



## KINGSWAY REPORTS NET INCOME OF \$15.6 MILLION FOR THE THIRD QUARTER

**Toronto, Ontario (October 20, 2003)** – Kingsway Financial Services Inc. (TSE:KFS, NYSE:KFS) today announced financial results for the quarter and nine months ended September 30, 2003.

### **Q3 2003 Summary**

- Diluted earnings per share were 28 cents
- Net income was \$15.6 million
- Gross premiums written increased 8% to \$652.8 million
- Net premiums earned increased 23% to \$591.8 million
- Adverse development of prior year claims of \$61.5 million, or 73 cents per share after tax
- Combined ratio was 103.7%
- Realized gains of \$16.4 million, or 22 cents per share after tax
- Annualized return on equity was 9.8%

Net income for the quarter was \$15.6 million, compared to \$21.7 million reported in the third quarter of last year. The Company's results were affected by increases in our provision for unpaid claims occurring prior to December 31, 2002 of approximately \$61.5 million (\$41.0 million after tax) in the third quarter and \$131.4 million (\$87.5 million after tax) for the year to date. Despite these increased provisions, net income for the nine month period was a record \$67.3 million, an increase of 24% over the \$54.1 million reported last year.

Return on equity on an annualized basis was 9.8% for the quarter and 13.9% for the nine months compared to 15.2% and 12.8%, respectively for the same periods last year. Diluted earnings per share was 28 cents for the quarter, compared to 44 cents for the third quarter of 2002. For the nine month period, diluted earnings per share increased by 19% to \$1.31. The Company completed a share offering in early July, 2003 increasing the average number of shares outstanding by 13% in the quarter and 4% for the nine month period.

A significant portion of the Company's operations and net assets are denominated in U.S. dollars whereas the Company reports in Canadian dollars. During the third quarter and for the nine month period the Canadian dollar appreciated significantly against the U.S. dollar thereby affecting the comparability to the same periods of 2002. Had the results of the U.S. operations been translated at the same exchange rates as the same periods last year, net income and earnings per share for the quarter would have been further increased by \$2.8 million and 5 cents, respectively, and for the nine month period by \$7.2 million and 14 cents, respectively.

“During the first eight months of this year we have made a concerted effort to review and strengthen our claim reserves”, said Bill Star, President & Chief Executive Officer. “We felt this comprehensive review was necessary to significantly reduce the risk of future adverse claim development. We believe these corrective actions provide a basis for greater earnings stability going forward. Despite the significant strengthening of reserves, the nine month earnings are still greater than the same period in 2002, which was our best year ever. This clearly demonstrates the earning power of the Company and the underwriting profitability of the current accident year business.”

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## **Premium Growth**

During the third quarter of 2003, gross premiums written increased 8% to \$652.8 million compared with \$605.6 million last year. For the year to date gross premiums written increased by 30% to \$2.0 billion compared to \$1.5 billion last year.

For the quarter, gross premiums written from U.S. operations increased to \$486.0 million compared with \$479.3 million last year and Canadian operations grew 32% to \$166.8 million. For the nine months, gross premiums written by the U.S. operations were \$1.5 billion, an increase of 30% over last year, and for the Canadian operations were \$469.9 million, an increase of 31% over last year. The effect of currency translation reduced reported levels of gross premiums written for the U.S. operations by 13% in the quarter and 29% for the year to date compared to the same periods of 2002. The growth in Canada is attributable to rate increases across most lines and volume increases due to tight market conditions.

For the nine month period, gross premiums written from trucking and commercial automobile increased 41% over last year to \$842.8 million. Gross premiums written from non-standard automobile increased 18% over last year to \$718.2 million.

Net premiums written increased 32% to \$1.9 billion compared with \$1.4 billion for the first nine months of last year. Net premiums earned increased 48% to a record \$1.8 billion for the first nine months of this year, compared with \$1.2 billion last year.

## **Underwriting Profit & Combined Ratio**

The combined ratio of 103.7% for the third quarter produced an underwriting loss of \$22.1 million, compared with an underwriting loss of \$5.9 million reported in the third quarter of 2002. The combined ratio improved slightly to 100.0% compared with 100.3% in the first nine months of 2002, which produced an underwriting profit of \$0.4 million compared with an underwriting loss of \$3.5 million in the first nine months of last year. The U.S. operations combined ratio improved to 99.0% compared to 99.1% for the third quarter of last year and improved to 97.0% for the nine months of 2003 compared to 97.6% in the first nine months of last year. The Canadian operations combined ratio was 117.1% for the third quarter of 2003 and 109.9% for the nine months year to date compared to 107.8% and 108.2% for the same periods of 2002.

The results for the quarter and year to date reflect increases in provisions for unpaid claims occurring prior to December 31, 2002. For the third quarter of 2003 these increases amounted to approximately \$61.5 million (\$131.4 million year to date), including approximately \$40.4 million (\$74.6 million year to date) and \$21.1 million (\$56.8 million year to date) for the Canadian and U.S. operations, respectively. The reserve increases in 2003 for the Canadian operations were mainly attributable to non-standard automobile, commercial automobile and trucking and for the U.S. operations were mainly attributable to long-haul trucking and non-standard automobile. The results for the third quarter of 2002 included increases in provisions for prior year losses amounting to approximately \$19.1 million (\$75.7 million year to date), including approximately \$18.5 million (\$41.1 million year to date) and approximately \$0.6 million (\$34.6 million year to date) for the Canadian and U.S. operations, respectively.

### **Investment Income**

Investment income increased to \$22.7 million (\$57.6 million year to date) in the third quarter of 2003 compared with \$19.6 million (\$50.3 million year to date) for the third quarter of 2002. The investment portfolio has grown by 20% since the beginning of the year due to positive cash flow from operations and capital raised. At the same time we have experienced declining investment yield consistent with the current market environment. Our third quarter annualized investment yield was 3.9% (3.3% annualized year to date) and 4.7% (4.5% annualized year to date) for the same quarter of last year. Realized gains amounted to \$16.4 million in the quarter (\$25.2 million year to date) compared with \$6.3 million (\$11.6 million year to date) in the third quarter of 2002. Unrealized gains on the investment portfolio were \$42.6 million (76 cents per share outstanding) at September 30, 2003.

### **Net Income**

Net income before tax for the quarter was \$11.4 million compared with \$16.9 million reported in the third quarter last year. For the year to date net income before tax increased by 36% to \$67.7 million. Income taxes payable were affected by income generated in lower tax jurisdictions coupled with losses from our Canadian operations in both 2002 and 2003.

Net income for the quarter was \$15.6 million compared to \$21.7 million reported in the third quarter last year. For the year to date, net income increased by 24% to \$67.3 million compared to the same period last year. In the fourth quarter of 2002, in order to be more consistent with the industry practice and its treatment of expenses on its program business, the Company commenced deferral of underwriting and marketing costs relating to the acquisition of premiums on its non-program business. There was no material impact during the third quarter of 2003 for this change in estimate and the year to date impact was an increase in net income of \$7.1 million or 14 cents per share diluted year to date compared to the same periods of 2002.

### **Balance Sheet**

Total assets as at September 30, 2003 grew to \$3.5 billion. During the quarter, shareholders' equity was reduced by \$0.9 million (\$74.9 million year to date) and book value by 2 cents per share (\$1.34 per share year to date) as a result of the unrealized currency translation adjustment on the conversion of the investment in the U.S. operations into Canadian dollars. Despite this adjustment, book value per share increased to \$12.84 at September 30, 2003. The investment portfolio, including cash and accrued investment income, increased to \$2,511.9 million (market value \$2,554.6 million), compared to \$2,094.9 million (market value \$2,127.5 million) as at December 31, 2002. Investment portfolio per share increased 5% to \$45.01 compared to \$42.93 as at December 31, 2002.

### **Further Information**

The discussion and analysis of our results of operation and information in this press release is an update of the information set forth in our 2002 Annual Report. Further information about our financial results and condition can be found in our Annual Report and other filings.

### **Conference Call**

The Company will host a conference call today at 5:00 p.m. A live broadcast of the conference call can be accessed at <http://www.newswire.ca/webcast/viewEventCNW.html?eventID=657800>. You may also link to the broadcast through our website at [www.kingsway-financial.com](http://www.kingsway-financial.com).

### **Annual Investor Day**

The Company will be hosting its annual Investor Day on Thursday, November 20th starting at 8:30am at the TSX Conference Centre located at The Exchange Tower, 2 First Canadian Place, Toronto, Ontario. Members of senior management from Kingsway Financial and several of the subsidiaries will be speaking regarding their company's operations.

### **Forward Looking Statements**

This press release includes "forward looking statements" that are subject to risks and uncertainties. For information identifying important factors that could cause actual results to differ materially from those anticipated in the forward looking statements, see Kingsway's securities filings, including its 2002 Annual Report under the heading Risks and Uncertainties in the Management's Discussion and Analysis section. 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.

### **About the Company**

Kingsway's primary business is trucking insurance and the insuring of automobile risks for drivers who do not meet the criteria for coverage by standard automobile insurers. The Company currently operates through nine wholly-owned insurance subsidiaries in Canada and the U.S. Canadian subsidiaries include Kingsway General Insurance Company, York Fire & Casualty Insurance Company and Jevco Insurance Company. U.S. subsidiaries include Universal Casualty Company, American Service Insurance Company, Southern United Fire Insurance Company, Lincoln General Insurance Company, U.S. Security Insurance Company, American Country Insurance Company and Avalon Risk Management, Inc. The Company also operates reinsurance subsidiaries in Barbados and Bermuda. Kingsway Financial, Lincoln General Insurance Company, Universal Casualty Insurance Company, Kingsway General, York Fire, Jevco and Kingsway Reinsurance (Bermuda) are all rated "A-" Excellent by A.M. Best. The Company's senior debt is rated 'BBB' (investment grade) by Standard and Poor's and by Dominion Bond Rating Services. The common shares of Kingsway Financial Services Inc. are listed on the Toronto Stock Exchange and the New York Stock Exchange, under the trading symbol "KFS".

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**KINGSWAY FINANCIAL SERVICES INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****For the nine months ended September 30, 2003 and 2002****(In thousands of Canadian dollars, except for per share amounts)**

	<b>Quarter to Sept 30:</b>		<b>9 months to Sept 30:</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>(unaudited)</b>			
Gross premiums written	<u>\$652,751</u>	<u>\$605,566</u>	<u>\$1,985,239</u>	<u>\$1,524,610</u>
Net premiums written	<u>\$623,376</u>	<u>\$566,397</u>	<u>\$1,897,231</u>	<u>\$1,436,543</u>
Revenue:				
Net premiums earned	\$591,807	\$479,407	\$1,764,342	\$1,189,053
Investment income	22,672	19,590	57,607	50,341
Net realized gains	16,437	6,300	25,226	11,617
	<u>630,916</u>	<u>505,297</u>	<u>1,847,175</u>	<u>1,251,011</u>
Expenses:				
Claims incurred	455,300	346,862	1,285,415	852,776
Commissions and premium taxes	121,367	103,689	376,820	246,897
General and administrative expenses	37,276	34,827	101,701	92,873
Interest expense	5,381	3,000	14,891	8,754
Amortization of intangibles	210	-	654	-
	<u>619,534</u>	<u>488,378</u>	<u>1,779,481</u>	<u>1,201,300</u>
Income before income taxes	11,382	16,919	67,694	49,711
Income taxes	<u>(4,251)</u>	<u>(4,734)</u>	<u>403</u>	<u>(4,423)</u>
Net income	<u>\$15,633</u>	<u>\$21,653</u>	<u>\$67,291</u>	<u>\$54,134</u>
Earnings per share:				
Basic:	\$0.28	\$0.44	\$1.32	\$1.11
Diluted:	\$0.28	\$0.44	\$1.31	\$1.10
Weighted average shares outstanding:				
Basic:	55,546	48,762	51,126	48,730
Diluted:	56,011	49,361	51,558	49,410
Claims ratio	76.9%	72.3%	72.9%	71.7%
Expense ratio	26.8%	28.9%	27.1%	28.6%
Combined ratio	103.7%	101.2%	100.0%	100.3%
Underwriting profit (loss)	\$(22,136)	\$(5,971)	\$406	\$(3,493)
Return on equity (annualized)	9.8%	15.2%	13.9%	12.8%
Book value per share			\$12.84	\$12.09

**KINGSWAY FINANCIAL SERVICES INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands of Canadian dollars)

	<b>Sept 30 2003 (unaudited)</b>	<b>Dec. 31 2002 (audited)</b>
<b>ASSETS</b>		
Cash	\$ 129,450	\$ 244,921
Investments	2,357,904	1,833,744
Accrued investment income	24,585	16,223
Accounts receivable and other assets	389,373	334,603
Due from reinsurers and other insurers	188,797	164,742
Deferred policy acquisition costs	177,423	178,574
Income taxes recoverable	6,023	3,851
Future income taxes	57,373	59,505
Capital assets	64,075	43,981
Goodwill and intangible assets	90,359	104,290
	<u>\$ 3,485,362</u>	<u>\$ 2,984,434</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Bank indebtedness	\$ 165,500	\$ 170,390
Accounts payable and accrued liabilities	108,122	122,606
Unearned premiums	804,987	776,323
Unpaid claims	1,534,329	1,200,554
Senior unsecured debentures	78,000	78,000
Subordinated indebtedness	77,876	23,636
	<u>2,768,814</u>	<u>2,371,509</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	468,420	357,192
<i>Issued and outstanding number of common shares</i>		
<i>55,808,794 – September 30, 2003</i>		
<i>48,794,212 – December 31, 2002</i>		
Currency translation adjustment	(63,806)	11,090
Retained earnings	311,934	244,643
	<u>716,548</u>	<u>612,925</u>
	<u>\$ 3,485,362</u>	<u>\$ 2,984,434</u>

**KINGSWAY FINANCIAL SERVICES INC.**  
**SUPPLEMENTARY INFORMATION TO PRESS RELEASE**

**As at September 30, 2003 and December 31, 2002**  
**(In thousands of Canadian dollars)**

**1. Investments:**

	September 30, 2003	
	Carrying Amount	Fair value
Term deposits	\$ 269,444	\$ 269,356
Bonds:		
Government	775,095	782,340
Corporate	985,618	998,237
Preferred shares	659	680
Common shares	248,141	270,962
Financed premiums	78,947	78,947
	<b>\$ 2,357,904</b>	<b>\$ 2,400,522</b>

	December 31, 2002	
	Carrying Amount	Fair value
Term deposits	\$ 506,575	\$ 506,511
Bonds:		
Government	441,674	454,482
Corporate	613,732	630,658
Preferred shares	2,045	2,025
Common shares	182,904	185,816
Financed premiums	86,814	86,814
	<b>\$ 1,833,744</b>	<b>\$ 1,866,306</b>

**KINGSWAY FINANCIAL SERVICES INC.**  
**SUPPLEMENTARY INFORMATION TO PRESS RELEASE**

**For the nine months ended September 30, 2003 and 2002**  
**(In thousands of Canadian dollars)**

**2. Underwriting Results:**

The underwriting results for the Company's operations were as follows:

	<b>Quarter to Sept 30:</b>		<b>9 months to Sept 30:</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
<b>Underwriting Profit (Loss)</b>				
Canada	\$(26,389)	\$(9,158)	\$(39,879)	\$(24,578)
U.S.	4,253	3,187	40,285	21,085
<b>Total</b>	<b>\$(22,136)</b>	<b>\$(5,971)</b>	<b>\$406</b>	<b>\$(3,493)</b>
<b>Combined Ratio</b>				
Canada	117.1%	107.8%	109.9%	108.2%
U.S.	99.0%	99.1%	97.0%	97.6%
<b>Total</b>	<b>103.7%</b>	<b>101.2%</b>	<b>100.0%</b>	<b>100.3%</b>
<b>Expense Ratio</b>				
Canada	27.8%	29.5%	28.0%	30.0%
U.S.	26.4%	28.7%	26.8%	28.1%
<b>Total</b>	<b>26.8%</b>	<b>28.9%</b>	<b>27.1%</b>	<b>28.6%</b>
<b>Loss Ratio</b>				
Canada	89.3%	78.3%	81.9%	78.2%
U.S.	72.6%	70.4%	70.2%	69.5%
<b>Total</b>	<b>76.9%</b>	<b>72.3%</b>	<b>72.9%</b>	<b>71.7%</b>
<b>Prior-accident years loss development – favourable (unfavourable)</b>				
Canada	\$ (40,350)	\$ (18,544)	\$ (74,637)	\$ (41,126)
U.S.	(21,139)	(576)	(56,802)	(34,552)
<b>Total</b>	<b>\$ (61,489)</b>	<b>\$ (19,120)</b>	<b>\$ (131,439)</b>	<b>\$ (75,678)</b>
<b>Prior accident year development as a percentage of net premiums earned</b>				
Canada	26%	16%	18%	14%
U.S.	5%	0%	4%	4%
<b>Total</b>	<b>10%</b>	<b>4%</b>	<b>7%</b>	<b>6%</b>



**KINGSWAY FINANCIAL SERVICES INC.  
SUPPLEMENTARY INFORMATION TO PRESS RELEASE**

**As at September 30, 2003 and December 31, 2002**

**(In thousands of Canadian dollars)**

**3. Financial Strength:**

Some of the key indicators of the Company's financial strength are as follows:

	<b>September 30, 2003</b>	<b>December 31, 2002</b>
Rolling four quarter calculations:		
Net Premiums Written to Statutory Surplus Ratio	2.9x	3.1x
Interest Coverage Ratio	6.5x	7.6x
Total Senior Debt to Capitalization Ratio	23.6%	28.9%

**KINGSWAY FINANCIAL SERVICES INC.**  
**CONSOLIDATED STATEMENTS OF CASHFLOWS**  
**For the nine months ended September 30, 2003 and 2002**  
**(In thousands of Canadian dollars)**

	Quarter to Sept 30:		9 months to Sept 30:	
	2003	2002	2003	2002
	(unaudited)			
<hr/>				
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Net income	\$15,633	\$21,653	\$67,291	\$54,134
Items not affecting cash:				
Amortization	2,496	3,820	5,983	6,934
Future income taxes	(4,748)	3,997	(8,889)	(345)
Net realized gains	(16,437)	(6,300)	(25,226)	(11,617)
Amortization of bond premiums & discounts	4,037	1,457	9,718	2,481
	<hr/> 981	<hr/> 24,627	<hr/> 48,877	<hr/> 51,587
Net change in non-cash balances:	<hr/> 187,197	<hr/> 141,541	<hr/> 365,258	<hr/> 282,076
	188,178	166,168	414,135	333,663
<b>Financing activities:</b>				
Increase of share capital, net	110,012	81	111,228	813
Increase in bank indebtedness	11,075	846	19,818	39,000
Increase in subordinated indebtedness	13,726	-	58,184	-
	<hr/> 134,813	<hr/> 927	<hr/> 189,230	<hr/> 39,813
<b>Investing activities:</b>				
Purchase of investments	(1,027,370)	(891,375)	(5,558,327)	(2,291,053)
Proceeds from sale of investments	757,158	841,834	4,867,020	2,108,469
Financed premiums receivable, net	4,431	130	2,675	9,460
Purchase of subsidiary, net of cash acquired	-	(111)	-	(34,539)
Additions to capital assets	(9,711)	(4,287)	(30,204)	(9,527)
	<hr/> (275,492)	<hr/> (53,809)	<hr/> (718,836)	<hr/> (217,190)
Increase (decrease) in cash during period	47,499	113,286	(115,471)	156,286
Cash, beginning of period	81,951	139,200	244,921	96,200
Cash, end of period	<hr/> \$129,450	<hr/> \$252,486	<hr/> \$129,450	<hr/> \$252,486