



## **KINGSWAY REPORTS NET INCOME OF \$123.3 MILLION FOR THE YEAR**

**Toronto, Ontario (February 8, 2007)** – Kingsway Financial Services Inc. (TSE:KFS, NYSE:KFS) today announced financial results in **U.S. dollars** for the fourth quarter ended December 31, 2006.

### **Q4 2006 compared to Q4 2005**

- Net income of \$16.8 million compared to \$35.9 million
- Operating earnings<sup>1</sup> of \$4.9 million compared to \$29.5 million
- Diluted earnings per share of \$0.30 compared with \$0.63
- Combined ratio was 104.1% compared to 97.7%
- Changes in estimated unpaid claims for prior years impacted 2006 combined ratio by 12.6%
- Underwriting loss of \$17.5 million compared to a profit of \$10.1 million last year
- Gross premiums written of \$409.1 million compared to \$439.3 million
- Investment income of \$30.4 million compared to \$24.9 million

### **2006 compared to 2005**

- Diluted earnings per share of \$2.17 compared to \$2.37
- Operating earnings<sup>1</sup> of \$99.9 million compared to \$106.4 million last year
- Net income of \$123.3 million compared to \$135.0 million
- Combined ratio was 98.8% compared to 97.2%
- Changes in estimated unpaid claims for prior years impacted 2006 combined ratio by 3.6%
- Underwriting profit of \$21.3 million compared to \$49.8 million last year
- Return on equity of 14.5%
- Book value per share increased 13% to \$16.12
- Fair value of investment portfolio increased 6% to \$55.21 per share

Net income in the quarter was \$16.8 million (C\$19.2 million), compared to \$35.9 million (C\$42.1 million) in the fourth quarter of last year. Net income for 2006 was \$123.3 million (C\$139.4 million) compared to \$135.0 million (C\$163.1 million) reported last year.

In the fourth quarter, operating earnings<sup>1</sup> amounted to \$4.9 million (C\$5.4 million) compared to \$29.5 million (C\$34.6 million) in the same quarter last year. Operating earnings for the year were \$99.9 million (C\$112.9 million) compared to \$106.4 million (C\$128.7 million) last year.

Return on equity was 14.5% for the year compared to 18.4% last year. Diluted earnings per share decreased 52% to \$0.30 (C\$0.34) for the quarter compared to \$0.63 (C\$0.74) for the fourth quarter of 2005. For the year diluted earnings per share decreased by 8% to \$2.17 (C\$2.45) compared to \$2.37 (C\$2.86) for the same period last year.

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1. Measures used in this news release that are not based on generally accepted accounting principles (“non-GAAP”) are defined at the end of this release and reconciled to the most comparable GAAP measure.

“Competitive market conditions have impacted our growth, and consequently our results for the year were disappointing to us, however, we did produce a healthy return on equity of 14.5%,” said Bill Star, President & Chief Executive Officer. “The results from our Canadian operations were very strong and were much improved over last year; however, based on loss trends that emerged and the recommendations of our independent actuaries, we determined that it was appropriate to increase estimated unpaid claims reserves related to prior periods in our U.S. program business. These actions together with the recently announced acquisition of Mendota and the increasing yield on our growing investment portfolio put us in a position to achieve improved profitability for 2007.”

### **Premium Growth**

During the fourth quarter, gross premiums written declined 7% to \$409.1 million (10% to C\$466.0 million), compared with \$439.3 million (C\$515.3 million) in the same quarter last year. Gross premiums written were \$1.93 billion (C\$2.19 billion) for 2006, compared to \$1.89 billion (C\$2.30 billion) for 2005. U.S. operations represented 69% of gross premiums written in 2006, compared with 68% last year. Trucking, non-standard automobile and commercial automobile premiums represented 33%, 26% and 14%, respectively, of gross premiums written for the year compared with 31%, 29% and 12%, respectively, last year.

For the quarter gross premiums written from U.S. operations decreased 5% to \$288.1 million (8% to C\$328.2 million) compared with \$304.8 million (C\$357.5 million) in the final quarter of 2005. For the year, gross premiums written by U.S. operations increased to \$1.34 billion (C\$1.52 billion) compared to \$1.28 billion (C\$1.56 billion) last year. Gross premiums written from Canadian operations were \$121.0 million (C\$137.8 million) for the quarter compared to \$134.5 million (C\$157.8 million) Q4 2005 and for the year were \$590.8 million (C\$668.8 million) compared to \$609.9 million (C\$740.1 million) last year.

Net premiums written decreased 6% to \$380.4 million (C\$433.3 million) compared with \$403.5 million (C\$473.3 million) for the same quarter of last year, and were \$1.80 billion (C\$2.01 billion) for the year compared to \$1.82 billion (C\$2.21 billion) for 2005.

Net premiums earned declined 5% to \$425.0 million (7% to C\$484.1 million) for the quarter compared with \$445.4 million (C\$522.4 million) for the same quarter last year. For 2006, net premiums earned were \$1.77 billion (C\$2.00 billion) compared with \$1.79 billion (C\$2.17 billion) in the same period last year. For U.S. operations, net premiums earned in the fourth quarter decreased 2% to \$297.6 million (C\$338.9 million) compared with \$304.1 million (C\$356.7 million) in the same quarter of 2005. Net premiums earned from Canadian operations decreased by 10% to \$127.4 million (C\$145.2 million) compared with \$141.3 million (C\$165.7 million) in the same quarter last year. For the year, net premiums earned from U.S. operations were \$1.20 billion (C\$1.37 billion) compared to \$1.21 billion (C\$1.47 billion) last year, and for the Canadian operations were \$562.4 million (C\$637.5 million) and \$582.5 million (C\$705.5 million), respectively.

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## **Underwriting Profit & Combined Ratio**

The combined ratio for the fourth quarter was 104.1% (98.8% for the year) which produced an underwriting loss of \$17.5 million for the fourth quarter (C\$20.0 million) and an underwriting profit of \$21.3 million (C\$24.0 million) for the year. The Company increased its net estimates for unpaid claims occurring in prior periods by \$53.6 million (\$64.3 million for the year), which increased the combined ratio by 12.6% in the quarter (3.6% for the year). This includes increases in net estimates for unpaid claims occurring in prior periods on the program business at our Lincoln General subsidiary amounting to \$55.3 million in the quarter, and \$76.1 million for the year. This increase was mitigated by a release of \$25.0 million during the quarter from reserves carried for the current accident year. The Canadian operations reported favourable reserve development in the quarter of \$4.7 million and \$11.1 million for the year. Increases in professional fees related to Sarbanes-Oxley, audit and litigation costs account for a 1.0% (0.7% for the year) increase to the general expense ratio for the fourth quarter.

For the quarter, the U.S. operations combined ratio was 107.3% (100.1% Q4 last year) which produced an underwriting loss of \$21.8 million (\$0.2 million Q4 last year) and for the Canadian operations was 96.6% (92.7% Q4 last year) which produced an underwriting profit of \$4.3 million (\$10.3 million Q4 last year). For the year, U.S. operations combined ratio was 100.8% (97.7% last year) which produced an underwriting loss of \$9.7 million (\$27.6 million profit last year). Changes in net estimates for unpaid claims occurring in prior periods increased the combined ratio for U.S. operations by 19.6% in the quarter (6.3% for the year). The Canadian operations reported a combined ratio of 94.5% (96.1% last year), with an improved underwriting profit of \$31.0 million (\$22.5 million last year).

## **Investment Income**

Investment income, excluding net realized gains and losses, increased 22% to \$30.4 million (C\$34.6 million) compared with \$24.9 million (C\$29.2 million) for the same quarter of 2005. For the year investment income, excluding net realized gains and losses, increased by 30% to \$120.9 million (C\$137.0 million) compared to \$93.0 million (C\$112.6 million) last year. The yield before expenses on the fixed income portfolio increased to 4.5% for the fourth quarter (4.3% for the year) compared to 3.8% (3.7% for the year) for the same quarter of 2005.

For the quarter, net realized gains amounted to \$11.2 million (C\$12.9 million) compared with \$8.2 million (C\$9.6 million) in the fourth quarter of 2005. For the quarter net realized gains after tax were \$12.0 million (C\$13.8 million) compared with \$6.4 million (C\$7.4 million) in the fourth quarter of 2005.

For the year, net realized gains amounted to \$29.0 million (C\$32.7 million) compared with \$38.2 million (C\$45.9 million) for the same period last year. For the year net realized gains after tax were \$23.4 million (C\$26.5 million) compared with \$28.7 million (C\$34.4 million) for the same period last year.

For the quarter, net realized gains include adjustments to the carrying value for declines in market value considered other than temporary of \$1.9 million (\$4.6 million for the year) on investments still held compared to \$2.1 million in Q4 2005 (\$4.8 million last year). Net realized gains for the quarter include realized losses of \$7.9 million (\$8.5 million Q4 2005). Net gains for the year include realized losses of \$34.8 million (\$22.3 million last year).

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Net unrealized gains on the total investment portfolio were \$26.5 million (C\$30.8 million) or \$0.47 (C\$0.55) per share outstanding at December 31, 2006, as compared to net unrealized gains of \$18.2 million (C\$21.2 million) or \$0.32 (C\$0.37) per share outstanding at the end of 2005. Net unrealized gains on the common shares portfolio were \$37.5 million (C\$43.7 million) or \$0.67 (C\$0.78) per share outstanding at December 31, 2006 compared to \$40.1 million (C\$46.6 million) or \$0.71 (C\$0.83) per share outstanding at the end of 2005.

Duration is a measure used to estimate the extent market values of fixed maturity investments change with changes in interest rates. Using this measure, it is estimated that an immediate hypothetical 100 basis point parallel increase in interest rates would decrease the market value of our fixed maturity investments by \$76.0 million at December 31, 2006, representing 3.1% of the \$2.48 billion fair value fixed maturity investment portfolio.

### **Balance Sheet**

Total assets as at December 31, 2006 were \$4.05 billion (C\$4.72 billion) compared to \$3.80 billion (C\$4.44 billion) at the end of 2005. Book value per share increased by 13% to \$16.12 (C\$18.79) from \$14.25 (C\$16.57) as at December 31, 2005.

The carrying value of the investment portfolio including cash increased 5% to \$3.06 billion (C\$3.56 billion), compared to \$2.91 billion (C\$3.39 billion) as at December 31, 2005. At December 31, 2006, 24% of the fixed income portfolio matures in less than one year and 47% matures after one year and in less than five years. The fair value of the investment portfolio including cash was \$55.21 (C\$64.34) per common share at December 31, 2006 compared to \$51.93 (C\$60.39) last year.

The provisions for unpaid claims increased by 5% to \$1.94 billion (C\$2.26 billion) compared to \$1.84 billion (C\$2.14 billion) at the end of 2005. At December 31, 2006 the provision for unpaid claims comprised case reserves for individual claims which increased 2% to \$1.17 billion (\$1.15 billion last year) and a provision for Incurred But Not Reported claims which increased 11% to \$770.2 million (\$695.6 million last year). For each of our insurance subsidiaries the provision for unpaid claims was at or higher than the point estimate recommended by their independent appointed actuary as at December 31, 2006.

The Company has increased its investment in capital assets by \$36.5 million during the year, \$25.8 million of which is the result of the construction of the new head office building in Mississauga which is scheduled for completion and occupancy in the first quarter of 2007. Intangible assets increased by \$19.6 million during the year as a result of the acquisition of the renewal rights of assigned risk business in the United States.

On January 24, 2007 the Company announced it had reached a definitive agreement to acquire Mendota Insurance Company ("Mendota"). Mendota is a wholly owned subsidiary of The St. Paul Travelers Companies, Inc. The transaction includes Mendota's wholly owned subsidiaries, Mendakota Insurance Company and Mendota Insurance Agency, Inc. The transaction is scheduled to be completed following receipt of regulatory approvals. It is anticipated that the purchase price will be funded through internal sources, a portion of which may include Kingsway's existing undrawn credit facilities.

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### **Normal Course Issuer Bid**

During the quarter, the Company repurchased and cancelled 242,200 common shares under the normal course issuer bid for a total purchase price of \$5.1 million (C\$5.9 million). During 2006 the Company repurchased and cancelled 805,000 common shares or 1.4% of the shares outstanding at the beginning of the year for a total purchase price of \$16.2 million (C\$18.4 million) at an average price of \$20.11 (C\$22.81).

### **Quarterly Dividend**

The Board of Directors today approved the payment of the Company's quarterly dividend to shareholders of C\$0.075 per common share. The dividend payment will be made on March 30, 2007 to shareholders of record as at March 15, 2007.

### **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 2005 Annual Report. Further information about our financial results and condition can be found in our Annual Report and other filings available on our website at [www.kingsway-financial.com](http://www.kingsway-financial.com), on the Canadian Securities Administrators' website at [www.sedar.com](http://www.sedar.com), and on the EDGAR section of the U.S. Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov).

### **Conference Call**

The Company will have its quarterly conference call today at 5:00pm (EST). The call may be accessed by telephone at 1-800-733-7560. A live broadcast of the conference call can be accessed at <http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=1690480> or through a link from our website at [www.kingsway-financial.com](http://www.kingsway-financial.com). A rebroadcast of the conference call will also be available and can be accessed through our website.

### **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 2005 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.

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## **About the Company**

Kingsway Financial Services Inc. is one of the largest truck insurers and non-standard automobile insurers in North America based on A.M. Best data that we have compiled. 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 eleven 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, Zephyr Insurance Company and Avalon Risk Management, Inc. The Company also operates reinsurance subsidiaries in Barbados and Bermuda.

Lincoln General Insurance Company, Universal Casualty Insurance Company, American Service Insurance Company, Southern United Fire Insurance Company, Jevco Insurance Company, Kingsway Reinsurance Corporation, Barbados and Kingsway Reinsurance (Bermuda) Ltd. are all rated "A-" (Excellent) by A.M. Best. Kingsway General and York Fire are rated "B++" (Very Good) and American Country and U.S. Security are rated "B+" (Very Good) by A.M. Best. The Company's senior debt is rated investment grade "BBB-"(stable) by Standard and Poor's and A.M. Best and "BBB" (stable) 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 three months and year ended December 31, 2006 and 2005**  
**(In thousands of U.S. dollars, except for per share amounts)**

	Quarter to Dec 31:		12 months to Dec 31:	
	2006	2005	2006	2005
	(unaudited)			
Gross premiums written	\$ 409,115	\$ 439,267	\$ 1,932,750	\$ 1,894,660
Net premiums written	\$ 380,421	\$ 403,465	\$ 1,803,382	\$ 1,824,393
Revenue:				
Net premiums earned	\$ 424,977	\$ 445,373	\$ 1,766,497	\$ 1,791,943
Investment income	30,401	24,933	120,871	93,035
Net realized gains	11,210	8,197	28,987	38,239
	466,588	478,503	1,916,355	1,923,217
Expenses:				
Claims incurred	319,536	307,201	1,234,525	1,224,506
Commissions and premium taxes	76,160	82,858	328,443	361,875
General and administrative expenses	46,822	45,212	182,256	155,773
Interest expense	7,830	7,066	30,247	25,921
Amortization of intangibles	1,030	406	1,030	795
	451,378	442,743	1,776,501	1,768,870
Income before income taxes	15,210	35,760	139,854	154,347
Income taxes	(1,638)	(141)	16,545	19,339
Net income	\$ 16,848	\$ 35,901	\$ 123,309	\$ 135,008
Earnings per share:				
Basic:	\$0.30	\$0.64	\$2.19	\$2.39
Diluted:	\$0.30	\$0.63	\$2.17	\$2.37
Weighted average shares outstanding:				
Basic:	56,060	56,476	56,234	56,423
Diluted:	56,715	57,057	56,869	56,963
Claims ratio	75.2%	69.0%	69.9%	68.3%
Expense ratio	28.9%	28.7%	28.9%	28.9%
Combined ratio	104.1%	97.7%	98.8%	97.2%
Underwriting profit	\$ (17,541)	\$10,102	\$ 21,273	\$ 49,789
Return on equity (annualized)	7.5%	18.2%	14.5%	18.4%
Book value per share			\$16.12	\$14.25

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

	<b>Dec. 31 2006 (unaudited)</b>	<b>Dec. 31 2005</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 129,706	\$ 111,034
Investments	2,929,090	2,803,790
Accrued investment income	28,365	25,126
Accounts receivable and other assets	318,332	282,764
Due from reinsurers and other insurers	208,090	222,974
Deferred policy acquisition costs	158,527	148,829
Income taxes recoverable	2,017	-
Future income taxes	75,212	57,939
Capital assets	108,149	71,608
Goodwill and intangible assets	90,850	71,130
	<u>\$ 4,048,338</u>	<u>\$ 3,795,194</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Bank indebtedness	\$ 52,149	\$ 11,767
Loans payable	66,222	66,222
Accounts payable and accrued liabilities	124,760	129,666
Income taxes payable	-	6,817
Unearned premiums	682,452	649,228
Unpaid claims	1,939,363	1,844,211
Senior unsecured debentures	191,930	192,068
Subordinated indebtedness	90,500	90,500
	<u>3,147,376</u>	<u>2,990,479</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	328,473	331,470
<i>Issued and outstanding number of common shares</i>		
<i>55,884,525 – December 31, 2006</i>		
<i>56,480,453 – December 31, 2005</i>		
Contributed surplus	5,352	3,237
Currency translation adjustment	7,011	9,958
Retained earnings	560,126	460,050
	<u>900,962</u>	<u>804,715</u>
	<u>\$ 4,048,338</u>	<u>\$ 3,795,194</u>



**KINGSWAY FINANCIAL SERVICES INC.**  
**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**  
**For the three months and year ended December 31, 2006 and 2005**  
**(In thousands of U.S. dollars)**

	<b>Quarter to Dec 31:</b>		<b>12 months to Dec 31:</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>(unaudited)</b>			
Retained earnings, beginning of period	\$ 550,280	\$ 426,582	\$ 460,050	\$ 334,468
Net income for the period	16,848	35,901	123,309	135,008
Dividends	(3,647)	(2,433)	(12,988)	(9,426)
Repurchase of common shares for cancellation	(3,355)	-	(10,245)	-
Retained earnings, end of period	\$ 560,126	\$ 460,050	\$ 560,126	\$ 460,050

**KINGSWAY FINANCIAL SERVICES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the three months and year ended December 31, 2006 and 2005**  
**(In thousands of U.S. dollars)**

	Quarter to Dec 31:		12 months to Dec 31:	
	2006	2005	2006	2005
	(unaudited)			
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Net income	\$ 16,848	\$ 35,901	\$ 123,309	\$ 135,008
Items not affecting cash:				
Amortization	410	1,691	6,135	7,679
Future income taxes	42,869	(2,359)	45,539	(6,924)
Net realized gains	(11,210)	(8,197)	(28,987)	(38,239)
Amortization of bond premiums & discounts	(466)	1,253	(2,667)	10,825
	<u>48,451</u>	<u>28,289</u>	<u>143,329</u>	<u>108,349</u>
Net change in other non-cash balances:	(28,560)	30,435	23,899	165,398
	<u>19,891</u>	<u>58,724</u>	<u>167,228</u>	<u>273,747</u>
<b>Financing activities:</b>				
Increase of share capital	605	507	3,005	2,926
Repurchase of common shares for cancellation	(5,137)	-	(16,246)	-
Dividends	(3,647)	(2,433)	(12,988)	(9,426)
Increase in bank indebtedness and loans payable	16,093	6,424	40,845	17,378
	<u>7,914</u>	<u>4,498</u>	<u>14,616</u>	<u>10,878</u>
<b>Investing activities:</b>				
Purchase of investments	(770,313)	(777,753)	(3,279,985)	(2,590,018)
Proceeds from sale of investments	855,790	773,869	3,164,215	2,356,581
Financed premiums receivable, net	10,879	5,514	18,369	3,973
Acquisitions	(22,415)	(11,892)	(22,415)	(11,892)
Net change to capital assets	(9,695)	(11,259)	(43,356)	(19,338)
	<u>64,246</u>	<u>(21,521)</u>	<u>(163,172)</u>	<u>(260,694)</u>
Increase in cash during period	92,051	41,701	18,672	23,931
Cash, beginning of period	37,655	69,333	111,034	87,103
Cash, end of period	<u>\$ 129,706</u>	<u>\$ 111,034</u>	<u>\$ 129,706</u>	<u>\$ 111,034</u>

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

**As at December 31, 2006 and December 31, 2005**  
**(In thousands of U.S. dollars)**  
**(Unaudited)**

**1. Investments:**

	December 31, 2006	
	Carrying Amount	Fair value
Term deposits	\$ 379,574	\$ 379,128
Bonds:		
Government	332,058	333,231
Corporate	1,783,228	1,771,480
Common shares	366,702	404,193
Financed premiums	67,528	67,528
	<b>\$ 2,929,090</b>	<b>\$ 2,955,560</b>
	December 31, 2005	
	Carrying Amount	Fair value
Term deposits	\$ 383,071	\$ 381,734
Bonds:		
Government	428,316	427,801
Corporate	1,581,579	1,561,443
Preferred shares	1,290	1,352
Common shares	323,830	363,955
Financed premiums	85,704	85,704
	<b>\$ 2,803,790</b>	<b>\$ 2,821,989</b>

**KINGSWAY FINANCIAL SERVICES INC.**  
**SUPPLEMENTARY INFORMATION TO PRESS RELEASE**  
**For the three months and year ended December 31, 2006 and 2005**  
**(In thousands of U.S. dollars)**  
**(Unaudited)**

**2. Underwriting Results:**

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

	<b>Quarter to Dec 31:</b>		<b>12 months to Dec 31:</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Underwriting Profit				
Canada	\$ 4,323	\$ 10,327	\$ 31,037	\$ 22,452
U.S.	(21,864)	(225)	(9,764)	27,337
Total	<u>\$ (17,541)</u>	<u>\$ 10,102</u>	<u>\$ 21,273</u>	<u>\$ 49,789</u>
Combined Ratio				
Canada	96.6%	92.7%	94.5%	96.1%
U.S.	107.3%	100.1%	100.8%	97.7%
Total	<u>104.1%</u>	<u>97.7%</u>	<u>98.8%</u>	<u>97.2%</u>
Expense Ratio				
Canada	31.5%	30.1%	30.6%	27.8%
U.S.	27.8%	28.2%	28.1%	29.4%
Total	<u>28.9%</u>	<u>28.7%</u>	<u>28.9%</u>	<u>28.9%</u>
Loss Ratio				
Canada	65.1%	62.6%	63.9%	68.3%
U.S.	79.5%	71.9%	72.7%	68.3%
Total	<u>75.2%</u>	<u>69.0%</u>	<u>69.9%</u>	<u>68.3%</u>
<b>Favourable (Unfavourable) change in estimated unpaid claims for prior accident years (note 1):</b>				
Canada	\$ 4,748	\$ 2,518	\$ 11,113	\$ (2,059)
U.S.	(58,375)	(21,802)	(75,442)	(22,174)
Total	<u>\$ (53,627)</u>	<u>\$ (19,284)</u>	<u>\$ (64,329)</u>	<u>\$ (24,233)</u>
<b>As a % of net premiums earned (note 2):</b>				
Canada	(3.7%)	(1.8%)	(2.0%)	0.4%
U.S.	19.6%	7.2%	6.3%	1.8%
Total	<u>12.6%</u>	<u>4.3%</u>	<u>3.6%</u>	<u>1.4%</u>
<b>As a % of unpaid claims (note 3):</b>				
Canada			(1.5%)	0.3%
U.S.			7.0%	2.1%
Total			<u>3.5%</u>	<u>1.4%</u>

Note 1 - (Increase) decrease in estimates for unpaid claims from prior accident years reflected in current financial year results.

Note 2 - Increase (decrease) in current financial year reported combined ratio

Note 3 - Increase (decrease) compared to estimated unpaid claims at the end of the preceding fiscal year

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

As at December 31, 2006 and December 31, 2005

(In thousands of U.S. dollars, except for per share amount)

(Unaudited)

**3. Financial Strength:**

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

	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Rolling four quarter calculations:		
Net Premiums Written to Estimated Statutory Surplus Ratio	1.7x	1.9x
Interest Coverage Ratio	5.9x	7.2x
Total Bank and Senior Debt to Capitalization Ratio	24.2%	23.5%

**4. Summary of Quarterly Results in Canadian dollars over the previous five quarters**

	<b>2006</b>				<b>2005</b>
	Q4	Q3	Q2	Q1	Q4
Gross premiums written	\$465,958	\$542,590	\$597,352	\$585,718	\$515,304
Net premiums earned	484,104	513,926	511,797	493,047	522,439
Total revenue	531,659	558,573	560,309	521,963	561,261
Net realized gains (losses) after tax	13,811	6,100	7,782	(1,235)	7,436
Underwriting profit (loss)	(19,978)	14,201	10,875	18,923	11,919
Net income	19,226	41,872	44,944	33,355	42,078
Book value per share	\$18.79	\$18.04	\$17.35	\$17.13	\$16.57
<i>Earnings per share</i>					
Basic	\$0.34	\$0.75	\$0.80	\$0.59	\$0.75
Diluted	0.34	0.74	0.79	0.58	0.74

The selected financial information disclosed above has been translated using the Bank of Canada monthly average exchange rate for the income statement and the month end rate for the balance sheet. Readers should be cautioned as to the limited usefulness of the selected financial information presented above.

**KINGSWAY FINANCIAL SERVICES INC.****Non-GAAP Financial Measures****For the three months and year ended December 31, 2006 and 2005****(In thousands of U.S. dollars)****(Unaudited)****Operating Earnings Information:**

Operating earnings is a non-GAAP financial measure that the Company uses to assess the profitability of our operations. Operating earnings are calculated as net income excluding after-tax net realized gains and losses on investments. The following table reconciles net income, the most comparable GAAP measure, to operating earnings.

	<b>Quarter to Dec 31</b>		<b>12 months to Dec 31</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>(unaudited)</b>			
Net income, as reported	\$ 16,848	\$ 35,901	\$123,309	\$135,008
Net realized gains before tax, as reported	11,210	8,197	28,987	38,239
Tax effect on net realized gains	(769)	1,839	5,614	9,589
Net realized gains after tax	11,979	6,358	23,373	28,650
Operating earnings	\$4,869	\$ 29,543	\$99,936	\$106,358