



## KINGSWAY REPORTS RECORD QUARTERLY INCOME

**Toronto, Ontario (August 3, 2006)** – Kingsway Financial Services Inc. (TSE:KFS, NYSE:KFS) today announced financial results in **U.S. dollars** for the second quarter ended June 30, 2006.

### Q2 2006 compared to Q2 2005

- Net income increased 36% to a record \$40.2 million compared to \$29.6 million
- Operating earnings<sup>1</sup> increased 25% to a quarterly record \$33.2 million
- Diluted earnings per share increased 37% to a record \$0.71 compared with \$0.52
- Combined ratio was 97.9% compared to 97.0% in Q2 2005
- Underwriting profit of \$9.7 million compared to \$14.3 million last year
- Gross premiums written increased 11% to \$532.5 million
- Investment income increased 37% to \$32.4 million
- Annualized return on equity of 18.9%
- Book value per share increased 20% to \$15.54 from \$12.93 at Q2 2005

Net income increased by 36% in the quarter to \$40.2 million (C\$44.9 million), compared to \$29.6 million (C\$36.7 million) in the second quarter of last year. Net income for the six months ended June 30, 2006 increased 2% to \$69.1 million (C\$78.3 million) compared to \$67.8 million (C\$83.5 million) reported last year.

In the second quarter, operating earnings increased 25% to \$33.2 million (C\$37.2 million) compared to \$26.5 million (C\$32.8 million) in the same quarter last year. Operating earnings for the first six months of 2006 increased 18% to \$63.1 million (C\$71.7 million) compared to \$53.5 million (C\$66.0 million) for the first half of 2005.

Return on equity (annualized) was 18.9% in the quarter compared to 16.5% in the same quarter of 2005, and 16.5% for the year to date compared to 19.4% for the same period last year. Diluted earnings per share increased 37% to \$0.71 (C\$0.79) for the quarter compared to \$0.52 (C\$0.65) for the second quarter of 2005. For the six month period, diluted earnings per share increased by 2% to \$1.21 (C\$1.37) compared to \$1.19 (C\$1.47) for the same period last year.

“We are pleased to report record quarterly income and a very positive first half of 2006,” said Bill Star, President & Chief Executive Officer. “Our Canadian underwriting results were very strong and we are pleased with the profitable U.S. growth that Robert Plan and Zephyr have provided this year. We continue to benefit from growth in our investment portfolio and improving yields as we reinvest maturing bonds. Our underwriting discipline is being maintained in all our markets. The capacity constraints and increased pricing in U.S. reinsurance markets is leading to rational competition and firming market conditions. These trends bode well for continued strong results and future growth for Kingsway.”

more...

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.

## **Premium Growth**

During the second quarter of 2006, gross premiums written increased 11% to \$532.5 million (C\$597.4 million), compared with \$478.4 million (C\$595.1 million) in the second quarter last year. Gross premiums written increased 4% to \$1.04 billion (C\$1.18 billion) for the first six months of 2006, compared to \$1.00 billion (C\$1.24 billion) for the same period last year. In the quarter, U.S. operations comprised 65% (70% year to date) of gross premiums written, compared with 62% (69% year to date) in the second quarter last year. Trucking, non-standard automobile and commercial automobile premiums comprised 31%, 26% and 15%, respectively, of gross premiums written compared with 29%, 29% and 15%, respectively, last year.

For the quarter, gross premiums written from U.S. operations increased 16% to \$344.3 million (C\$386.4 million) compared with \$297.4 million (C\$369.9 million) last year. For the six months, gross premiums written by U.S. operations increased 5% to \$724.5 million (C\$825.4 million) compared to \$687.7 million (C\$848.9 million) last year. Gross premiums written increased by \$41.1 million (C\$46.0 million) in the second quarter and by \$80.0 million (C\$90.9 million) year to date as a result of business written with The Robert Plan Corporation (which commenced in 2006) and Zephyr Insurance Company (which was acquired during Q4 of 2005). Gross premiums written from Canadian operations increased 4% to \$188.2 million (decreased 6% to C\$211.0 million) for the quarter, compared to \$181.1 million (C\$225.2 million) in Q2 last year and for the year to date were \$315.2 million (C\$357.7 million) compared to \$315.3 million (C\$389.8 million) for the same period last year.

Net premiums written decreased 2% to \$502.3 million (C\$563.5 million) compared with \$512.4 million (C\$636.9 million) for the second quarter of last year and were \$978.3 million (C\$1.11 billion) for the first half compared to \$978.4 million (C\$1.21 billion) for the first six months of 2005. Zephyr's ceded premiums to reinsurers amounted to \$32.0 million (C\$36.4 million) for the year to date under their reinsurance agreements. Excluding the impact of Zephyr's ceded premiums, the Company's reinsurance costs year to date were 2.7% (2.5% last year) of gross premiums written.

Net premiums earned decreased 3% to \$456.2 million (C\$511.8 million) for the quarter, compared with \$469.3 million (C\$583.8 million) for the second quarter last year. For the first half of 2006, net premiums earned were \$883.2 million (C\$1.00 billion) compared with \$885.1 million (C\$1.09 billion) in the same period last year. For the U.S. operations, net premiums earned decreased 3% to \$307.7 million (C\$345.2 million) compared with \$316.8 million (C\$394.0 million) in the second quarter of 2005. Net premiums earned from Canadian operations decreased by 3% to \$148.5 million (C\$166.6 million) compared with \$152.5 million (C\$189.8 million) last year. For the year to date, net premiums earned from U.S. operations were \$600.6 million (C\$683.4 million) compared to \$607.6 million (C\$750.7 million) last year, and for the Canadian operations were \$282.6 million (C\$321.4 million) and \$277.5 million (C\$343.1 million), respectively.

more...

### **Underwriting Profit & Combined Ratio**

The combined ratio for the second quarter was 97.9% (97.0% year to date) which produced a quarterly underwriting profit of \$9.7 million (C\$10.9 million) and \$26.1 million (C\$29.8 million) year to date. For the quarter, the U.S. operations combined ratio was 99.7% (97.0% Q2 last year) which produced an underwriting profit of \$0.8 million (\$9.3 million Q2 last year) and the Canadian operations improved to 94.0% (96.7% Q2 last year) which produced an underwriting profit of \$9.0 million (\$5.0 million Q2 last year). For the year to date, U.S. operations combined ratio was 98.3% (96.6% last year) which produced an underwriting profit of \$10.0 million (\$20.8 million last year) and for the Canadian operations was 94.3% (96.8% last year), with an underwriting profit of \$16.1 million (\$8.8 million last year). The Company increased its estimates for unpaid claims occurring in prior periods, which increased the combined ratio by 1.0% in the quarter (0.2% year to date), and reduced the underwriting profit by \$4.6 million (\$1.7 million year to date). Increases in professional fees account for a 0.5% (0.3% year to date) increase to the general expense ratio for the second quarter.

### **Investment Income**

Investment income, excluding net realized gains and losses, increased 37% to \$32.4 million (C\$36.3 million) compared with \$23.6 million (C\$29.3 million) for the same quarter of 2005. For the year to date investment income, excluding net realized gains and losses, increased by 29% to \$59.0 million (19% to C\$67.0 million) compared to \$45.6 million (C\$56.4 million) last year. The yield before expenses on the fixed income portfolio was 4.1% year to date compared to 3.7% year to date last year.

For the quarter, net realized gains amounted to \$11.0 million (C\$12.2 million) compared with \$4.4 million (C\$5.5 million) in the second quarter of 2005. For the quarter net realized gains after tax were \$7.0 million (C\$7.8 million) compared with \$3.2 million (C\$3.9 million) in the second quarter of 2005.

For the year to date, net realized gains amounted to \$9.4 million (C\$10.4 million) compared with \$18.4 million (C\$22.5 million) for the same period last year. For the year to date net realized gains after tax were \$5.9 million (C\$6.5 million) compared with \$14.3 million (C\$17.5 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 \$0.8 million (\$nil in Q2 2005) on investments still held and realized losses of \$9.7 million (\$6.5 million in Q2 2005). Realized losses on the fixed income portfolio were \$4.6 million in the quarter as part of the portfolio was repositioned to achieve higher yields in the future. For the year, net realized gains include adjustments to the carrying value for declines in the market value considered other than temporary of \$2.5 million (\$2.1 million last year) on investments still held and realized losses of \$18.5 million (\$10.0 million last year).

more...

Net unrealized losses on the total investment portfolio were \$28.1 million (C\$31.4 million) or \$0.50 (C\$0.56) per share outstanding at June 30, 2006, primarily as a result of increases in interest rates in the period, 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 \$27.7 million (C\$30.9 million) or \$0.49 (C\$0.55) per share outstanding at June 30, 2006 compared to \$40.1 million (C\$46.6 million) or \$0.71 (C\$0.83) per share outstanding at the end of 2005.

### **Balance Sheet**

Total assets as at June 30, 2006 were \$4.0 billion (C\$4.5 billion) compared to \$3.8 billion (C\$4.4 billion) at the end of 2005. Book value per share increased by 20% to \$15.54 (C\$17.35) from \$12.93 (C\$15.84) as at June 30, 2005.

The carrying value of the investment portfolio including cash increased 5% to \$3,047.9 million (C\$3,402.1 million), compared to \$2,914.8 million (C\$3,389.9 million) as at December 31, 2005. At June 30, 2006, 22% of the fixed income portfolio matures in less than one year and 48% matures after one year and in less than five years. The fair value of the investment portfolio including cash was \$53.82 (C\$60.07) per common share at June 30, 2006.

During the quarter, provisions for unpaid claims increased by 4% to \$1,922.6 million (C\$2,146.0 million) compared to \$1,844.2 million (C\$2,144.8 million) at the end of 2005.

The Company has increased its investment in capital assets by \$21.0 million during the year, \$19.2 million of which is the result of the construction that continues on its new head office building in Mississauga and new facilities for Lincoln General in York, Pennsylvania. The head office building in Mississauga is scheduled for completion in the first quarter of 2007, and the York, Pennsylvania facility in the fall of 2006.

### **Normal Course Issuer Bid**

During the quarter, we repurchased and cancelled 313,500 common shares under the normal course issuer bid for a total purchase price of \$6.0 million (C\$6.7 million). For the year to date, we have repurchased and cancelled 472,800 common shares or 0.8% of the shares outstanding at the beginning of the year for a total purchase price of \$9.2 million (C\$10.4 million).

### **Quarterly Dividend**

The Board of Directors today approved the payment of the Company's quarterly dividend to shareholders of C\$0.0625 per common share. The dividend payment will be made on September 29, 2006 to shareholders of record as at September 15, 2006.

more...

### **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 and New York Stock Exchange (NYSE) Ceremony**

The Company will have its quarterly conference call today at 5:00pm (EDT). The call may be accessed by telephone at 1-800-814-4860. A live broadcast of the conference call can be accessed at <http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=1518880> 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.

The Company will be ringing The Closing Bell at the NYSE today at 4pm to celebrate the 5<sup>th</sup> anniversary of the Company's listing on the NYSE. The ceremony can be viewed through a webcast from the following link:

<http://mfile.akamai.com/7096/live/reflector:57489.aspx?bkup=59611&prop=n>.

### **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.

### **About the Company**

Kingsway Financial Services Inc. is the largest truck insurer in North America and the seventh largest non-standard automobile insurer 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.

more...

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. 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".

-----

**For further information, please contact:**

**W. Shaun Jackson**

**Executive Vice President and Chief Financial Officer**

**Tel: (905) 629-7888**

**Fax: (905) 629-5008**

**Web Site: [www.kingsway-financial.com](http://www.kingsway-financial.com)**

**KINGSWAY FINANCIAL SERVICES INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the three and six months ended June 30, 2006 and 2005**  
**(In thousands of U.S. dollars, except for per share amounts)**

|                                      | Quarter to June 30: |            | 6 months to June 30: |             |
|--------------------------------------|---------------------|------------|----------------------|-------------|
|                                      | 2006                | 2005       | 2006                 | 2005        |
|                                      | (unaudited)         |            |                      |             |
| Gross premiums written               | \$ 532,489          | \$ 478,446 | \$ 1,039,732         | \$1,003,052 |
| Net premiums written                 | \$ 502,323          | \$ 512,408 | \$ 978,295           | \$ 978,411  |
| Revenue:                             |                     |            |                      |             |
| Net premiums earned                  | \$ 456,196          | \$ 469,300 | \$ 883,211           | \$ 885,125  |
| Investment income                    | 32,377              | 23,581     | 58,952               | 45,647      |
| Net realized gains                   | 10,975              | 4,423      | 9,434                | 18,385      |
|                                      | 499,548             | 497,304    | 951,597              | 949,157     |
| Expenses:                            |                     |            |                      |             |
| Claims incurred                      | 319,279             | 322,195    | 605,171              | 607,440     |
| Commissions and premium taxes        | 86,218              | 97,296     | 169,016              | 177,622     |
| General and administrative expenses  | 40,963              | 35,513     | 82,922               | 70,398      |
| Interest expense                     | 7,646               | 6,059      | 14,810               | 11,971      |
| Amortization of intangibles          | -                   | 130        | -                    | 259         |
|                                      | 454,106             | 461,193    | 871,919              | 867,690     |
| Income before income taxes           | 45,442              | 36,111     | 79,678               | 81,467      |
| Income taxes                         | 5,268               | 6,464      | 10,622               | 13,699      |
| Net income                           | \$ 40,174           | \$ 29,647  | \$ 69,056            | \$ 67,768   |
| Earnings per share:                  |                     |            |                      |             |
| Basic:                               | \$0.71              | \$0.52     | \$1.22               | \$1.20      |
| Diluted:                             | \$0.71              | \$0.52     | \$1.21               | \$1.19      |
| Weighted average shares outstanding: |                     |            |                      |             |
| Basic:                               | 56,325              | 56,439     | 56,393               | 56,374      |
| Diluted:                             | 56,872              | 56,863     | 56,951               | 56,836      |
| Claims ratio                         | 70.0%               | 68.7%      | 68.5%                | 68.6%       |
| Expense ratio                        | 27.9%               | 28.3%      | 28.5%                | 28.0%       |
| Combined ratio                       | 97.9%               | 97.0%      | 97.0%                | 96.6%       |
| Underwriting profit                  | \$ 9,736            | \$14,296   | \$ 26,102            | \$ 29,665   |
| Return on equity (annualized)        | 18.9%               | 16.5%      | 16.5%                | 19.4%       |
| Book value per share                 |                     |            | \$15.54              | \$12.93     |

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

|                                                       | <b>June 30</b><br><b>2006</b><br><b>(unaudited)</b> | <b>Dec. 31</b><br><b>2005</b> |
|-------------------------------------------------------|-----------------------------------------------------|-------------------------------|
| <b>ASSETS</b>                                         |                                                     |                               |
| Cash and cash equivalents                             | \$ 74,383                                           | \$ 111,034                    |
| Investments                                           | 2,973,509                                           | 2,803,790                     |
| Accrued investment income                             | 27,774                                              | 25,126                        |
| Accounts receivable and other assets                  | 345,733                                             | 282,764                       |
| Due from reinsurers and other insurers                | 222,530                                             | 222,974                       |
| Deferred policy acquisition costs                     | 168,150                                             | 148,829                       |
| Income taxes recoverable                              | 8,046                                               | -                             |
| Future income taxes                                   | 66,010                                              | 57,939                        |
| Capital assets                                        | 92,610                                              | 71,608                        |
| Goodwill and intangible assets                        | 69,846                                              | 71,130                        |
|                                                       | <u>\$ 4,048,591</u>                                 | <u>\$ 3,795,194</u>           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>           |                                                     |                               |
| <b>LIABILITIES</b>                                    |                                                     |                               |
| Bank indebtedness                                     | \$ 21,329                                           | \$ 11,767                     |
| Loans payable                                         | 66,222                                              | 66,222                        |
| Accounts payable and accrued liabilities              | 134,203                                             | 129,666                       |
| Income taxes payable                                  | -                                                   | 6,817                         |
| Unearned premiums                                     | 746,833                                             | 649,228                       |
| Unpaid claims                                         | 1,922,568                                           | 1,844,211                     |
| Senior unsecured debentures                           | 194,880                                             | 192,068                       |
| Subordinated indebtedness                             | 90,500                                              | 90,500                        |
|                                                       | <u>3,176,535</u>                                    | <u>2,990,479</u>              |
| <b>SHAREHOLDERS' EQUITY</b>                           |                                                     |                               |
| Share capital                                         | 329,518                                             | 331,470                       |
| <i>Issued and outstanding number of common shares</i> |                                                     |                               |
| <i>56,110,322 – June 30, 2006</i>                     |                                                     |                               |
| <i>56,480,453 – December 31, 2005</i>                 |                                                     |                               |
| Contributed surplus                                   | 3,972                                               | 3,237                         |
| Currency translation adjustment                       | 21,372                                              | 9,958                         |
| Retained earnings                                     | 517,194                                             | 460,050                       |
|                                                       | <u>872,056</u>                                      | <u>804,715</u>                |
|                                                       | <u>\$ 4,048,591</u>                                 | <u>\$ 3,795,194</u>           |



**KINGSWAY FINANCIAL SERVICES INC.**  
**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**  
**For the three and six months ended June 30, 2006 and 2005**  
**(In thousands of U.S. dollars)**

|                                              | <b>Quarter to June 30:</b> |             | <b>6 months to June 30:</b> |             |
|----------------------------------------------|----------------------------|-------------|-----------------------------|-------------|
|                                              | <b>2006</b>                | <b>2005</b> | <b>2006</b>                 | <b>2005</b> |
|                                              | <b>(unaudited)</b>         |             |                             |             |
| Retained earnings, beginning of period       | \$ 483,795                 | \$ 370,269  | \$ 460,050                  | \$ 334,468  |
| Net income for the period                    | 40,174                     | 29,647      | 69,056                      | 67,768      |
| Common share dividends                       | (3,156)                    | (2,275)     | (6,203)                     | (4,595)     |
| Repurchase of common shares for cancellation | (3,619)                    | -           | (5,709)                     | -           |
| Retained earnings, end of period             | \$ 517,194                 | \$ 397,641  | \$ 517,194                  | \$ 397,641  |

**KINGSWAY FINANCIAL SERVICES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the three and six months ended June 30, 2006 and 2005**  
**(In thousands of U.S. dollars)**

|                                                               | Quarter to June 30: |                  | 6 months to June 30: |                  |
|---------------------------------------------------------------|---------------------|------------------|----------------------|------------------|
|                                                               | 2006                | 2005             | 2006                 | 2005             |
|                                                               | (unaudited)         |                  |                      |                  |
| <b>Cash provided by (used in):</b>                            |                     |                  |                      |                  |
| <b>Operating activities:</b>                                  |                     |                  |                      |                  |
| Net income                                                    | \$ 40,174           | \$ 29,647        | \$ 69,056            | \$ 67,768        |
| Items not affecting cash:                                     |                     |                  |                      |                  |
| Amortization                                                  | 1,867               | 1,974            | 3,909                | 3,923            |
| Future income taxes                                           | 6,734               | (359)            | 1,676                | (1,437)          |
| Net realized gains                                            | (10,975)            | (4,423)          | (9,434)              | (18,385)         |
| Amortization of bond premiums & discounts                     | (2,617)             | 3,210            | (1,331)              | 7,317            |
|                                                               | <u>35,183</u>       | <u>30,049</u>    | <u>63,876</u>        | <u>59,186</u>    |
| Net change in other non-cash balances:                        | <u>66,309</u>       | <u>82,570</u>    | <u>40,397</u>        | <u>88,347</u>    |
|                                                               | 101,492             | 112,619          | 104,273              | 147,533          |
| <b>Financing activities:</b>                                  |                     |                  |                      |                  |
| Increase of share capital                                     | 691                 | 340              | 1,589                | 2,374            |
| Repurchase of common shares for<br>cancellation               | (5,997)             | -                | (9,249)              | -                |
| Common dividends                                              | (3,156)             | (2,276)          | (6,203)              | (4,595)          |
| Increase (decrease) in bank indebtedness<br>and loans payable | (3,206)             | 100              | 8,946                | 6,137            |
|                                                               | <u>(11,668)</u>     | <u>(1,836)</u>   | <u>(4,917)</u>       | <u>3,916</u>     |
| <b>Investing activities:</b>                                  |                     |                  |                      |                  |
| Purchase of investments                                       | (938,427)           | (666,335)        | (1,742,427)          | (1,196,779)      |
| Proceeds from sale of investments                             | 835,769             | 539,039          | 1,626,566            | 1,035,503        |
| Financed premiums receivable, net                             | (2,928)             | (4,952)          | 3,611                | (4,366)          |
| Net change to capital assets                                  | (16,140)            | (2,094)          | (23,757)             | (3,020)          |
|                                                               | <u>(121,726)</u>    | <u>(134,342)</u> | <u>(136,007)</u>     | <u>(168,662)</u> |
| Decrease in cash during period                                | (31,902)            | (23,559)         | (36,651)             | (17,213)         |
| Cash, beginning of period                                     | 106,285             | 93,449           | 111,034              | 87,103           |
| Cash, end of period                                           | <u>\$ 74,383</u>    | <u>\$ 69,890</u> | <u>\$ 74,383</u>     | <u>\$ 69,890</u> |

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

As at June 30, 2006 and December 31, 2005

(In thousands of U.S. dollars)

**1. Investments:**

|                   | June 30, 2006       |                     |
|-------------------|---------------------|---------------------|
|                   | Carrying<br>Amount  | Fair<br>value       |
| Term deposits     | \$ 351,902          | \$ 350,847          |
| Bonds:            |                     |                     |
| Government        | 430,166             | 423,866             |
| Corporate         | 1,722,745           | 1,674,299           |
| Common shares     | 383,806             | 411,465             |
| Financed premiums | 84,890              | 84,890              |
|                   | <b>\$ 2,973,509</b> | <b>\$ 2,945,367</b> |
|                   |                     |                     |
|                   |                     |                     |
|                   | December 31, 2005   |                     |
|                   | Carrying<br>Amount  | Fair<br>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 and six months ended June 30, 2006 and 2005**  
**(In thousands of U.S. dollars)**

**2. Underwriting Results:**

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

|                                                                                                           | <b>Quarter to June 30:</b> |                    | <b>6 months to June 30:</b> |                   |
|-----------------------------------------------------------------------------------------------------------|----------------------------|--------------------|-----------------------------|-------------------|
|                                                                                                           | <b>2006</b>                | <b>2005</b>        | <b>2006</b>                 | <b>2005</b>       |
| <b>Underwriting Profit</b>                                                                                |                            |                    |                             |                   |
| Canada                                                                                                    | \$ 8,963                   | \$ 4,991           | \$16,063                    | \$ 8,840          |
| U.S.                                                                                                      | 773                        | 9,305              | 10,039                      | 20,825            |
| <b>Total</b>                                                                                              | <b>\$ 9,736</b>            | <b>\$14,296</b>    | <b>\$26,102</b>             | <b>\$29,665</b>   |
| <b>Combined Ratio</b>                                                                                     |                            |                    |                             |                   |
| Canada                                                                                                    | 94.0%                      | 96.7%              | 94.3%                       | 96.8%             |
| U.S.                                                                                                      | 99.7%                      | 97.0%              | 98.3%                       | 96.6%             |
| <b>Total</b>                                                                                              | <b>97.9%</b>               | <b>97.0%</b>       | <b>97.0%</b>                | <b>96.6%</b>      |
| <b>Expense Ratio</b>                                                                                      |                            |                    |                             |                   |
| Canada                                                                                                    | 28.6%                      | 26.8%              | 30.0%                       | 26.7%             |
| U.S.                                                                                                      | 27.5%                      | 29.0%              | 27.8%                       | 28.6%             |
| <b>Total</b>                                                                                              | <b>27.9%</b>               | <b>28.3%</b>       | <b>28.5%</b>                | <b>28.0%</b>      |
| <b>Loss Ratio</b>                                                                                         |                            |                    |                             |                   |
| Canada                                                                                                    | 65.4%                      | 70.0%              | 64.3%                       | 70.1%             |
| U.S.                                                                                                      | 72.2%                      | 68.0%              | 70.5%                       | 68.0%             |
| <b>Total</b>                                                                                              | <b>70.0%</b>               | <b>68.7%</b>       | <b>68.5%</b>                | <b>68.6%</b>      |
| <b>Favourable (Unfavourable) change in estimated<br/>unpaid claims for prior accident years (note 1):</b> |                            |                    |                             |                   |
| Canada                                                                                                    | \$ 450                     | \$ (6,355)         | \$ 1,303                    | \$ (5,719)        |
| U.S.                                                                                                      | (5,025)                    | (4,253)            | (3,027)                     | (782)             |
| <b>Total</b>                                                                                              | <b>\$ (4,575)</b>          | <b>\$ (10,608)</b> | <b>\$ (1,724)</b>           | <b>\$ (6,501)</b> |
| <b>As a % of net premiums earned (note 2):</b>                                                            |                            |                    |                             |                   |
| Canada                                                                                                    | (0.3%)                     | 4.2%               | (0.5%)                      | 2.1%              |
| U.S.                                                                                                      | 1.6%                       | 1.3%               | 0.5%                        | 0.1%              |
| <b>Total</b>                                                                                              | <b>1.0%</b>                | <b>2.3%</b>        | <b>0.2%</b>                 | <b>0.7%</b>       |
| <b>As a % of unpaid claims (note 3):</b>                                                                  |                            |                    |                             |                   |
| Canada                                                                                                    |                            |                    | (0.2%)                      | 0.9%              |
| U.S.                                                                                                      |                            |                    | 0.3%                        | 0.1%              |
| <b>Total</b>                                                                                              |                            |                    | <b>0.1%</b>                 | <b>0.4%</b>       |

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 June 30, 2006, December 31, 2005 and June 30, 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>June<br/>30, 2006</b> | <b>December<br/>31, 2005</b> |
|-----------------------------------------------------------|--------------------------|------------------------------|
| Rolling four quarter calculations:                        |                          |                              |
| Net Premiums Written to Estimated Statutory Surplus Ratio | 1.7x                     | 1.9x                         |
| Interest Coverage Ratio                                   | 6.5x                     | 7.2x                         |
| Total Bank and Senior Debt to Capitalization Ratio        | 23.0%                    | 23.5%                        |

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

|                                       | <b>2006</b> |           |           | <b>2005</b> |           |
|---------------------------------------|-------------|-----------|-----------|-------------|-----------|
|                                       | Q2          | Q1        | Q4        | Q3          | Q2        |
| Gross premiums written                | \$597,352   | \$585,718 | \$515,304 | \$543,889   | \$595,069 |
| Net premiums earned                   | 511,797     | 493,047   | 522,439   | 554,559     | 583,762   |
| Total revenue                         | 560,309     | 521,963   | 561,261   | 595,307     | 618,555   |
| Net realized gains (losses) after tax | 7,782       | (1,235)   | 7,436     | 9,498       | 3,928     |
| Underwriting profit                   | 10,875      | 18,923    | 11,918    | 12,114      | 17,668    |
| Net income                            | 44,944      | 33,355    | 42,078    | 37,500      | 36,739    |
| Book value per share                  | \$17.35     | \$17.13   | \$16.57   | \$15.87     | \$15.84   |
| <i>Earnings per share</i>             |             |           |           |             |           |
| Basic                                 | \$0.80      | \$0.59    | \$0.75    | \$0.66      | \$0.65    |
| Diluted                               | 0.79        | 0.58      | 0.74      | 0.66        | 0.65      |

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 and six months ended June 30, 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 June 30</b> |             | <b>6 months to June 30</b> |             |
|--------------------------------------------|---------------------------|-------------|----------------------------|-------------|
|                                            | <b>2006</b>               | <b>2005</b> | <b>2006</b>                | <b>2005</b> |
|                                            | <b>(unaudited)</b>        |             |                            |             |
| Net income, as reported                    | \$ 40,174                 | \$ 29,647   | \$ 69,056                  | \$ 67,768   |
| Net realized gains before tax, as reported | 10,975                    | 4,423       | 9,434                      | 18,385      |
| Tax effect on net realized gains           | 3,978                     | 1,235       | 3,513                      | 4,104       |
| Net realized gains after tax               | 6,997                     | 3,188       | 5,921                      | 14,281      |
| Operating earnings                         | \$ 33,177                 | \$ 26,459   | \$ 63,135                  | \$ 53,487   |