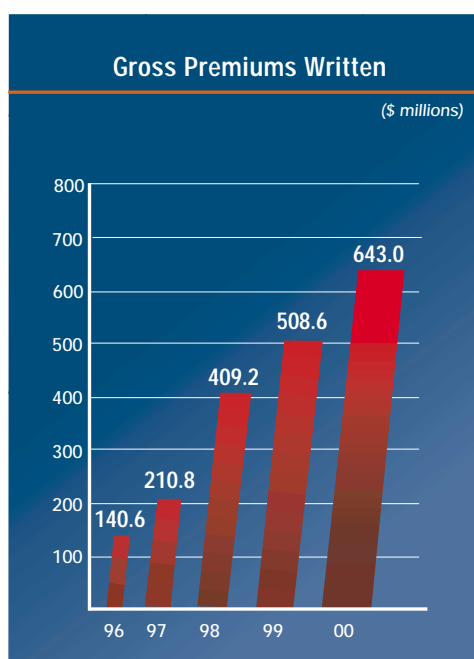
Walshire

Hamilton

Avalon

Operating Highlights

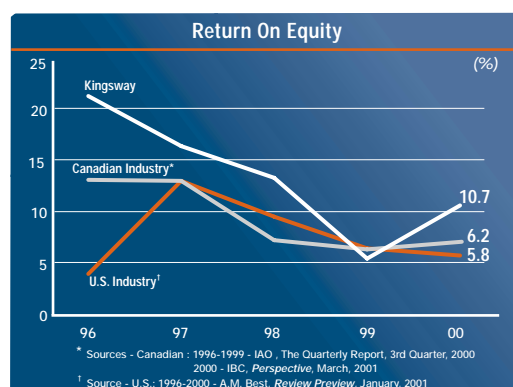
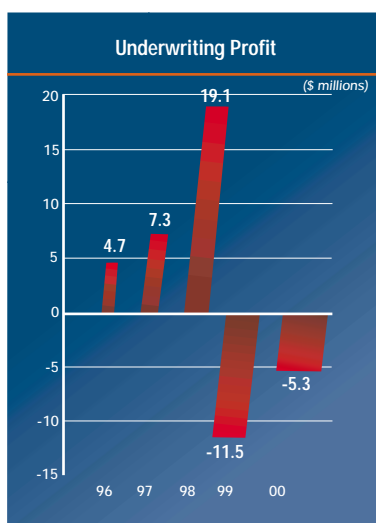
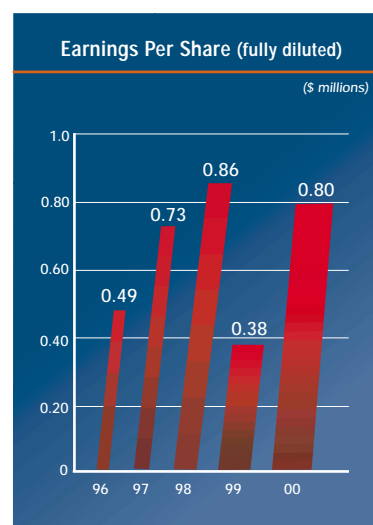
- Posted record gross premiums written of \$643.0 million, an increase of 26%, as a result of internal growth
- Premiums grew by 24% in Canada and 29% in the United States
- Net income and earnings per share doubled from previous year
- Improved underwriting profitability and again outperformed industry by a wide margin
- Return on equity of 10.7%
- Investment and premium finance income increased 18% to \$44.6 million
- Book value per share increased by 13% to \$8.01
- Unearned premiums increased 39% to \$268.2 million
- Positive cash flow from operations increased investment portfolio by 14% to \$787.5 million
- Broadened U.S. geographic presence – now licenced in 46 states
- Maintained superior ratings. Kingsway and its Canadian group members rated “A” Excellent by A.M. Best in recognition of financial stability and strength. Kingsway is rated ‘BBB-’ (investment grade) by Standard & Poor’s



Financial Highlights

Years ended December 31

(In thousands of dollars, except per share amounts)	2000	1999	Percentage change
Gross Premiums Written	\$ 643,022	\$ 508,595	26%
Net Premiums Earned	539,969	445,557	21%
Net Income Before Goodwill	32,939	18,629	77%
Net Income	27,470	13,598	102%
Earnings Per Share Before Goodwill			
Fully Diluted	\$ 0.96	\$ 0.52	85%
Earnings Per Share			
Fully Diluted	\$ 0.80	\$ 0.38	111%
Book Value Per Share	\$ 8.01	\$ 7.12	13%
Return on Equity - Consolidated			
Canadian Operations	10.7%	5.5%	
Industry - Canada†	15.0%	3.3%	
U.S. Operations	6.2%	6.4%	
Industry - U.S.††	5.2%	7.2%	
Combined Ratio - Consolidated			
Canadian Operations	101.0%	102.6%	
Industry - Canada†	101.8%	104.8%	
U.S. Operations	108.3%	106.6%	
Industry - U.S.††	100.9%	100.6%	
Total Assets	\$ 1,173,926	\$ 1,071,710	
Underwriting Loss	\$ (5,280)	\$ (11,458)	
Shares Outstanding - year end	34,056,597	34,010,068	



†Source: 2000 - IBC, *Perspective*, March, 2001
1999 - IAO, *The Quarterly Report*, 3rd Quarter, 2000

††Source: 2000 estimate & 1999, A.M. Best *Review Preview*, January, 2001

Strategy and Objectives

● Operating Strategy

Kingsway's significant growth since going public in December 1995 is a direct result of a disciplined operating strategy. This strategy incorporates the following principles:

- Focus on good risks within specialty markets where limited competition allows for a good spread of risk and above-average returns.
- Emphasize positive underwriting margins, conservative investment policies and low combined ratios to achieve above-average earnings.
- Refuse to sacrifice underwriting profitability to increase volumes.
- Terminate unprofitable business quickly.
- Selectively pursue acquisitions.

● Objectives and Accomplishments

Kingsway targets superior financial performance over a five-year rolling period.

Target 1: After-tax return on shareholders' equity of greater than 15%

- Achieved: Return on equity (ROE) averaging 13.5% over the past five years and 17.9% over the past ten years compared to the industry ROE* of 9.2% over the past five years

Target 2: Average five-year combined ratio of 96% or less

- Achieved: Average combined ratio of 97.8% for the last five years and 94.8% for the last ten years compared to the industry ratio* of 105.9% over the past five years

Target 3: Average annual increase in net premiums earned of 15%

- Achieved: Net premiums earned have grown by a compounded annual growth rate of 68% over the last five years compared to the industry's growth* of 1.5%

*Source: Canadian industry: 2000-IBC, *Perspective*, March, 2001
1996-1999-IAO, *The Quarterly Report*, 3rd Quarter, 2000

Message to Our Shareholders

When I first started Kingsway in 1986, it was often referred to as a one-man company. In fact, it was. From very humble beginnings, we have built a very large corporation that I am very proud



William G. Star
President and C.E.O.
Kingsway Financial Services Inc.

of. The real key to building the organization was bringing together a strong management team. For this reason, I felt it was appropriate to highlight our management team on the front cover. Kingsway is no longer a one-man company and has not been for several years. It is this fine management team that deserves the credit for the growth and prosperity of Kingsway. That is the basis of the 'Kingsway Difference'.

Kingsway has recovered from its difficult year, 1999, and has emerged as a much stronger company. It sometimes takes a poor year to

force everyone to re-examine the pricing and products to move the Company ahead to an even stronger position. I want to emphasize that although we considered 1999 to be a poor year, by the standards of our industry, our combined ratio of 102.6% would be considered a very good year. However, it did not meet the high standards that we have set for ourselves and we were not satisfied with our results.

The Kingsway Difference starts with a strong dedicated management team. This team follows the strategy that we have developed from the beginning, that is, to focus on niche markets that will produce an underwriting profit. The underwriting profit is based on disciplined pricing and stringent claims handling along with tight expense controls. When this strategy is followed, an underwriting profit will result. The underwriting profit along with conservative investment policies should produce consistent profits going forward and an excellent return for our shareholders.

*The Kingsway
Difference starts
with a strong
dedicated
management
team.*

Message to Our Shareholders

Years 1996 through 1999 were growth years based on acquisitions. We are very pleased that the growth during year 2000 was totally internal growth. This means that the growth of approximately \$134 million or 26% during the year came about from the classes of business which we are familiar with and were priced properly. We were able to grow business at realistic prices because competition, that previously was underpriced to gain volume, withdrew or raised prices. The insurance business has always been a cyclical business and fortunately we are experiencing a period of time in which growth will likely be steady for the next few years with very limited competition.

Part of Kingsway's success has resulted from waiting for the right opportunity. Although we grew during 1999 and prior, the growth was largely due to acquisitions. Considering the cyclical nature of the insurance business, we recognized the need to diversify both through products and geographically. This past year was the climate we have waited for when insurers and reinsurers have been hurt through inadequate pricing and are forced to cut back on their writings. Now we can enjoy the benefit of our growth strategy and increase premium income at adequate rates.

The previous year, 1999, was also an unusual year in that we faced severe competition during the first half of the year. The majority of our internal growth came towards the end of the year and as a result did not allow sufficient time for premiums written during 1999 to be earned during that year. As a result, year 2000 has seen the benefit of the increase in unearned premiums during 1999 along with the continual growth of business. By the end of the year 2000, unearned premiums had increased by 39% or \$75 million, which means that in the year 2001 we will enjoy the benefit of our efforts in 2000. Although many insurance companies are still suffering from the effect of inadequate past pricing, we believe that Kingsway will enjoy the benefit of having priced our products properly and be in a position to continue growth in many of our selected fields.

*...Kingsway's success
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waiting for the right
opportunity.*

● Review of Operations

Our **Canadian** operations performed extremely well during this past year. **Kingsway General**, under the direction of Steve Smith, was by far the leader in growth, however, because of the substantial increase in written premiums, the benefit was not totally seen in earned premiums during 2000. Commercial automobile business did not perform well in 1999, however, substantial price increases were effected in 2000 on the continuing classes of business. The entire commercial portfolio was re-underwritten and the results should be evident in 2001.

The primary focus continues to be on non-standard automobile. In both of our major markets, Ontario and Alberta, approval was obtained for rate increases late in the year. This increase will also be of benefit in 2001. We expect the earnings from Kingsway General to be substantial in the coming year, as premiums are earned during 2001, and with continued growth in written premiums.



Kingsway General

Message to Our Shareholders

In 2000, **York Fire & Casualty** did not perform as well as in the past because of substantial competition in standard lines of automobile and property insurance. York Fire also experienced some regulatory delays in obtaining rate increases for its automobile product but in September it did receive a premium increase of 10% and introduced a better form of assessing rates on certain vehicles. This system which is more commonly used now by companies is referred to as the CLEAR Rating System and develops a rate based on the claims probability of the automobile rather than just its value. We believe this new rating method, combined with a premium increase, will bring the company back to its normal profitability.



Eileen Lascelles, the General Manager, is concentrating on production in the more profitable rural areas of Ontario and dropping some brokers with higher loss ratios in urban communities. Although this change may result in lower premiums written, profitability should return.

Jevco Insurance Company has continued to perform very well and plans to introduce a number of new product lines in addition to its core business of insuring motorcycles. The surety business written by Jevco has increased this year and has been very profitable. Jacques Muir has strengthened the management team to expand more into commercial lines and take advantage of the sizeable brokerage force in the Province of Quebec.



Although Kingsway General has been actively providing non-standard automobile in Quebec for a number of years, it has not obtained the penetration of business in this province that it should enjoy. Jevco introduced a non-standard automobile program also and with the acquisition of the underwriting manager from one of the major competitors, expects to obtain a large share of the Quebec market.

Jim Thorndycraft has worked closely with our various Canadian managers, particularly in the area of budgeting and profit analysis. By working along with Jim Zuhlke, a better performance-based compensation plan has been developed for our key people in Canada and the United States. The bonus plan is based on a formula which considers both the combined ratio of the individual companies and the return on equity of Kingsway Financial. This bonus plan rewards senior people for their individual results and ties in with the overall return we provide for our shareholders.

Jevco Insurance

*Company has continued
to perform very well...*

Message to Our Shareholders

In the **United States**, our companies have continued to produce underwriting results which are much better than the overall insurance industry. Jim Zuhlke, President of Kingsway America, continually reviews the operations of the U.S. companies, providing guidance on the tax and financial reporting, strategic planning, budgeting, health and retirement plans. Regulatory compliance is extremely important in the U.S. and is an area Jim and his staff watch carefully. Certain companies such as Universal Casualty and American Service have excelled in their performance. Growth has been minimal in both of these companies as opportunities are somewhat limited in the Chicago non-standard automobile market and competition remains keen in this profitable market. However, since they are both profitable companies, we hesitate to change a winning formula, preferring to grow slowly but profitably. Each of the companies has experienced slow expansion into other product lines and territories but we do not intend to distract from their main profit source, non-standard automobile insurance in Chicago.

Universal Casualty introduced a motorcycle program in Illinois with moderate success. Its initial rates were intentionally higher than the competition to determine what the market will bear. Rates are now under review with the intention of increasing market share but maintaining an underwriting profit. They are also expanding the non-standard automobile market into the rural areas of Illinois. We can always count on Marshall Romanz to be cautious and continue to produce an underwriting profit.

John Clark has made a remarkable difference since he took charge of **American Service**. The loss ratio dropped by 10% during 2000, while moderate growth continued. American Service is writing a small amount of non-standard automobile business in Missouri and Indiana and intends to expand into additional states. Its taxi business and other commercial lines have also remained profitable and increased at a reasonable rate during the year.

Gary Orndorff has strengthened the staff of the **Walshire Group** and has made a considerable improvement in the loss and combined ratios. By concentrating on settling old claims and increasing rates, we are seeing dramatic improvement.

Walshire has shown great potential in its core line of business, long-haul trucking, and rates were increased substantially in 2000. In addition, through its extensive state licences, it has expanded into the non-standard automobile business in a number of states and will continue to look for more opportunities during the next few years. We have created new positions for district managers and moved Richard Murray from Southern United to expand **Lincoln General** into the southeastern part of the United States. This is an area that he is very familiar with and we felt it was better to utilize his experience to expand into new territories. The other district manager, Roger Beck, operates out of the Kingsway America office in Schaumburg,

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Universal Casualty



American Service



Walshire

Message to Our Shareholders

Illinois to expand Lincoln General into the states adjacent to Illinois. Roger came to our group with several years of experience in that particular area and is well experienced in non-standard automobile insurance. Lincoln General has acquired licences in several new states during the past year and is now licenced in 45 states, making it well prepared for expansion during the next several years.

Southern United has also improved substantially since Craig Lochner moved from American Service to Southern United to control its operations. We are especially impressed with the improvement of the combined ratio at Southern United.

For several years, Southern United has been one of the leading providers of non-standard automobile insurance in Alabama. Although it lost some of its volume in recent years, business is returning since the introduction of compulsory automobile insurance in June. Mississippi has also made automobile insurance mandatory as of January, 2001 and we expect to see profitable growth in that area also. Texas has become its biggest state since many of the underpricing companies have withdrawn and others have introduced price increases. Written premiums have grown by 78% to \$89 million from \$50 million in 1999.

American Service, Walshire and Southern United are examples of how companies can be improved with the change of management and enforcing the Kingsway style of business. We changed York Fire and Jevco from companies that were operating at a loss to profitable companies and are proving that the same can be accomplished in the United States. I believe our ability to improve the underwriting profitability of acquired subsidiaries, and also to profitably grow their business is what distinguishes us from other consolidators in our industry. This is the 'Kingsway Difference'.

The Hamilton Group in Florida has still not performed up to the Kingsway standard. Recently, changes were made in management and we now have a strong, experienced management team headed by Kevin Walton to work with Roberto Espin to bring this company up to the standard of profitability that we would expect. Kevin was formerly with a reinsurance management company in Barbados and a Director of Kingsway Reinsurance Corporation in Barbados. We believe that as a result of our strengthening of the management team that the performance of this company will improve substantially during 2001.



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Hamilton

Message to Our Shareholders

Avalon Risk Management, our agency division, has continued to grow during the past year. In the three years since it was founded under Gary Bhojwani's leadership, it has become a leading provider of customs bonds and importer bonds in the United States. Although there is still considerable competition in this class of business it has managed to secure the accounts of many of the major customs brokers and freight forwarders. Management is now concentrating on the expansion of classes to include more of the traditional lines of property and casualty insurance for clients, including automobile and truck fleets.



Avalon

● Outlook

The new millennium was a turning point for Kingsway in that we started to concentrate on the internal growth of the group and to improve the strength of the management team in each company. Along with the increase in rates we are enjoying, we are also experiencing reduced competition in almost every area. We believe these two factors will lead towards better profits during the next several years.

In addition to the improvement made in the management team, we are also working towards upgrading our computer systems. For several years we have worked on the development of a new system for our insurance companies in Canada. This system was introduced successfully in both York Fire and Kingsway General and will provide a base for the development of new products and expanded systems. We expect to introduce an imaging system during 2001 to provide immediate access to all files and reduce the cost of file storage. We also intend to work towards a point-of-sale system to make our products readily available through our broker network, allowing them direct access to the system and the production of policies in their office. All of these steps will move Kingsway ahead of many other companies and provide tremendous operating efficiencies and cost savings.

In the United States, we are also working on the update of systems. Peggy Klein who has been responsible for the systems at American Service has been assigned the task of putting together a team to create one unified system among our five U.S. companies. After an extensive review of systems, it was determined that the system used at Southern United was the best of the five companies. We are presently working towards converting all of the U.S. companies to a more modern system based on the Southern United system. Since this is an existing proven system, it will substantially reduce the cost for the Kingsway group in converting to some of the latest technology and eliminating obsolete equipment.

With the strengthening of management teams, the better insurance environment and the improvement in systems we believe the Kingsway group is moving in the right direction to compete effectively during this decade of change.

*The Kingsway group
is moving in the right
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Message to Our Shareholders

● Acknowledgements

We are thankful to our entire staff for the dedication put forward during the past year of substantial growth and change we have experienced. Our management group and employees have together continued to outperform the industry and have again proven they are an outstanding team of dedicated, experienced individuals.

Our directors also have provided support and guidance to our management team for which we are grateful. These individuals offer an enormous amount of experience and provide an excellent cross-section of knowledge and guidance, both in the insurance field and in the investment area.

Lastly, I would be remiss if I did not mention Shaun Jackson who works closely with me on most of the special projects. Shaun also spends a great deal of time updating analysts and shareholders on our progress. We both attend a number of investor luncheons and arrange meetings with numerous investors during the year. It is important to spread the Kingsway story.

In closing, my thanks to all and a reminder, that Kingsway is no longer a one-man company but a group of experienced and dedicated insurance professionals who will continue to move this Company ahead in the coming years.



William G. Star
President and Chief Executive Officer
February 22, 2001

*Our management group
and employees are an
outstanding team of
dedicated, experienced
individuals.*

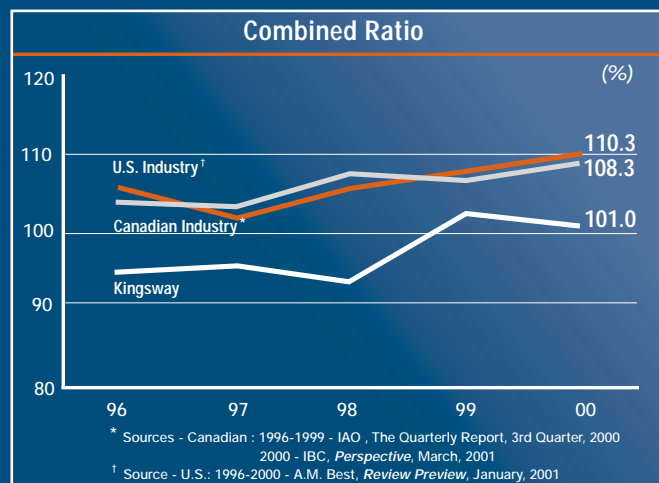
Management's Discussion and Analysis

The following management's discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto which are included in this annual report.

Overview

Kingsway uses the loss ratio, the expense ratio and the combined ratio as measures of its performance. The loss ratio is derived as the amount of claims incurred divided by net premiums earned. The expense ratio is derived by dividing the sum of commissions and premium taxes and general and administrative expenses by net premiums earned. The combined ratio is the sum of the loss ratio and the expense ratio. A combined ratio below 100% demonstrates underwriting profit whereas a combined ratio over 100% demonstrates an underwriting loss.

A major part of the operating discipline of a successful property and casualty insurance company is to produce an underwriting profit. However, most companies in Canada and the U.S. do not achieve an underwriting profit because the premiums charged are inadequate to pay for the losses and expenses. Therefore, investment income must be used to cover underwriting losses.

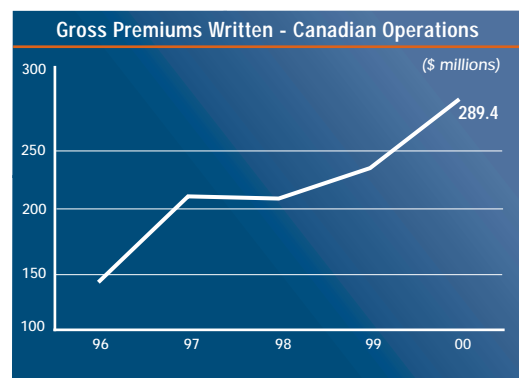


Kingsway believes that the underwriting profit is the true measure of the performance of the core business of a property and casualty insurance company. Over the last five years the Company's combined ratio has averaged 97.8%, which compares favourably with the Canadian and U.S. industry* ratios of 105.9% and 106.2%, respectively. The Company has reported an underwriting profit in nine of the last eleven years, and a small underwriting loss in the other two years.

*Source: Canadian industry statistics from IAO, The Quarterly Report, 3rd Quarter, 2000
U.S. industry statistics from A.M. Best, Review Preview, January, 2001

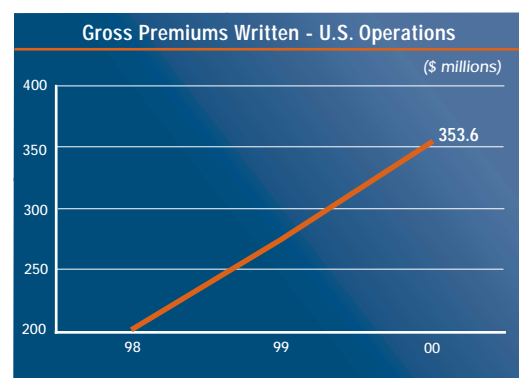
Management's Discussion and Analysis

Kingsway follows a disciplined approach by refusing to sacrifice underwriting profitability in order to increase premium revenue, and will not knowingly price business to produce an underwriting loss. Kingsway does not seek premium growth where rates do not adequately reflect its assessment of the risk exposures. Kingsway views its expertise to be in its underwriting operations and employs outside investment experts to manage its investment operations. The Company believes that property and casualty insurance is an excellent business which will produce outstanding returns for shareholders when this disciplined strategy is followed.



The Year 2000 was a year in which the Company reported substantial increases in premiums written. This was achieved by taking advantage of opportunities to increase volume of business and also prices charged. Both Canadian and U.S. operations experienced significant growth in written premiums during 2000; however by the year-end, much of this written premium growth had not yet been reflected in the earned premium. The Company obtained regulatory approvals to increase rates in several markets in the latter part of the year, and therefore the full benefit of the increases in prices and volumes will not be reflected until 2001.

The Year 2000 was a year in which the combined ratios of the insurance industry, in both Canada and the United States, deteriorated compared to previous years. As a result of increased combined ratios, larger underwriting losses and declining investment returns, market conditions started to change towards the end of 2000. Much needed rate increases are now more prevalent for insurers. Reinsurers are also increasing rates due to their poor results in both North America and Europe. The general consensus is that, at least through 2001 and into early 2002, price increases will continue in most markets. As there is a time lag between the implementation of a rate increase and the recognition of earned premium, it is expected that industry results will not show improvement until late 2001.



Management's Discussion and Analysis

Comparison of Operating Results and Financial Position for the Years Ended December 31, 2000 and 1999

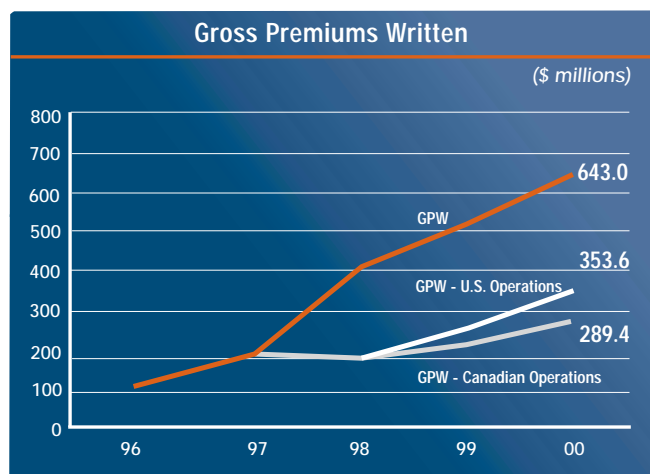
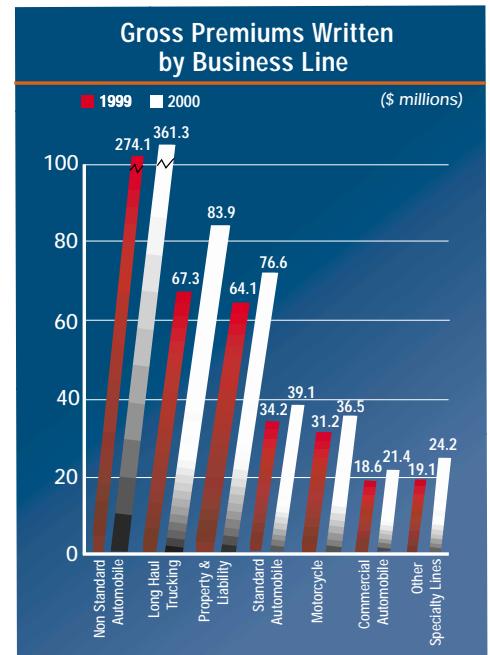
● Revenues

Gross Premiums Written

Gross premiums written increased by 26% to record levels, from \$508.6 million in 1999 to \$643.0 million in 2000. Gross premiums written from the Company's Canadian operations increased by 24% to \$289.4 million compared with \$234.3 million in 1999. Gross premiums written by U.S. operations increased by 29% to \$353.6 million compared with \$274.3 million in 1999. Unearned premiums increased by 39% to \$268.2 million at the end of 2000 from \$193.4 million at the beginning of the year.

Non-standard automobile insurance continues to be the main product of the group and premiums increased by 32% to \$361.3 million from \$274.1 million in 1999. Kingsway is the largest provider of non-standard automobile insurance in Canada, where premiums grew by 40%. Premiums also grew by 29% for the Company's U.S. operations in 2000 and they now represent 56% of the Company's total business.

Premiums from long-haul trucking insurance increased by 25% to \$83.9 million, and premiums from taxis and other commercial automobiles increased by 15% to \$21.4 million, compared with \$18.6 million in 1999. These increases result primarily from the rate increases that were implemented during the year.



Management's Discussion and Analysis

Kingsway is the largest provider of motorcycle insurance in Canada, and this line continues to be very important for the Company, producing 6% of the total gross premiums written in 2000. Premiums from this line increased 17% to \$36.5 million compared to \$31.2 million in 1999.

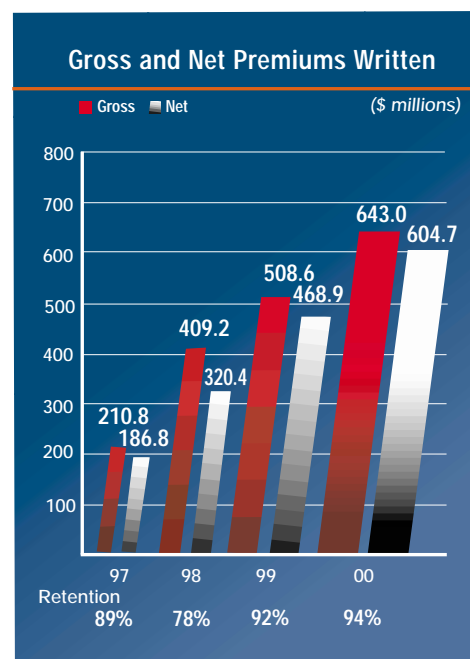
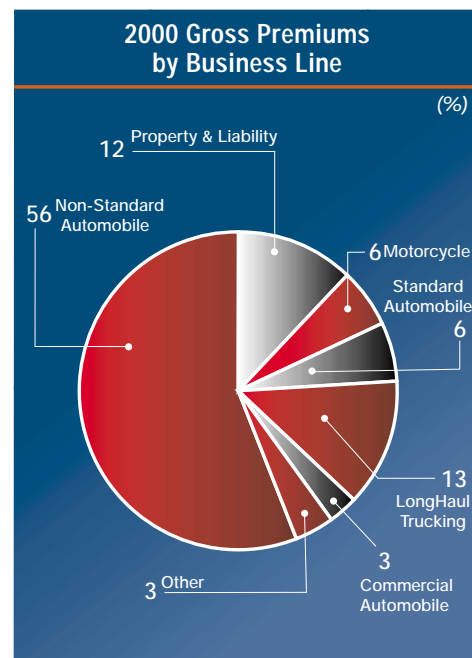
The Company has grown substantially over the last five years, and gross written premiums have grown at a compounded annual growth rate (CAGR) of 66%. As a result of diversification both by line of business and by geographic location, the Company has achieved significant growth. Diversification is very important for Kingsway as its strategy can lead to declines in volume in certain markets when competitors are willing to accept business at inadequate rates and to increases in volume in other markets as prices increase.

Net Premiums Written

Net premiums written represent gross premiums written less amounts ceded to reinsurers. Because of the strong capitalization of the group of companies and management's philosophy to properly price the business, the Company purchases reinsurance to limit its exposure to larger and catastrophic type losses.

The Company's reinsurance arrangements allow it to retain most of its written premiums for its own account while minimizing claims exposure. During 2000, the Company purchased reinsurance to limit 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. For most of the non-standard automobile business that Kingsway writes in the United States the liability is limited to the minimum statutory liability limits, which are typically less than U.S. \$40,000 per occurrence. The Company had protection against catastrophic losses for 2000 of up to \$25 million in Canada, and U.S. \$7.5 million in the United States. These retentions are small relative to industry averages and the Company's statutory surplus.

Net premiums written increased by 29% to \$604.7 million from \$468.9 million in 1999. In 2000, net premiums written in Canada increased 24% to \$272 million from \$219 million, and by 33% in the U.S. operations to \$332.7 million from \$249.9 million. This significant growth resulted from the increase in gross premiums written and the increased retention of business. In 2000 the Company retained 94% of premiums written compared with 92% in 1999 due to the termination of quota-share reinsurance treaties previously in force at the subsidiaries acquired in the United States.



Management's Discussion and Analysis

Net Premiums Earned

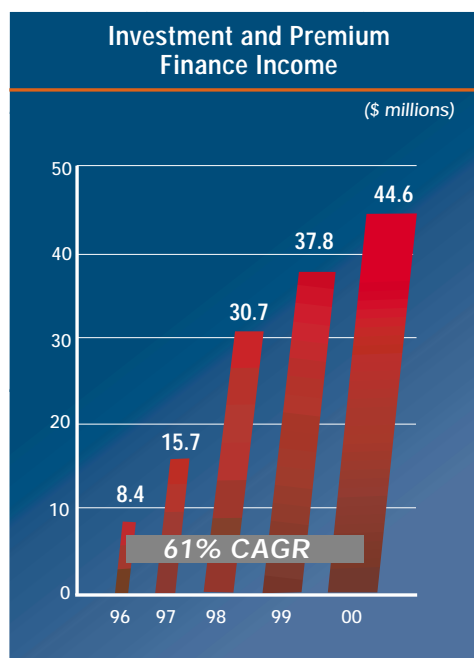
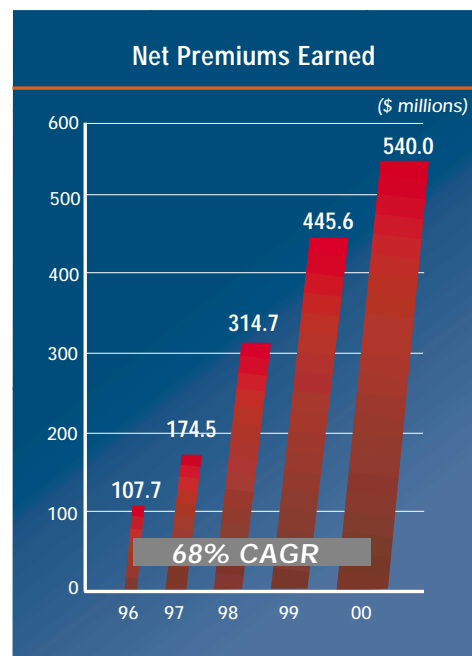
Net premiums earned were \$540.0 million, an increase of 21% over the \$445.6 million earned in 1999, with a five-year CAGR of 68%.

Net premiums earned from Canadian operations were \$251.9 million, an increase of 21% and from U.S. operations were \$288.1 million, an increase of 21%.

Investment and Premium Finance Income

Insurance companies have access to a 'float' of investable funds because of the time lag between the collection of premiums and the payment of losses related to the earning of those premiums. The Company's growth and focus on underwriting profit continues to provide access to a substantial 'float' which is available to invest. When the Company produces an underwriting profit, these funds have no cost. Most insurance companies produce an underwriting loss wherein their float has actually been acquired at a cost (i.e. their underwriting loss).

The Company provides the option of monthly 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 installments.



Because premiums for non-standard automobile insurance are generally much higher than for standard risks, a substantial portion of Kingsway's 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 18% in 2000 to \$44.6 million compared with \$37.8 million in 1999, with a five-year CAGR of 61%.

As a result of the positive cash flow from operations, the investment portfolio increased by \$94.5 million or 14% to \$787.5 million.

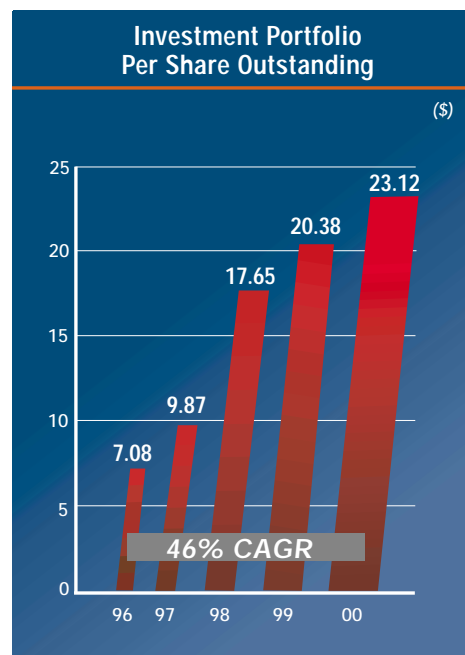
Management's Discussion and Analysis

The Company's investment portfolio and financed premiums receivable represented \$23.12 for each share outstanding at December 31, 2000, compared with \$20.38 for each share at the end of 1999 and a five year CAGR of 46%.

Due to the strong performance from its value-oriented equity portfolio, the Company was able to realize net gains on sales of investments of \$10.4 million, as well as significantly improving the market value of the portfolio. At December 31, 2000 the carrying value of the investment portfolio was approximately \$0.4 million higher (1999 - \$24.5 million higher) than the fair value of the portfolio based on prevailing market prices.

The following table shows the investment yield that the portfolio has provided over the last 5 years:

<i>(in \$000's)</i>	2000	1999	1998	1997	1996
Total realized return	55,020	38,748	37,599	21,836	11,049
Change in unrealized gains/(losses)	26,098	(23,743)	(2,108)	(3,939)	2,771
Total return	81,116	15,005	35,491	17,897	13,820
Total return yield (%)	11.1%	2.2%	7.5%	6.7%	10.4%
Total realized return (%)	7.5%	5.6%	8.0%	8.2%	8.3%



The Investment Committee of the Board comprises individuals with extensive knowledge 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 our shareholders. The Company's approach is to appoint external investment professionals to manage the portfolio, leaving operational management to focus on underwriting performance. We are satisfied with the performance from our external managers in 2000 despite difficult market conditions.

The Company, through the recommendations of the Investment Committee of the Board of Directors, has engaged the external expertise of Conning Asset Management, Burgundy Asset Management, Deans Knight and Royal Bank of Canada (Caribbean) to manage segregated portfolios of the Company's investments.

Management's Discussion and Analysis

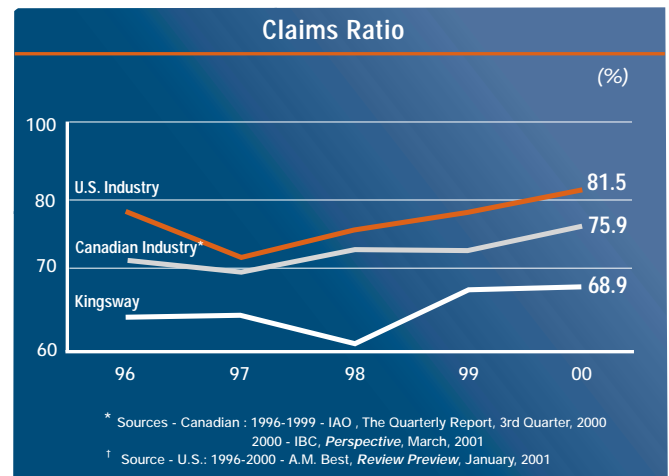
Expenses

Claims Incurred and Unpaid Claims

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.

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, perhaps substantially, from the best estimate made 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 (reserve redundancy) means that the original claim estimates were higher than subsequently determined. Unfavourable development (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, 1990 to 1999 for Canadian operations compared to the re-estimation of those liabilities as at December 31, 2000:

(\$'000's)	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Unpaid claims- originally established-end of year	151,373	133,857	124,944	65,142	24,322	16,987	10,945	11,648	12,261	10,290
Cumulative paid as of:										
One year later	66,699	56,151	46,083	31,309	13,665	12,384	5,984	4,329	4,176	4,482
Two years later		84,468	74,479	42,108	19,404	18,633	8,032	6,615	6,589	6,824
Three years later			91,127	55,214	25,273	22,066	10,347	7,910	8,394	8,777
Four years later				60,230	31,738	25,456	11,739	9,255	9,464	10,192
Five years later					32,679	29,300	12,576	10,210	10,395	10,891
Six years later						29,051	14,259	10,517	11,193	11,301
Seven years later							14,147	11,271	11,247	11,550
Eight years later								11,190	11,233	11,928
Nine years later									11,196	11,991
Ten years later										11,888
Incurred loss as of:										
One year later	148,880	130,340	112,075	62,022	27,705	22,776	11,395	10,621	11,470	12,049
Two years later		133,946	114,922	65,122	27,467	25,628	12,187	10,290	11,050	11,500
Three years later			117,759	66,368	31,707	25,580	12,256	10,550	10,808	11,541
Four years later				66,508	32,254	27,589	12,164	10,167	11,001	11,475
Five years later					32,745	28,243	13,004	9,999	10,805	11,817
Six years later						28,225	13,310	10,245	10,883	11,525
Seven years later							13,219	10,505	10,952	11,671
Eight years later								10,349	10,978	11,691
Nine years later									11,007	11,612
Ten years later										11,579
As at December 31, 2000										
Cumulative (redundancy) deficiency	(2,493)	89	(7,185)	1,366	8,423	11,238	2,274	(1,299)	(1,254)	1,289
Cumulative (redundancy) deficiency as a % of reserves originally established	(1.65%)	0.07%	(5.75%)	2.10%	34.63%	66.16%	20.78%	(11.15%)	(10.23%)	12.53%

For the last four fiscal years, the Company's Canadian operations have reported a reserve redundancy based on claims experience in the subsequent year. For the year ended December 31, 2000, the reserve redundancy on the reserves established at December 31, 1999 amounted to \$2.5 million which is approximately 2% of the net unpaid claims as of that date. Similar to many companies in the Canadian property and casualty insurance industry, Kingsway experienced reserve

Management's Discussion and Analysis

deficiencies on accident years 1993 and 1994 as a result of the automobile legislation in force during those years under Bill 164 in Ontario. As a result of late reported claims and the difficulty in estimating claims under Bill 164, the reserves set as of the end of fiscal years 1993, 1994 and 1995 showed reserve deficiencies. These deficiencies were recognized in subsequent periods and are reflected in the above table. This Ontario legislation was repealed and replaced by Bill 59 on November 1, 1996 which eliminated many of the problems experienced under Bill 164.

The following table illustrates the unpaid claims provisions for the U.S. operations, which have reported a reserve redundancy in each year since acquired:

(in U.S. dollars)		
(\$'000's)	1999	1998
Unpaid claims		
originally established - end of year	117,249	115,881
Cumulative paid as of:		
One year later	55,271	54,988
Two years later		85,866
Incurred loss as of:		
One year later	116,647	113,959
Two years later		113,730
As at December 31, 2000		
Cumulative (redundancy) deficiency	(602)	(2,151)
Cumulative (redundancy) deficiency		
as a % of reserves originally established	(0.51%)	(1.86%)

The loss ratio for the year ended December 31, 2000 was 68.9% compared with 68.4% for 1999. The claims ratio for the Canadian operations was 70.1% which continued to outperform the Canadian industry ratio* of 75.9% for the tenth consecutive year. The claims ratio for the U.S. operations was 67.8% compared to the U.S. industry* of 81.5%. In fact, the margin between Kingsway's and the industry's claims ratio continued to widen in 2000 as many companies were affected by inadequate pricing of their risks.

*Source: Canadian industry statistics from IBC, *Perspective*, March, 2001
U.S. industry statistics from A.M. Best, *Review Preview*, January, 2001

Management's Discussion and Analysis

Underwriting Expenses

The Company's expense ratio continues to be below industry levels. The expense ratio for 2000 decreased to 32.1%, compared with 34.2% in 1999. The decrease is mainly attributable to general and administrative expenses which were 12.4% of premiums earned compared with 13.8% in 1999. The general and administrative expenses were lower as a percentage of net premiums earned due to increased premium levels.

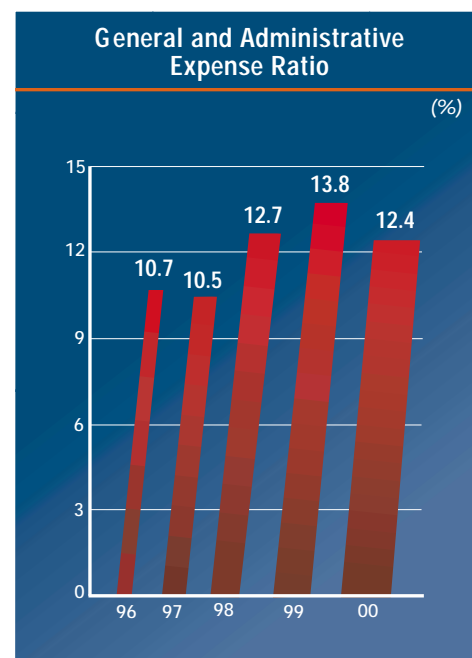
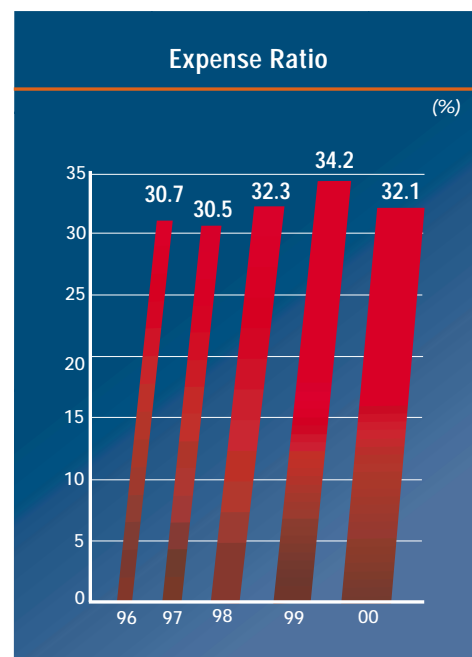
Commissions and premium taxes were 19.7% of earned premiums compared with 20.4% in 1999. For the Canadian operations, commissions and premium taxes represented 21.3% (1999 – 20.2%) and in the U.S. were 18.3% (1999 – 20.5%) of earned premiums.

General and administrative expenses for the Canadian operations were 10.4% of net premiums earned which is an improvement over the 11.3% in 1999. For the U.S. operations, general and administrative expenses were 14.8% of net premiums earned, again an improvement over the 16.0% in 1999.

Unlike many insurance companies which defer internal costs of writing business, the Company defers only broker commissions and premium taxes related to unearned premiums. Due to the anticipated growth in earned premiums in 2001, the general expense ratio should continue to improve.

Interest Expense

In 1999, the Company entered into a five year banking facility under which it borrowed U.S. \$100 million from a syndicate of four banks. At the time of entering into the facility, the Company purchased interest rate swap instruments which fixed the interest rate on the facility at 5.91%. The Company also pays an interest rate spread, currently 1.5%, based on its credit rating, which is currently 'BBB-' (Investment Grade) from Standard & Poor's.



Management's Discussion and Analysis

Net Income Before Goodwill Amortization

Net income before goodwill increased by 77% to \$32.9 million compared with \$18.6 million in 1999.

When Kingsway buys a business, it is usually a thinly capitalized company, and consequently the consideration paid is at a premium over the generally accepted accounting principles (GAAP) net worth. The premium 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 a 15 year amortization period. The acquisitions in Canada and the U.S. have required that goodwill amortization of approximately \$6.2 million be charged against earnings in 2000 under GAAP.

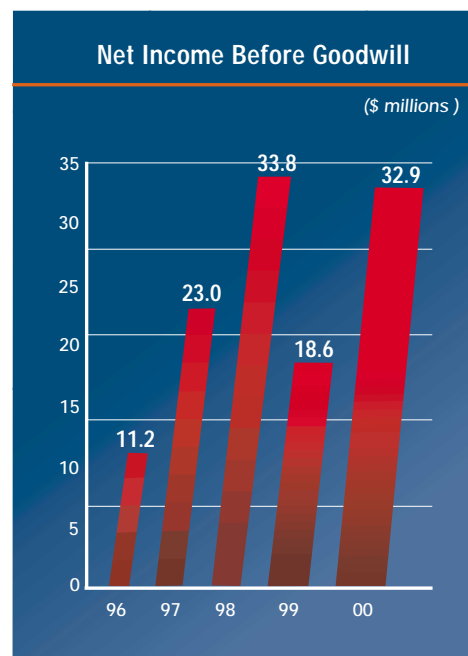
It is also worthy of note that one of the most valuable assets in the group, Kingsway General, is carried in the financial statements without any goodwill attributed to it. Throughout the Company's history of growth, Kingsway General has been the most profitable company in the group showing substantial organic growth. In 2000, gross premiums written were \$203.3 million, an increase of 27% over 1999. This represents a substantial asset which is not reflected in the financial statements.

Though current accounting standards require that acquisition goodwill be amortized and written off, management believes that the economic value of the businesses that have been acquired has increased.

Net Income and Earnings Per Share

Net income doubled to \$27.4 million compared with \$13.6 million in 1999.

Earnings per share (basic) more than doubled to 81 cents on 33,985,000 shares compared with 38 cents on 35,595,000 shares in 1999. Fully diluted earnings per share improved substantially to 80 cents on 34,340,000 shares compared with 38 cents on 35,716,000 shares in 1999. Earnings per share before goodwill increased substantially to 97 cents (basic) and 96 cents (fully diluted) compared with 52 cents (basic and fully diluted) in 1999.



● Financial Position

Capital Resources

As a result of the Company's continued profitability, shareholders' equity increased by 13% to \$272.7 million at December 31, 2000 compared with \$242.1 million at

Management's Discussion and Analysis

December 31, 1999. Book value per share outstanding was \$8.01 at December 31, 2000, an increase of 89 cents or 13% compared to the \$7.12 per share at December 31, 1999. Since the Company's initial public offering in December 1995, the book value per share has grown at a CAGR of 37%.

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 it to further increase premium volumes. The Company has a targeted average return on equity of 15% or more over time, and its average return on equity for the past 10 fiscal years has been 17.9%. The Company believes this strategy is of long-term benefit to shareholders.

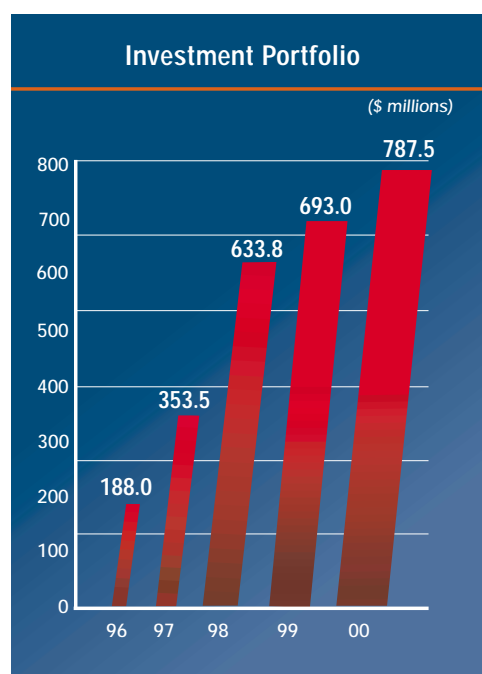
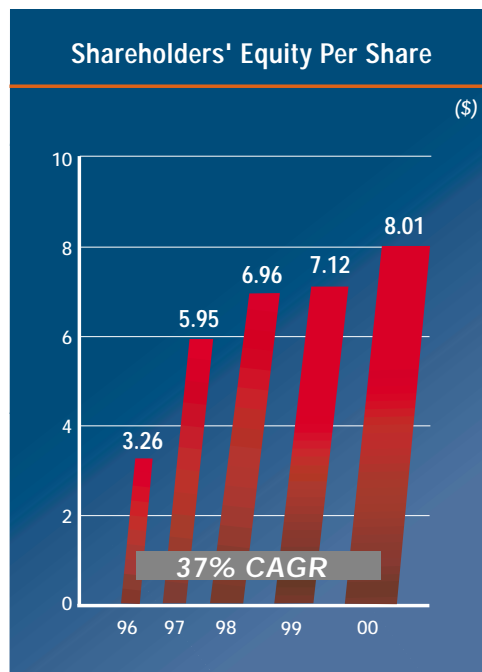
Kingsway has a rating of 'BBB-' from Standard & Poor's, a primary rating agency for debt in North America. Kingsway Financial and its Canadian subsidiaries, Kingsway General, York Fire and Jevco, as well as Kingsway Reinsurance (Bermuda) Ltd. are all rated "A" excellent and Lincoln General "A-" excellent by A.M. Best, the primary rating agency for insurance companies.

Liquidity

If assets and the income therefrom are insufficient to pay claims and expenses over extended periods, an insurance company cannot survive. 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. As long as the Company continues to grow and remains profitable, the float grows and continues to be available to invest.

As at December 31, 2000, the Company's investment portfolio, including premium finance receivables, amounted to \$787.5 million, an increase of \$94.5 million or 13% from the beginning of the year. The portfolio comprised primarily of short term



Management's Discussion and Analysis

securities including treasury bills, bankers acceptances, government bonds and corporate bonds (the majority of which are rated 'A' or higher).

● Risks and Uncertainties

Unpaid Claims Liabilities

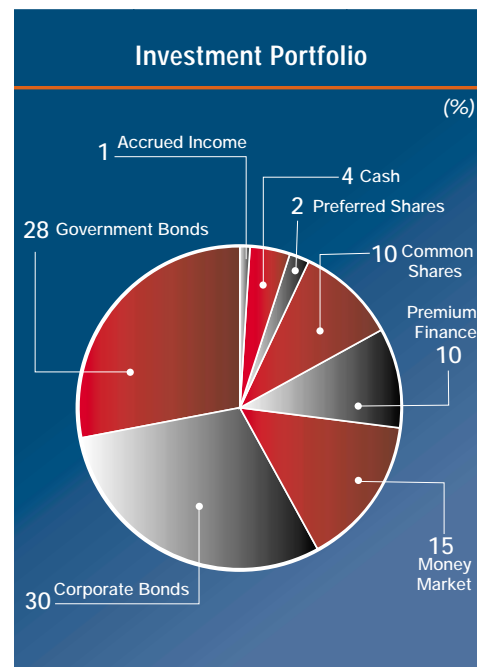
The Company maintains provisions to provide for its estimated ultimate liability for unpaid claims liabilities. These provisions do not represent an exact calculation of liability, but are estimates involving actuarial and statistical projections at a given point in time of what the Company expects to 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, without reflecting the time value of money.

As time passes, more information about the claims becomes known and the estimates are appropriately adjusted upward or downward to reflect this additional knowledge. Because of the elements of uncertainty encompassed 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.

Although the Company's management believes its overall provision levels to be adequate to satisfy its obligations under existing policies, actual losses may deviate, perhaps substantially, from the amounts reflected in the Company's financial statements. To the extent these provisions prove to be inadequate or redundant, the Company would have to amend such provisions and reflect increases or decreases through earnings in the future periods in which they are determined. The tables on pages 19 and 20 of this MDA show the Company's historic performance in estimating its claims liabilities. Kingsway had unpaid claims provisions of \$435.3 million on the balance sheet at December 31, 2000.

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. Many competitors are willing to write premiums at inadequate rates in order to maintain or grow their volumes.



Management's Discussion and Analysis

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 and increases in volume as competitors increase rates.

When the Company identifies the need for increased pricing, there can be delays in implementing the increase due to the regulatory approval process. There is also a time lag between the implementation of the increase and the income recognition thereof due to the annual renewal terms of most of the Company's insurance policies.

Regulation

Property and casualty insurance companies are subject to regulation by government agencies. At times, governments may attempt to limit auto insurers' profits in order to become popular with voters, by either refusing necessary rate increases or by delaying the rate approval process. As in any regulated industry, 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 may fundamentally change the business environment in which the Company operates.

Regulatory requirements applying to premium rates vary by province or state, but generally provide that rates not be "excessive, inadequate or unfairly discriminatory". In general, the Company's insurance subsidiaries must file and obtain approval of rates for insurance directly underwritten with the insurance department of each province or state in which they operate.

The Company is also subject to statutes governing insurance holding companies in various jurisdictions. Typically, such statutes require the Company periodically to file information with insurance regulatory authorities, including information concerning its capital structure, ownership, financial condition and general business operations. Under the terms of applicable U.S. state statutes, any person or entity desiring to purchase more than a specified percentage (commonly 10%) of the Company's outstanding voting securities is required to obtain regulatory approval for the purchase.

Regulators may also limit the Company's access to net income and shareholders' capital of its insurance subsidiaries, without their prior approval.

Management's Discussion and Analysis

Dependence on Key Personnel

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

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. 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.

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 2000, the Company purchased protection of up to \$25 million in excess of \$1.5 million per occurrence in Canada, and up to U.S. \$7.5 million in excess of U.S. \$1 million in the United States all from highly rated reinsurers.

Kingsway had \$112.5 million recoverable from reinsurers and other insurers at December 31, 2000. Since 1986, Employers Reinsurance Corporation, the third largest reinsurer in the world, has provided most of Kingsway's reinsurance protection.

Competition

Changes to the financial services legislation in Canada in 1992 allowed banks and trust companies to own insurance companies. Legislation, which the federal government reviews from time to time, 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. The United States is a highly competitive and fragmented market.

Management's Discussion and Analysis

Investments

The Company's investment portfolio comprises approximately \$571 million of fixed income securities of which \$209.9 million matures during 2001. Due to fluctuations in the yields on fixed income securities, the Company may face reinvestment risk as these securities mature because the funds may be reinvested at lower rates than the maturing security.

Concentration of Business

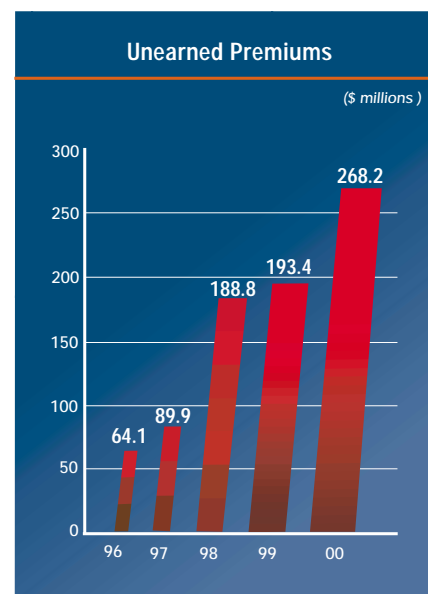
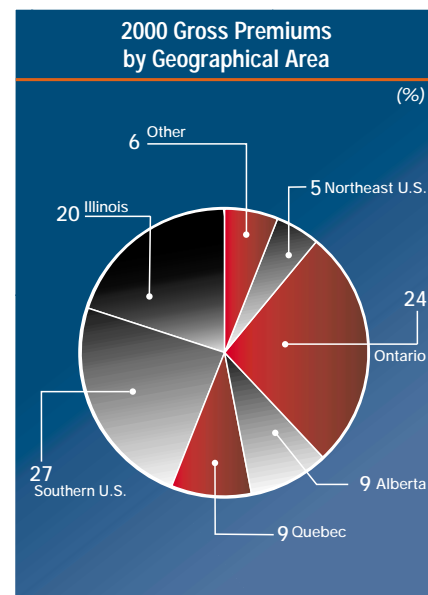
As highlighted in Note 8 to the financial statements, approximately 62% (1999 – 61%) of the Company's gross premiums written were attributable to the automobile insurance business. To the extent that this sector of the insurance business is affected adversely for any reason, the Company's operations will be disproportionately affected due to its substantial reliance on this sector. This risk is mitigated somewhat by the Company's geographic diversification as indicated in Note 8 to the financial statements.

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 opportunistic 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 which must be negotiated with possible vendors.

Outlook

Year 2000 was a year of tremendous growth for the Company when written premiums grew by \$134.4 million or 26% to \$643.0 million. However, due to the earning pattern of premiums which are earned over the duration of the underlying policies, a substantial portion of the increase in written premiums was not reflected in the year 2000 results, and will be brought into revenue in 2001. Unearned premiums increased by 39% to \$268.2 million.



Management's Discussion and Analysis

The Company sees tremendous opportunities for continuing growth as the property and casualty insurance markets appear to be entering a period of sustained rate increases. Underwriting capacity has also been withdrawn from certain business lines due to the continued deterioration in underwriting results. These positive trends present Kingsway with tremendous opportunities to continue to grow its businesses in both Canada and the United States, through its existing subsidiary companies.

During year 2000 the Company's subsidiaries were able to increase rates on many of their products, and the benefit of these higher rates will be reflected in the earned premiums in 2001. Kingsway's solid balance sheet, strong liquidity position and insurance licences in all of the provinces and territories of Canada as well as in 46 states in the U.S. should enable the Company to continue to capitalize on opportunities for organic growth during the year 2001.

Though the insurance industry in North America is very fragmented, over-capitalized and extremely competitive, it should experience much faster premium growth over the next few years. The poor underwriting results of recent years should lead to increasing premium levels. These factors could result in continuing consolidation and a contraction of underwriting capacity in certain markets. The Company believes these developments should create opportunities for growth and selective acquisitions at attractive multiples.

● Forward-Looking Statements

The Annual Report may contain forward-looking statements that involve a number of risks and uncertainties including statements regarding the outlook for the Company's business and results of operations. These statements represent the Company's intentions, plans, expectations, and beliefs, and no assurance can be given that the results described in such statements will be achieved. There are a number of factors that could cause such actual results to differ materially from those indicated. Such factors include, without limitation, the various factors set forth in the Management's Discussion and Analysis of this report under Risks and Uncertainties.

The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Management Statement on Responsibility for Financial Information

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

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

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

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

Management Statement on Responsibility for Financial Information

Role of the Actuary

With respect to the preparation of these financial statements, management prepares a valuation including the selection of appropriate assumptions of the Company's obligations at the balance sheet date under insurance policies issued by its subsidiaries. KPMG LLP carries out a review of management's valuation of the claim liabilities and provides an opinion to management regarding the appropriateness of management's valuation. The factors and techniques used in the valuation must be in accordance with accepted actuarial practice, applicable legislation and associated regulations. In performing the valuation of the liabilities for these contingent future events, which are by their very nature inherently variable, management makes assumptions as to future loss ratios, trends, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Company and the nature of the insurance policies.

The valuation is based on projections of future claims and claim adjustment expenses without adjustment for the time value of money, except as permitted by insurance regulators with respect to certain long-term liabilities. It is certain that actual future claims and claim adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, the projections make no provision for new classes or claim categories not sufficiently recognized in the claims database.

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

Role of the Auditor

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

William G. Star



President and Chief Executive Officer

February 19, 2001

W. Shaun Jackson



Executive Vice President and
Chief Financial Officer

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Kingsway Financial Services Inc. as at December 31, 2000 and December 31, 1999 and the consolidated statements of operations, retained earnings and cash flows 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 Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and December 31, 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Toronto, Canada
February 19, 2001

Appointed Actuary's Report

KPMG LLP has reviewed management's valuation, including management's selection of appropriate assumptions and methods, of the unpaid claims liabilities of the insurance and reinsurance subsidiaries of Kingsway Financial Services Inc. for its consolidated balance sheets at December 31, 2000 and 1999 and their changes in the statement of operations for the years then ended, in accordance with accepted actuarial practice.

In accepted actuarial practice, the valuation of unpaid claims liabilities reflects the time value of money. Insurance regulations in some jurisdictions require that the valuation of some unpaid claims liabilities not reflect the time value of money. The valuation complies with that directive.

In our opinion, management's valuation of the unpaid claims liabilities is appropriate except as described in the preceding paragraph and the consolidated financial statements fairly present its results.



Claudette Cantin, F.C.I.A.
February 19, 2001

Consolidated Balance Sheets

As at December 31

(In thousands of Canadian dollars)

2000

1999

Assets

Cash	\$ 29,840	\$ 12,062
Investments (note 2)	750,670	674,134
Accrued investment income	6,960	6,808
Accounts receivable and other assets	92,343	68,946
Due from reinsurers and other insurers (note 4) ..	112,510	135,526
Deferred policy acquisition costs	53,467	40,185
Income taxes recoverable	–	6,477
Future income taxes (note 5)	21,149	20,370
Capital assets	28,229	26,719
Goodwill	78,758	80,483
	<u>\$ 1,173,926</u>	<u>\$ 1,071,710</u>

Liabilities and Shareholders' Equity

Liabilities

Bank indebtedness (note 9)	\$ 143,129	\$ 153,270
Accounts payable and accrued liabilities	42,462	26,470
Income taxes payable	1,837	–
Unearned premiums (note 4)	268,208	193,375
Unpaid claims (notes 4 and 6)	435,322	444,689
Other liabilities	10,255	11,864
	<u>901,213</u>	<u>829,668</u>

Shareholders' equity

Share capital (note 3)	148,481	148,462
Currency translation adjustment	4,052	870
Retained earnings (note 10(b))	120,180	92,710
	<u>272,713</u>	<u>242,042</u>
	<u>\$ 1,173,926</u>	<u>\$ 1,071,710</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:



David H. Atkins
Director



Thomas A. Di Giacomo
Director

Consolidated Statements of Operations

Years ended December 31

(In thousands of Canadian dollars, except per share amounts)

	2000	1999
Gross premiums written	\$ 643,022	\$ 508,595
Net premiums written	\$ 604,693	\$ 468,874
Revenue:		
Net premiums earned (note 4)	\$ 539,969	\$ 445,557
Investment income	37,109	32,037
Premium finance income	7,467	5,761
Net realized gains	10,444	950
	<u>594,989</u>	<u>484,305</u>
Expenses:		
Claims incurred (notes 4 and 6)	371,946	304,541
Commissions and premium taxes (note 4)	106,378	90,844
General and administrative expenses	66,925	61,630
Interest expense	11,408	10,557
	<u>556,657</u>	<u>467,572</u>
Income before income taxes	38,332	16,733
Income taxes (note 5):		
Current	5,691	1,145
Future	(298)	(3,041)
	<u>5,393</u>	<u>(1,896)</u>
Net income before goodwill	32,939	18,629
Amortization of goodwill, net of applicable income tax	5,469	5,031
Net Income	\$ 27,470	\$ 13,598
Earnings per share before goodwill (note 3):		
Basic	\$ 0.97	\$ 0.52
Fully diluted	\$ 0.96	\$ 0.52
Earnings per share (note 3):		
Basic	\$ 0.81	\$ 0.38
Fully diluted	\$ 0.80	\$ 0.38

Consolidated Statements of Retained Earnings

Years ended December 31

(In thousands of Canadian dollars)

	2000	1999
Retained earnings, beginning of year	\$ 92,710	\$ 79,112
Net Income	27,470	13,598
Retained earnings, end of year	\$ 120,180	\$ 92,710

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

Years ended December 31
(In thousands of Canadian dollars)

2000 1999

Cash provided by (used in):

Operating activities:

Net income	\$ 27,470	\$ 13,598
Items not affecting cash:		
Amortization	10,327	8,307
Future income taxes	(276)	(1,535)
Net realized gains	(10,444)	(950)
Amortization of bond premiums and discounts	(2,977)	(65)
	<u>24,100</u>	<u>19,355</u>

Change in non-cash balances:

Deferred policy acquisition costs	(12,084)	(1,036)
Due from reinsurers and other insurers	33,427	31,259
Unearned premiums	64,024	1,917
Unpaid claims	(18,390)	(8,013)
Net change in other non-cash balances	<u>1,429</u>	<u>(9,762)</u>
	<u>92,506</u>	<u>33,720</u>

Financing activities:

Increase (cancellation) of share capital, net	19	(16,047)
Increase (decrease) in bank indebtedness	(14,445)	46,429
	<u>(14,426)</u>	<u>30,382</u>

Investing activities:

Purchase of investments	(1,249,692)	(1,188,108)
Proceeds from sale of investments	1,221,913	1,159,847
Financed premiums receivable, net	(24,191)	(1,508)
Purchase of subsidiaries	(4,468)	(30,683)
Cash acquired on purchase of subsidiaries	-	3,660
Additions to capital assets	(3,864)	(2,427)
	<u>(60,302)</u>	<u>(59,219)</u>

Increase in cash during the year	17,778	4,883
Cash, beginning of year	12,062	7,179
Cash, end of year	<u>\$ 29,840</u>	<u>\$ 12,062</u>

Supplementary disclosure of cash information:

Cash paid for:

Interest	\$ 11,507	\$ 11,263
Income taxes	1,098	7,262

Cash dividends and interest received	<u>34,872</u>	<u>34,422</u>
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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 its subsidiaries all of which are wholly-owned. Acquisitions are accounted for by the purchase method, whereby the results of acquired companies are included only from the date of acquisition, and divestitures are included up to the date of disposal.

(b) Use of estimates

The preparation of financial statements in conformity with Canadian 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 and changes in estimates are recorded in the accounting period in which they are determined.

(c) Investments

Fixed term investments are carried at amortized cost providing for the amortization of the discount or premium on a straight line basis to maturity. Investments in common and preferred shares are carried at cost. Where a decline in value of an investment is considered to be other than temporary a writedown of the investment 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 lives which range from ten to fifteen years. The Company regularly assesses the carrying value of goodwill based on the underlying cash flows and operating results of subsidiaries.

(f) Deferred policy acquisition costs

Certain costs, consisting of brokers' commissions and premium taxes, related to the acquisition of premiums written are deferred, to the extent they are considered recoverable, and are expensed as the related premiums are earned. The method followed in determining the deferred policy acquisition costs limits the deferral to its realizable value by giving consideration to estimated future claims and expenses to be incurred as premiums are earned. Changes in estimates, if any, are recorded in the accounting period in which they are determined.

(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.

(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. Translation gains and losses are included in the current income, except for unrealized gains and losses arising from fixed, long term monetary assets and liabilities, which are deferred and amortized on a straight-line basis over the remaining term of the related asset. 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 and Barbados 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

The Company follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars)

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

(l) Stock-based compensation plan

The Company has a stock-based compensation plan, which is described in Note 3(a). No compensation expense is recognized for this plan when stock options are issued to employees and directors. The consideration paid by employees and directors on exercise of stock options is credited to share capital.

2. Investments

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

		December 31, 2000	
		Carrying amount	Fair value
Term deposits:		\$ 114,912	\$ 114,861
Bonds:			
Canadian	Government	93,067	92,924
	Corporate	46,963	46,350
U.S.	Government	117,172	116,833
	Corporate	123,326	121,592
Other	Government	9,580	9,521
	Corporate	66,217	65,941
Sub-total		\$ 571,237	\$ 568,022
Preferred shares		12,778	11,862
Common shares		83,332	87,056
Financed premiums		83,323	83,323
		\$ 750,670	\$ 750,263

The maturity profile of the bonds and term deposits investments at their carrying amount as at December 31, 2000 is as follows:

Due in one year or less	\$ 209,938
Due after one year through five years	220,741
Due after five years	140,558
	\$ 571,237

		December 31, 1999	
		Carrying amount	Fair value
Term deposits:		\$ 79,572	\$ 79,556
Bonds:			
Canadian	Government	116,505	111,594
	Corporate	42,970	41,950
U.S.	Government	148,077	142,492
	Corporate	78,131	75,878
Other	Government	8,040	7,752
	Corporate	58,235	56,412
Sub-total		\$ 531,530	\$ 515,634
Preferred shares		13,193	12,088
Common shares		70,997	63,493
Financed premiums		58,414	58,414
		\$ 674,134	\$ 649,629

The maturity profile of the bonds and term deposits investments at their carrying amount as at December 31, 1999 is as follows:

Due in one year or less	\$ 127,786
Due after one year through five years	238,804
Due after five years	164,940
	\$ 531,530

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

Fair values 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 their carrying amount and ascertained that the carrying amounts are expected to be recovered. Debt securities whose carrying amount exceeds market value can be held until maturity when management expects to receive the principal amount.

All of the Company's fixed term investments have fixed interest rates. The coupon rates for the Company's fixed term investments range from 4.0% to 13.3% at December 31, 2000 and from 3.125% to 13.25% at December 31, 1999. 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.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars)

3. Share capital

Authorized:

Unlimited number of common shares

Share transactions consist of the following:

	Shares Issued	Stock Options	Weighted Average Exercise Price	Amount
Balance as at December 31, 1998	35,903,872	571,734	\$ 8.46	\$164,509
Issued under share warrant	13,763			34
Normal course issuer bid	(2,003,900)			(16,348)
Stock options:				
Granted in year		372,000	11.50	
Exercised in year	96,333	(96,333)	2.77	267
Forfeited in year		(12,834)	11.68	
Balance as at December 31, 1999	34,010,068	834,567	\$ 10.42	\$148,462
Normal course issuer bid	(85,200)			(428)
Stock options:				
Granted in year		701,000	4.30	
Exercised in year	131,729	(131,729)	3.40	447
Forfeited in year		(32,500)	8.97	
Balance as at December 31, 2000	34,056,597	1,371,338	\$8.00	\$148,481

(a) The Company has established a stock option incentive plan for directors, officers and key employees of the Company and its subsidiaries. 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. In general, the options vest evenly over a three-year period and are exercisable for periods not exceeding 10 years.

At December 31, 2000, options to purchase 1,371,338 common shares (1999 – 834,567 common shares) were outstanding. The exercise price of the options ranges from \$4.00 to \$18.775 per share (1999 - \$2.50 to \$18.775 per share) and the options expire in the period from July 18, 2001 to February 24, 2010 (1999 – December 5, 2000 to February 25, 2004). During the year ended December 31, 2000, options to acquire 131,729 shares (1999 – 96,333 shares) were exercised at prices from \$2.50 to \$4.00 per share (1999 - \$2.50 to \$8.75 per share). At December 31, 2000 and December 31, 1999 the number of options exercisable is 378,337 and 300,400 with a weighted average price of \$11.25 and \$7.06, respectively.

(b) The Company has an employee share purchase plan where qualifying employees can choose each year to have up to 5% of their

annual base earnings withheld to purchase the Company's common shares. The Company matches one half of the employee contribution amount, and its contributions vest immediately. All contributions are used by the plan administrator to purchase common shares in the open market. The Company's contribution is expensed as paid and totalled \$226,000 in 2000 (1999 - \$237,000).

(c) The weighted average number of shares outstanding for 2000 and 1999 were 33,984,845 and 35,595,492, respectively. On a fully diluted basis, the weighted average number of shares outstanding for 2000 and 1999 were 34,340,176 and 35,716,096, respectively.

(d) During the year, the Company adopted the new Canadian Institute of Chartered Accountants recommendations for computing and disclosing earnings per share. The new standard requires the use of the treasury stock method for calculating fully diluted earnings per share. The major difference relates to the assumption that the proceeds from the exercise of "in the money" stock options are used to repurchase outstanding common shares at the average market price. The adoption of this policy has been applied retroactively and had no effect on the resulting earnings per share amounts.

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 concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvency.

The Company follows the policy of underwriting and reinsuring contracts of insurance, which limits the net exposure of the Company to a maximum amount on any one loss of \$500,000 (1999 - \$500,000) and \$1,000,000 (1999 - \$1,000,000) 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 in Canada to (1999 - \$1,500,000) per occurrence to a maximum coverage of \$25,000,000 (1999 - \$25,000,000), and in the United States to U.S.\$1,000,000 per occurrence to a maximum coverage of U.S.\$7,500,000 (1999 – U.S. \$7,500,000).

The amounts deducted for reinsurance ceded from net premiums earned, claims incurred and commissions and premium taxes for the years December 31, 2000 and 1999 were as follows:

	2000	1999
Net premiums earned	\$ 37,787	\$ 65,002
Claims incurred	17,312	52,942
Commissions and premium taxes	7,656	13,212

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars)

5. Income taxes

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

	2000	1999
Provision for taxes at statutory marginal income tax rate	\$ 4,944	\$ 2,717
Non-taxable investment income	(302)	(1,038)
Income earned outside Canada	(502)	(3,828)
Utilization of prior years' losses and other	1,253	253
Provision for income taxes	\$ 5,393	\$ (1,896)

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

	2000	1999
Future income tax assets:		
Losses carried forward	\$ 9,326	\$ 15,525
Unpaid claims and unearned premiums	14,052	18,754
Investments	656	-
Other	4,086	5,544
Future income tax assets	28,120	39,823
Future income tax liabilities:		
Deferred policy acquisition costs	(5,544)	(10,179)
Unpaid claims and unearned premiums	(511)	(1,229)
Investments	(1,081)	(6,615)
Other	165	(1,430)
Future income tax liabilities	(6,971)	(19,453)
Net future income tax assets	\$ 21,149	\$ 20,370

6. Unpaid claims

(a) Nature of unpaid claims:

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

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

tend to be more reasonably predictable than long-tailed claims, such as general liability and automobile accident benefit claims.

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 completes an annual evaluation of the adequacy of unpaid claims at the end of each financial year. This evaluation includes a re-estimation of the liability for unpaid claims relating to each preceding financial year compared to the liability that was originally established. The results of this comparison and the changes in the provision for unpaid claims for the years ended December 31, 2000 and 1999 were as follows:

	2000	1999
Unpaid claims - beginning of year - net	\$ 324,872	\$ 310,975
Net unpaid claims of subsidiaries acquired	-	13,393
Provision for claims occurring		
In the current year	373,431	313,791
In prior years	(3,386)	(6,377)
Claims paid during the year	(357,676)	(297,805)
Currency translation adjustment	5,535	(9,105)
Unpaid claims - end of year - net	342,776	324,872
Reinsurers' and other insurers share of unpaid claims	92,546	119,817
Unpaid claims - end of year	\$ 435,322	\$ 444,689

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

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. During 1998 and 1999, the Company completed acquisitions which included the following:

(a) On January 13, 1998, the Company completed the acquisition of UCC Corporation ("UCC") and ARK Insurance Agency, Inc. UCC is a

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars)

holding company that owns all of the shares of Universal Casualty Company ("Universal"). Consideration was payable in cash, part of which was paid at closing, with the remainder to be paid based on the earnings of the company for the fiscal years 1997 to 2000. The earnings of these entities during 1999 and 2000 resulted in increases in goodwill of \$2.2 million and \$2.3 million, respectively.

(b) 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 licenced 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. 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 1999 to 2003.

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

	Estimated at date Of acquisition	Re-estimated at December 31, 2000
Tangible assets acquired	\$77,905	\$77,905
Intangible assets acquired	497	497
Liabilities assumed	(59,220)	(59,220)
Net identifiable assets	19,182	19,182
Consideration paid	28,652	30,469
Present value of guaranteed future payments	9,212	7,395
Goodwill	\$18,682	\$18,682

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. The Company's Canadian and United States segments include transactions with the Company's reinsurance subsidiaries. At the present time, other insurance related services are not significant. Results for the Company's operating segments are based on the Company's internal financial reporting systems and are consistent with those followed in the preparation of the consolidated financial statements.

The segmented information for December 31, 2000 is summarized below:

	Canada	United States	Corporate and Other	Total
Gross premiums written	\$ 289,416	\$ 353,606	\$ -	\$ 643,022
Revenue	279,617	314,957	414	594,988
Interest expense	-	10,283	1,125	11,408
Goodwill amortization	705	5,501	-	6,206
Net income	18,488	7,619	1,363	27,470
Total assets	498,595	649,668	25,663	1,173,926
Additions to goodwill	-	2,271	-	2,271

The segmented information for December 31, 1999 is summarized below:

	Canada	United States	Corporate and Other	Total
Gross premiums written	\$ 234,317	\$ 274,278	\$ -	\$ 508,595
Revenue	224,862	258,708	735	484,305
Interest expense	-	9,521	1,036	10,557
Goodwill amortization	678	4,905	-	5,583
Net income	3,868	8,462	1,268	13,598
Total assets	457,353	596,838	17,519	1,071,710
Additions to goodwill	389	23,677	-	24,066

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

	Gross Premiums Written	
	2000	1999
Business Line	%	%
Automobile	62%	61%
Commercial Automobile	16%	17%
Property & Liability	12%	12%
Motorcycle	6%	7%
Other	4%	3%
	100%	100%
Geographical Area		
Southern U.S.	27%	21%
Ontario	24%	24%
Illinois	20%	25%
Alberta	9%	10%
Quebec	9%	9%
Northeast U.S.	5%	6%
Other	6%	5%
	100%	100%

9. Bank indebtedness

(a) The Company had entered into a \$25 million unsecured 364 day credit facility with a Canadian bank. Under this facility, the Company had 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 a spread based on the Company's credit

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars)

rating or upon the ratio of funded debt to total capitalization, whichever is higher. At December 31, 1999, the Company had drawn \$7.4 million on this credit facility. The facility expired on April 22, 2000.

(b) The Company had entered into a U.S. \$25 million unsecured 364 day credit facility with another Canadian bank. Under this facility, the Company had the option to borrow at a floating rate equivalent to the bank's prime rate, or for a fixed term at a fixed rate of Bankers' Acceptance or LIBOR plus a spread based on the Company's credit rating or upon the ratio of funded debt to total capitalization, whichever is higher. At December 31, 1999, the Company had not drawn on this credit facility, and the facility expired on April 23, 2000.

(c) On February 23, 1999, the Company entered into a U.S. \$100 million unsecured credit facility with a syndicate of banks. Under this facility the Company has the option to borrow at a floating rate equivalent to the banks prime rate or for a fixed term at a fixed rate of LIBOR plus a spread based on the Company's credit rating or upon the ratio of funded debt to total capitalization, whichever is higher. The facility is for a fixed term of five years and one day and was fully drawn on March 5, 1999 for general corporate purposes. During 2000 the Company repaid U.S. \$5 million, and has the obligation to make principal repayments of U.S. \$5 million in each of the years 2001 to 2003, prior to the maturity of the facility.

In March, 1999 the Company entered into interest rate swap transactions whereby the Company fixed its rate on this U.S. \$100 million debt at 5.91% plus a spread based on the Company's credit rating or upon the ratio of funded debt to total capitalization, whichever is higher, for the period of the facility.

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. Minimum asset and capital requirements have been met or exceeded in all jurisdictions in which the Company's subsidiaries operate.

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.

Supplemental Financial Information

Eight Year Financial Highlights

(In thousands, except per share amounts)	2000	1999	1998	1997	1996	1995	1994	1993
Gross premiums written	\$ 643,022	\$ 508,595	\$ 409,200	\$ 210,795	\$ 140,610	\$ 60,049	\$ 55,619	\$ 30,002
Net premiums earned	539,969	445,557	314,651	174,462	107,679	46,063	42,414	14,386
Underwriting profit (loss)	(5,280)	(11,458)	19,075	7,319	4,707	1,560	2,591	766
Investment income	55,020	38,748	37,599	21,836	11,049	4,913	3,336	2,107
Net income	27,470	13,598	31,011	22,151	11,162	3,767	3,295	1,583
Shareholders' equity	272,713	242,042	250,065	213,248	86,634	36,677	16,657	13,362
Total assets	1,193,926	1,071,710	1,012,776	511,229	248,233	95,601	64,605	46,825
Retained earnings	120,180	92,710	79,112	48,101	25,950	14,788	11,021	7,726
Claims ratio (%)								
Company	68.9%	68.4%	61.6%	65.3%	64.9%	66.5%	64.0%	57.7%
Industry - Canada	75.9%	73.4%	73.7%	70.8%	72.1%	72.8%	75.0%	76.2%
Expense ratio (%)								
Company	32.1%	34.2%	32.3%	30.5%	30.7%	30.1%	29.9%	36.9%
Industry - Canada	32.4%	33.2%	33.8%	32.4%	31.9%	32.0%	32.0%	33.5%
Combined ratio (%)								
Company	101.0%	102.6%	93.9%	95.8%	95.6%	96.6%	93.9%	94.6%
Industry - Canada	108.3%	106.6%	107.5%	103.2%	104.0%	104.8%	107.0%	109.7%
Return on equity (%)								
Company	10.7%	5.5%	13.4%	16.5%	21.4%	19.8%	21.9%	12.3%
Industry - Canada	6.2%	6.4%	7.3%	13.1%	13.2%	11.6%	6.7%	9.4%
Investment yield (%)	7.5%	5.6%	8.0%	8.2%	8.3%	8.1%	8.5%	7.7%
Shareholders' equity per share								
At year end	\$ 8.01	\$ 7.12	\$ 6.96	\$ 5.95	\$ 3.26	\$ 1.90	\$ 1.39	\$ 1.11
Annual increase	12.5%	2.3%	17.0%	82.5%	71.6%	36.7%	25.2%	7.8%
Earnings per share								
Basic	\$ 0.81	\$ 0.38	\$ 0.86	\$ 0.74	\$ 0.52	\$ 0.31	\$ 0.27	\$ 0.13
Fully diluted	\$ 0.80	\$ 0.38	\$ 0.86	\$ 0.73	\$ 0.49	\$ 0.30	\$ 0.27	\$ 0.13
Weighted average number of shares outstanding								
Basic*	33,985	35,595	35,904	29,956	21,448	12,260	12,000	12,000
Fully diluted*	34,340	35,716	36,443	30,496	22,400	12,260	12,000	12,000

All financial information relating to the insurance industry for the years 1993 to 1999 was obtained from IAO Actuarial Consulting Services Inc., The Quarterly Report, 3rd Quarter, 2000.

Information for the 2000 year was obtained from the preliminary estimates published by the Insurance Bureau of Canada, *Perspective*, March, 2001.

* 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

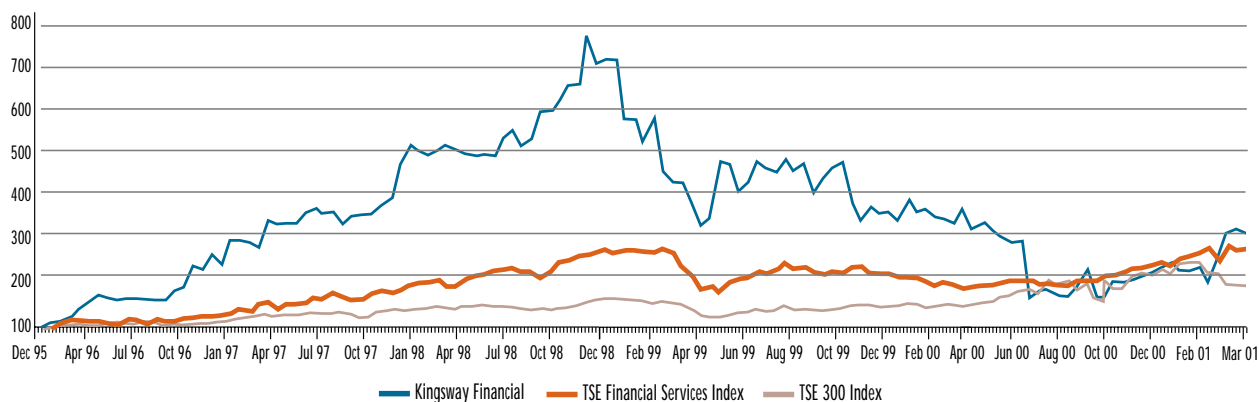
Quarterly Results

(In thousands of dollars, except per share amounts)

	1999				2000			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross premiums written	\$124,548	\$138,895	\$126,888	\$118,264	\$134,002	\$172,108	\$163,237	\$173,675
Net premiums earned	104,420	110,998	120,105	110,034	108,382	133,436	148,795	149,356
Net income	6,497	9,695	10,027	(12,621)	3,196	7,183	9,722	7,369
Earnings per share								
Basic	\$ 0.18	\$ 0.27	\$ 0.28	\$ (0.35)	\$ 0.09	\$ 0.21	\$ 0.29	\$ 0.22
Fully diluted	0.18	0.27	0.28	(0.35)	0.09	0.21	0.28	0.22
Market price per share								
High	\$ 13.10	\$ 12.00	\$ 10.30	\$ 9.25	\$ 8.00	\$ 6.00	\$ 6.20	\$ 8.25
Low	9.60	7.25	8.20	7.00	3.00	3.91	5.00	4.00
Close	10.30	8.90	8.75	7.25	4.20	5.10	5.70	7.90

Relative Market Performance

for the Period December 29, 1995 to March 9, 2001



Canadian & Reinsurance Operations Corporate Directory

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

David H. Atkins Director
William G. Star Director
James R. Zuhlke Director

William G. Star President & C.E.O.
G. Steven Smith Executive Vice President & C.O.O.
Claude Smith Vice President & C.F.O.
W. Shaun Jackson Vice President
Richard F. Davis Assistant Vice President
Ralph Golberg Assistant Vice President
F. Michael Yang Assistant Vice President, Claims
Robert Wong Secretary/Treasurer
Eileen Lascelles Assistant Secretary

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

W. Shaun Jackson Director
G. Steven Smith Director
William G. Star Director

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

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

David H. Atkins Director
Thomas A. Di Giacomo Director
W. Shaun Jackson Director
Jean Lariviere Director
Jacques Muir Director
J. Brian Reeve Director
William G. Star Director

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

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

Nicholas Crichtlow Director
Kirk Cyrus Director
W. Shaun Jackson Director
David King Director
William G. Star Director

Kirk Cyrus President
Corporate Managers Secretary
(Barbados) Ltd.

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

Charles Collis Director
W. Shaun Jackson Director & Deputy Chairman
Robert Johnson Director
William G. Star Director & Chairman
Nisala Weerasooriya Director

Andre J. Dill Secretary
Catharine Lymbery Assistant Secretary

U.S. Operations Corporate Directory

<p>Kingsway America Inc. 1515 Woodfield Road, Suite 820 Schaumburg, Illinois USA 60173 Tel. (847) 619-7610 Fax (847) 619-5275</p>	<p>W. Shaun Jackson William G. Star James R. Zuhlke</p>	<p>Director Director & Chairman Director</p>	<p>James R. Zuhlke John B. Proctor W. Shaun Jackson G. Steven Smith Peggy Klein William Adams Shelly Gobin Susan King</p>	<p>President & C.E.O. Vice President & C.F.O. Vice President & Secretary Vice President Sr. Vice President & C.I.O. Vice President, Systems Development Assistant Secretary Assistant Secretary</p>
<p>Universal Casualty Company 7280 North Caldwell Niles, Illinois USA 60714 Tel. (847) 647-5430 Fax (847) 647-2571</p>	<p>W. Shaun Jackson Marc Romanz Marshall Romanz William G. Star James R. Zuhlke</p>	<p>Director Director Director Director Director</p>	<p>Marshall Romanz Marc Romanz George Fuchs Kent Lang Matthew J. Dutkanych</p>	<p>President & C.E.O. Executive Vice President & Secretary Vice President, Claims Vice President, Underwriting Treasurer</p>
<p>Southern United Fire Insurance Company One Southern Way Mobile, Alabama USA 36619 Tel. (334) 661-8008 Fax (334) 662-6562</p>	<p>W. Shaun Jackson Charles D. Jordan Craig A. Lochner William G. Star James R. Zuhlke</p>	<p>Director Director Director Director Director</p>	<p>Craig A. Lochner Al Trovinger Suzanne Trovinger Rob Heffner A.J. Bowab James R. Zuhlke</p>	<p>President Sr. Vice President Vice President, Pricing & Product Development Vice President, Claims Treasurer Assistant Secretary</p>
<p>American Service Insurance Company, Inc. 9801 West Higgins Road, 8th Floor Rosemont, Illinois USA 60018 Tel. (847) 318-5800 Fax (847) 318-0200</p>	<p>John T. Clark W. Shaun Jackson William G. Star B. Howard Zirn James R. Zuhlke</p>	<p>Director Director Director Director Director</p>	<p>John T. Clark Louis D. Skender Jim Durkin Tom Ossmann</p>	<p>President & C.E.O. Vice President & C.F.O. Vice President, Claims Vice President, Underwriting & Secretary</p>
<p>Walshire Assurance Company Lincoln General Insurance Company 3350 Whiteford Road, P.O. Box 3849 York, Pennsylvania USA 17402-0138 Tel. (717) 757-0000 Fax (717) 717-0165</p>	<p>Brian Freund W. Shaun Jackson Arthur Miller Gary J. Orndorff J. Brian Reeve William G. Star James R. Zuhlke</p>	<p>Director Director Director Director Director Director Director</p>	<p>William G. Star Gary J. Orndorff</p>	<p>President & C.E.O. Executive Vice President & General Manager</p>
<p>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</p>	<p>Roberto Espin, Jr. W. Shaun Jackson William G. Star Kevin Walton James R. Zuhlke</p>	<p>Director Director Director Director Director</p>	<p>Roberto Espin, Jr. Kevin Walton Lucia Mohamad Alberto Naon Rachael Aldulaimi</p>	<p>President Executive Vice President & General Manager Vice President, HR Vice President, Ins. Operations Secretary/Treasurer</p>
<p>Avalon Risk Management, Inc. 3315 East Algonquin Road, Suite 340 Rolling Meadows, Illinois USA 60008 Tel. (888) 678-4020 Fax (847) 670-9260</p>	<p>Gary C. Bhojwani W. Shaun Jackson William G. Star</p>	<p>Director Director Director</p>	<p>Gary C. Bhojwani W. Shaun Jackson Denise Lee Hruby</p>	<p>President Treasurer Secretary</p>

Directors and Officers

Directors

William G. Star
Chairman

David H. Atkins*
Senior Advisor,
Lang Michener

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

Thomas A. Di Giacomo*
President, Tadico Limited

Bernard Gluckstein
Principal, Gluckstein and Associates

Murray A. Thompson*
Barrister & Solicitor,
Blaney, McMurtry LLP

F. Michael Walsh*
Private Investor

James R. Zuhke
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

Denis Cloutier
Chief Actuary

Shelly Gobin
Treasurer

Robert Wong
Assistant Treasurer

Michael S. Slan
Secretary
Barrister & Solicitor
Folger, Rubinoff LLP

Shareholder Information

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Toronto, Ontario M5J 2Y1

Stock Exchange Listing
The Toronto Stock Exchange
Trading Symbol 'KFS'

General Counsel
Fogler, Rubinoff LLP

Auditors
KPMG LLP, Toronto

Appointed Actuary
Claudette Cantin
KPMG LLP, Toronto

Investor Relations
W. Shaun Jackson
Executive Vice President and
Chief Financial Officer

Internet Address
Website: www.kingsway-financial.com
E-mail: info@kingsway-financial.com

Common Shares Outstanding
34,056,597 as at December 31, 2000

Annual Meeting
The annual meeting of shareholders
will be held on Thursday, May 3, 2001
at 4:00 p.m. at the Design Exchange
234 Bay Street, Toronto, Ontario

Kingsway Financial Services Inc.



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.