



KINGSWAY REPORTS NET INCOME OF \$19.6 MILLION FOR THE QUARTER

Toronto, Ontario (May 2, 2007) – Kingsway Financial Services Inc. (TSE:KFS, NYSE:KFS) today announced financial results in **U.S. dollars** for the quarter ended March 31, 2007.

Q1 2007 compared to Q1 2006

- Net income of \$19.6 million compared to \$28.9 million
- Operating earnings¹ of \$11.9 million compared to \$30.0 million
- Diluted earnings per share of \$0.35 compared with \$0.51
- Combined ratio was 105.0% compared to 96.2%
- Changes in estimated unpaid claims for prior years at Lincoln General of \$47.5 million increased the combined ratio by 11.4%, reduced diluted earnings per share by 55 cents and net income and operating earnings by \$30.9 million
- Underwriting loss of \$20.7 million compared to a profit of \$16.4 million last year
- Gross premiums written were to \$479.4 million compared to \$507.2 million
- Investment income of \$31.6 million compared to \$26.6 million
- Book value per share increased 5% to \$16.90 from \$16.12 at December 31, 2006
- Return on equity of 8.5%

Net income in the quarter was \$19.6 million compared to \$28.9 million in the first quarter of last year. In the quarter, operating earnings¹ amounted to \$11.9 million compared to \$30.0 million in the same quarter last year. Annualized return on equity was 8.5% for the quarter compared to 14.2% last year. Diluted earnings per share were to \$0.35 for the quarter compared to \$0.51 for the first quarter of 2006. The increase in estimates for unpaid claims for prior years at Lincoln General of \$47.5 million reduced net income and operating earnings by \$30.9 million and diluted earnings per share by \$0.55 in the quarter.

“Although Kingsway’s income for this quarter exceeded that of the prior quarter, we are very disappointed with the results from our Lincoln General subsidiary. At Lincoln General we have significantly strengthened our estimates for unpaid claims in each of the last three quarters primarily related to its trucking and contractors business,” said Bill Star, President & Chief Executive Officer. “We believe that the reserve increases and other steps we have taken at Lincoln have positioned the Company to improve its results going forward. Despite the disappointing results from Lincoln, the results from our other U.S. and Canadian subsidiaries were strong and we continue to experience increased levels of investment income and net realized gains. We anticipate that the recently completed acquisition of Mendota will be accretive to our earnings in the second quarter.”

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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.

Premium Growth

During the first quarter, gross premiums written declined 5% to \$479.4 million, compared with \$507.2 million in the same quarter last year. U.S. operations represented 76% of gross premiums written in the quarter, compared with 75% last year. Trucking, non-standard automobile and commercial automobile premiums represented 22%, 31% and 21%, respectively, of gross premiums written for the year compared with 28%, 28% and 19% last year.

Gross premiums written from U.S. operations decreased 4% to \$363.3 million compared with \$380.2 million in the first quarter of 2006. Gross premiums written from Canadian operations decreased 9% to \$116.1 million compared to \$127.0 million Q1 2006.

Net premiums written decreased 7% to \$444.1 million compared with \$476.0 million for the same quarter of last year. Net premiums earned declined 2% to \$418.2 million compared with \$427.0 million for the same quarter last year. For U.S. operations, net premiums earned in the first quarter increased 3% to \$300.5 million compared with \$292.9 million in the same quarter of 2006. Net premiums earned from Canadian operations decreased by 12% to \$117.7 million compared with \$134.1 million in the same quarter last year.

Underwriting Profit & Combined Ratio

The combined ratio was 105.0% which produced an underwriting loss of \$20.7 million compared to an underwriting profit of \$16.4 million in the first quarter last year. The Company increased its net estimates for unpaid claims occurring in prior periods by \$39.2 million, which increased the combined ratio by 9.4% in the quarter. As a result of recent claims development patterns at Lincoln General, the Company amended its estimated loss development factors for its trucking and contractors business in the quarter based on the recommendations of its independent actuary. These increases in net estimates for unpaid claims occurring in prior periods at Lincoln General were \$47.5 million and increased the combined ratio by 11.4% in the quarter and reduced net income by \$30.9 million.

For the quarter, the U.S. operations combined ratio was 108.9% (96.8% Q1 last year) which produced an underwriting loss of \$26.6 million. Changes in net estimates for unpaid claims occurring in prior periods amounted to \$44.7 million (\$2.0 million favourable in Q1 last year) which increased the combined ratio for U.S. operations by 14.9% in the quarter. The U.S. operations, excluding Lincoln General, reported a combined ratio of 96.6% and an underwriting profit of \$2.9 million in the quarter.

The combined ratio of the Canadian operations was 95.0% (94.7% Q1 2006). The Canadian operations reported favourable unpaid claim development of \$5.5 million in the quarter and produced an underwriting profit of \$5.9 million. This is the seventh consecutive quarter of favourable development for the Canadian operations.

General expenses increased by \$9.7 million compared to the same quarter last year primarily as a result of the operating costs of the acquired assigned risk business, professional fees and corporate litigation expenses.

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Investment Income

Investment income, excluding net realized gains and losses, increased 19% to \$31.6 million compared with \$26.6 million for the same quarter of 2006. The yield before expenses on the fixed income portfolio increased to 4.5% compared to 3.9% for the first quarter of last year.

For the quarter, net realized gains amounted to \$9.1 million compared to net realized losses of \$1.5 million in Q1 2006 and net realized gains after tax were \$7.7 million compared to net realized losses after tax of \$1.1 million in Q1 2006.

Net unrealized gains on the total investment portfolio were \$36.8 million or \$0.66 per share outstanding at March 31, 2007, as compared to net unrealized gains of \$26.5 million or \$0.47 per share outstanding at December 31, 2006. Net unrealized gains on the common shares portfolio were \$43.4 million or \$0.78 per share outstanding at March 31, 2007 compared to \$37.5 million or \$0.67 per share outstanding at December 31, 2006.

For the quarter, net realized gains include adjustments to the carrying value for declines in market value considered other than temporary of \$4.0 million on investments still held compared to \$1.7 million in Q1 2006. Net realized gains for the quarter include realized losses of \$6.6 million compared to \$8.8 million of the same period last year. Net realized gains in Q1 2007 include the gain on the sale of the Company's former head office building in Mississauga, Ontario amounting to \$5.4 million.

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 March 31, 2007, representing 3.1% of the \$2.45 billion fair value fixed maturity investment portfolio.

Balance Sheet

Total assets as at March 31, 2007 were \$4.24 billion compared to \$4.05 billion at the end of 2006. Book value per share increased by 5% to \$16.90 from \$16.12 as at December 31, 2006.

The fair value of the investment portfolio including cash increased 3% to \$3.17 billion, compared to \$3.09 billion as at December 31, 2006. At March 31, 2007, 22% 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 \$57.05 per common share at March 31, 2007 compared to \$55.21 at December 31, 2006.

The provisions for unpaid claims increased by 2% to \$1.98 billion compared to \$1.94 billion at the end of 2006. At March 31, 2007 the provision for unpaid claims comprised case reserves for individual claims decreased 1% to \$1.16 billion (\$1.17 billion at year end) and the provision for Incurred But Not Reported claims which increased 6% to \$813.5 million (\$770.2 million last year) primarily as a result of the increases at Lincoln General.

Bank indebtedness increased from \$52.1 million at December 31, 2006 to \$159.6 million. During the quarter the Company borrowed approximately \$40 million to partially finance the acquisition of Mendota Insurance Company which closed on April 1, 2007 and approximately \$35 million to acquire the renewal rights from The Robert Plan Corporation and to fund the operating costs of this assigned risk business in the United States.

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Financial Instruments

On January 1, 2007, the Company prospectively adopted the Canadian Institute of Chartered Accountants (CICA) new accounting standards for securities, hedging derivatives and certain other financial instruments. Under these new rules we are required to record certain financial instruments on our financial statements at fair value. Depending on whether these financial instruments are classified as 'held for trading', 'available for sale' or 'held to maturity', the changes in fair value are included in net income or a new component of shareholders' equity called accumulated other comprehensive income. New consolidated statements of changes in shareholders' equity and comprehensive income are included in the press release that outlines the changes in each caption within the shareholders' equity section.

The Company's investment securities, classified as available for sale, are recorded at fair value under the new standards. The unrealized gains or losses are deferred in accumulated other comprehensive income until the securities are sold or there is an other than temporary impairment, at which time any gain or loss is recognized in net income.

Normal Course Issuer Bid

During the quarter, the Company repurchased and cancelled 321,400 common shares under the normal course issuer bid for a total purchase price of \$6.1 million at an average price of \$18.79 (Cdn\$21.98).

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 June 29, 2007 to shareholders of record as at June 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 2006 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, on the Canadian Securities Administrators' website at www.sedar.com, and on the EDGAR section of the U.S. Securities and Exchange Commission's website at www.sec.gov.

Conference Call and Annual and Special General Meeting

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=1786180> or through a link from our website at www.kingsway-financial.com. A rebroadcast of the conference call will also be available and can be accessed through our website.

The Company's Annual and Special Meeting ("AGM") will be held tomorrow Thursday May 3, 2007 at 4:00pm (EDT) at The Design Exchange, 234 Bay Street, Toronto, Ontario. A live webcast can be accessed at <http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=1846680>.

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 2006 Annual Report under the heading Risk Factors 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 thirteen 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, Mendota Insurance Company, Mendakota 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 STATEMENT OF OPERATIONS
(In thousands of U.S. dollars, except for per share amounts)

<i>(Unaudited)</i>	March 31 2007	March 31 2006
Gross premiums written	\$ 479,354	\$ 507,243
Net premiums written	\$ 444,121	\$ 475,972
Revenue:		
Net premiums earned	\$ 418,189	\$ 427,015
Investment income	31,556	26,575
Net realized gains (losses)	9,116	(1,541)
	458,861	452,049
Expenses:		
Claims incurred	\$ 316,054	\$ 285,892
Commissions and premiums taxes	71,164	82,798
General and administrative expenses	51,679	41,959
Interest expense	8,219	7,164
Amortization of intangibles	876	-
	447,992	417,813
Income before income taxes	10,869	34,236
Income taxes (recovery)	(8,772)	5,354
Net Income	\$ 19,641	\$ 28,882
Earnings per share:		
Basic:	\$ 0.35	\$ 0.51
Diluted:	\$ 0.35	\$ 0.51
Weighted average shares outstanding (in '000s):		
Basic:	55,799	56,461
Diluted:	56,345	57,114
Claims ratio	75.6%	67.0%
Expense ratio	29.4%	29.2%
Combined ratio	105.0%	96.2%
Underwriting profit (loss)	\$ (20,708)	\$ 16,366
Return on equity (annualized)	8.5%	14.2%
Book value per share	\$ 16.90	\$ 14.67

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

	March 31	Dec. 31
	2007	2006
	(unaudited)	
ASSETS		
Cash and cash equivalents	\$ 169,249	\$ 129,706
Investments	3,001,639	2,929,090
Accrued investment income	26,001	28,365
Accounts receivable and other assets	356,683	318,332
Due from reinsurers and other insurers	212,520	208,090
Deferred policy acquisition costs	163,478	158,527
Income taxes recoverable	14,398	2,017
Future income taxes	76,680	75,212
Capital assets	112,129	108,149
Goodwill and intangible assets	104,499	90,850
	\$ 4,237,276	\$ 4,048,338
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Bank indebtedness	\$ 159,572	\$ 52,149
Loans payable	66,222	66,222
Accounts payable and accrued liabilities	110,231	124,760
Unearned premiums	710,636	682,452
Unpaid claims	1,975,346	1,939,363
Senior unsecured debentures	188,105	191,930
Subordinated indebtedness	87,663	90,500
	3,297,775	3,147,376
SHAREHOLDERS' EQUITY		
Share capital	326,430	328,473
<i>Issued and outstanding number of common shares</i>		
<i>55,582,926 – March 31, 2007</i>		
<i>55,884,525 – December 31, 2006</i>		
Contributed surplus	5,571	5,352
Retained earnings	572,452	560,126
Accumulated other comprehensive income	35,048	7,011
	939,501	900,962
	\$ 4,237,276	\$ 4,048,338

KINGSWAY FINANCIAL SERVICES INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands of U.S. dollars)

	For the three months ended	
	March 31 2007	March 31 2006
<i>(Unaudited)</i>		
Share capital		
Balance at beginning of period	\$ 328,473	\$ 331,470
Issued during the period	278	898
Repurchased for cancellation	(2,321)	(1,162)
Balance at end of period	326,430	331,206
Contributed surplus		
Balance at beginning of period	\$ 5,352	\$ 3,237
Stock option expense	219	266
Balance at end of period	5,571	3,503
Retained earnings		
Balance at beginning of period	\$ 560,126	\$ 460,050
Net income for the period	19,641	28,882
Common share dividends	(3,574)	(3,047)
Repurchase of shares for cancellation	(3,741)	(2,090)
Balance at end of period	572,452	483,795
Accumulated other comprehensive income		
Balance at beginning of period	\$ 7,011	\$ 9,958
Cumulative effect of adopting new accounting policies	17,672	-
Other comprehensive income	10,365	(1,449)
Balance at end of period	35,048	8,509
Total shareholders' equity at end of period	\$ 939,501	\$ 827,013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(In thousands of U.S. dollars)

	For the three months ended	
	March 31 2007	March 31 2006
<i>(Unaudited)</i>		
Comprehensive income		
Net income	\$ 19,641	\$ 28,882
Other comprehensive income, net of income taxes:		
Unrealized gains and losses on translating financial statements of self-sustaining foreign operations	3,294	-
Net change in unrealized gains on available for sale securities	7,071	(1,449)
Other comprehensive income (loss)	10,365	(1,449)
Comprehensive income	\$ 30,006	\$ 27,433

KINGSWAY FINANCIAL SERVICES INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands of U.S. dollars)

<i>(Unaudited)</i>	For the three months ended	
	March 31 2007	March 31 2006
Cash flows from operating activities		
Net income	\$ 19,641	\$ 28,882
Items not affecting cash:		
Amortization	2,899	2,042
Future and current income taxes	(17,091)	(5,058)
Net realized (gains) losses	(9,116)	1,541
Amortization of bond premiums and discounts	(1,995)	1,286
Net change in other non-cash balances	(22,437)	(25,912)
	(28,099)	2,781
Cash flows from financing activities		
Increase in share capital	278	898
Repurchase of common shares for cancellation	(6,062)	(3,252)
Dividends paid	(3,574)	(3,047)
Increase in bank indebtedness and loans payable	106,951	12,152
	97,593	6,751
Investing activities		
Purchase of investments	(990,626)	(804,000)
Proceeds from sale of investments	971,309	790,797
Financed premiums receivable, net	3,301	6,539
Acquisitions	(13,860)	-
Net change to capital assets	(75)	(7,617)
	(29,951)	(14,281)
Net change in cash and cash equivalents	39,543	(4,749)
Cash and cash equivalents at beginning of period	129,706	111,034
Cash and cash equivalents at end of period	\$ 169,249	\$ 106,285

KINGSWAY FINANCIAL SERVICES INC.
SUPPLEMENTARY INFORMATION TO PRESS RELEASE

As at March 31, 2007 and December 31, 2006

(In thousands of U.S. dollars)

(Unaudited)

1. Investments:

	March 31, 2007	
	Amortized cost	Fair value
Term deposits	\$ 340,181	\$ 339,770
Bonds:		
Government	353,393	354,750
Corporate	1,762,940	1,755,324
Common shares	443,714	487,149
Financed premiums	64,646	64,646
	\$ 2,964,874	\$ 3,001,639
	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
	\$ 2,929,090	\$ 2,955,560

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

**For the three months ended March 31, 2007 and 2006
(In thousands of U.S. dollars)**

2. Underwriting Results:

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

	Quarter to March 31:	
	2007	2006
Underwriting Profit		
Canada	\$ 5,920	\$ 7,100
U.S.	(26,628)	9,266
Total	<u>\$ (20,708)</u>	<u>\$ 16,366</u>
Combined Ratio		
Canada	95.0%	94.7%
U.S.	108.9%	96.8%
Total	<u>105.0%</u>	<u>96.2%</u>
Expense Ratio		
Canada	35.9%	31.4%
U.S.	26.9%	28.2%
Total	<u>29.4%</u>	<u>29.2%</u>
Loss Ratio		
Canada	59.1%	63.3%
U.S.	82.0%	68.6%
Total	<u>75.6%</u>	<u>67.0%</u>
Favourable (unfavourable) change in estimated unpaid claims for prior accident years (note 1):		
Canada	\$ 5,461	\$ 853
U.S.	(44,680)	1,998
Total	<u>\$ (39,219)</u>	<u>\$ 2,851</u>
As a % of net premiums earned (note 2):		
Canada	(4.6%)	(0.6%)
U.S.	14.9%	(0.7%)
Total	<u>9.4%</u>	<u>(0.7%)</u>
As a % of unpaid claims (note 3):		
Canada	(0.7%)	(0.1%)
U.S.	3.9%	(0.2%)
Total	<u>2.0%</u>	<u>(0.2%)</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 March 31, 2007 and December 31, 2006

(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:

	March 31, 2007	December 31, 2006
Rolling four quarter calculations:		
Net Premiums Written to Estimated Statutory Surplus Ratio	1.6x	1.6x
Interest Coverage Ratio	5.0x	5.9x
Total Bank and Senior Debt to Capitalization Ratio	28.6%	24.2%

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

	2007	2006			
	Q1	Q4	Q3	Q2	Q1
Gross premiums written	\$561,499	\$465,958	\$542,590	\$597,352	\$585,718
Net premiums earned	489,925	484,104	513,926	511,797	493,047
Total revenue	537,545	531,659	558,573	560,309	521,963
Net realized gains (losses) after tax	8,989	13,811	6,100	7,782	(1,235)
Underwriting profit (loss)	(24,152)	(19,978)	14,201	10,875	18,923
Net income	23,061	19,226	41,872	44,944	33,355
Book value per share	\$19.52	\$18.79	\$18.04	\$17.35	\$17.13
<i>Earnings per share</i>					
Basic	\$0.41	\$0.34	\$0.75	\$0.80	\$0.59
Diluted	0.41	0.34	0.74	0.79	0.58

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 March 31, 2007 and 2006
(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.

	Quarter to March 31	
	2007	2006
Net income, as reported	\$19,641	\$28,882
Net realized gains before tax, as reported	9,116	(1,541)
Tax effect on net realized gains	1,403	(465)
Net realized gains after tax	7,713	(1,076)
Operating earnings	\$11,928	\$29,958