

***FOR IMMEDIATE RELEASE***

**TSE SYMBOL: KFS**

**KINGSWAY REPORTS RECORD EARNINGS AND REVENUES  
IN SECOND QUARTER**

**Toronto, Ontario (July 28, 1998)** – Kingsway Financial Services Inc. today announced its results for the second quarter and six months ended June 30, 1998. Earnings for the first six months of 1998 exceeded prior year earnings by 32%.

Income before taxes for the first six months of 1998 was \$23,346,000, an increase of 85% over the first six months of 1997. Consolidated net income for the first six months of 1998 increased 32% to a record \$13,888,000, compared to \$10,512,000 reported in the same period last year.

For the first six months of 1998, fully diluted earnings per share increased 5% to 39 cents (on 36,379,000 shares), compared to 37 cents (on 27,896,000 shares) in the first six months of 1997. These results were achieved despite a 30% increase in the weighted average number of shares outstanding. On a fully diluted basis, earnings per share before income taxes increased 42% to 64 cents for the first half of 1998, compared to 45 cents for the first six months of 1997. Fully diluted earnings per share for the quarter were 18 cents (on 36,461,000 shares), compared to 22 cents (on 28,102,000 shares) for the second quarter of 1997. Book value per share was \$6.40 at June 30, 1998, a 76% increase over the previous year.

“Our newly acquired subsidiaries in the United States enabled us to report record earnings and revenues for the second quarter of 1998,” said Bill Star, President and Chief Executive Officer. “We are extremely pleased with the significant increase in income before taxes from operations. However, the higher rate at which our earnings are currently taxed has had a short-term impact on our bottom line. As more of the reinsurance premiums ceded by our U.S. companies are reinsured by our own company – Kingsway Reinsurance – we expect to see improvement in both net premiums earned and net income in the second half of 1998.”

During the second quarter, gross premiums increased 65% (104% year to date) to a record \$123,801,000 (\$219,702,000 year to date), compared to \$75,223,000 (\$107,909,000 year to date) for the same period of 1997. Net premiums increased 47% (71% year to date) to \$97,673,000 (\$163,715,000 year to date), compared to \$66,311,000 (\$95,703,000 year to date) last year.

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Net earned premiums increased 76% (80% year to date) to \$81,499,000 (\$143,439,000 year to date) for the quarter, compared to \$46,252,000 (\$79,570,000 year to date) for the same period last year. As a result of the significant increase in written premiums, unearned premiums, which will flow into earnings over the next year, increased by 84% to \$178 million at June 30, 1998, compared to \$97 million for the same period last year.

Despite significant growth in premiums, as well as geographic and product diversification, Kingsway continues to produce an underwriting profit for the ninth consecutive year. Underwriting profit for the first half of 1998 was \$4,808,000, compared to \$6,062,000 reported in the first half of 1997. The combined ratio for the first six months was 96.6%, compared to 92.4% reported for the first half of 1997.

Investment and premium finance income was \$10,018,000 during the quarter (\$20,470,000 year to date), compared to the \$3,036,000 (\$6,524,000 year to date) earned in the second quarter of 1997, an increase of 230% (214% year to date). At June 30, 1998, the Company's investment portfolio was \$469 million, compared to \$226 million at June 30, 1997, an increase of 89%. The investment portfolio represented \$13.05 per common share, an increase of 55% over the \$8.40 per share in the previous year.

For the first six months of 1998, income before taxes from U.S. operations was \$7,063,000. Gross premiums from U.S. operations were \$104,655,000, while net premiums written were \$51,171,000 for the period. Net earned premiums from U.S. operations were \$50,924,000 for the first half of 1998.

Kingsway's primary business is the insuring of automobile risks for drivers who do not meet the criteria for coverage by standard automobile insurers. The company operates through six wholly-owned insurance subsidiaries in Canada and the United States. Kingsway's Canadian subsidiaries include Kingsway General Insurance Company, York Fire & Casualty Insurance Company and Jevco Insurance Company. A.M. Best rates both Kingsway General Insurance and York "A" Excellent. Kingsway's U.S. subsidiaries include Universal Casualty Company, American Service Insurance Company and Southern United Fire Insurance Company. The common shares of Kingsway Financial Services Inc. are listed on the Toronto Stock Exchange, under the trading symbol "KFS".

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**For further information, please contact:**

**Shaun Jackson**

**Executive Vice President and Chief Financial Officer**

**Kingsway Financial Services Inc.**

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

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

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

**KINGSWAY FINANCIAL SERVICES INC.**  
**CONSOLIDATED STATEMENT OF INCOME**  
**For the six months ended June 30, 1998 and 1997**  
**(\$ in Thousands, except for per share amounts)**

	Quarter to June 30:		6 months to June 30:	
	1998 (Unaudited)	1997	1998 (Unaudited)	1997
Gross premiums written	\$123,801	\$75,223	\$219,702	\$107,909
Net premiums written	\$97,673	\$66,311	\$163,715	\$95,703
Net earned premiums	\$81,499	\$46,252	\$143,439	\$79,570
Investment income	8,516	2,275	17,445	5,124
Premium finance income	1,502	761	3,025	1,400
	91,517	49,288	163,909	86,094
Claims incurred	53,827	28,334	92,562	49,414
Commissions & premium taxes	15,098	8,654	24,610	16,357
General & other expenses	11,064	4,490	21,459	7,457
Goodwill	999	267	1,534	280
Interest expense	292	-	398	-
	81,280	41,745	140,563	73,508
Income before income taxes	10,237	7,543	23,346	12,586
Income taxes	3,805	1,222	9,458	2,074
Net income	\$6,432	\$6,321	\$13,888	\$10,512
Earnings per share:				
basic:	\$0.18	\$0.23	\$0.39	\$0.39
fully -diluted:	\$0.18	\$0.22	\$0.39	\$0.37
Claims ratio	66.0%	61.2%	64.5%	62.1%
Expense ratio	32.1%	29.0%	32.1%	30.3%
Combined ratio	98.1%	90.2%	96.6%	92.4%
Underwriting profit	\$1,510	\$4,507	\$4,808	\$6,062
Return on Equity (Annualized)	11.5%	26.7%	12.5%	22.7%

**Per share amounts are after giving effect to the 2 for 1 subdivision of shares on May 8, 1998.**

**KINGSWAY FINANCIAL SERVICES INC.**  
**CONSOLIDATED BALANCE SHEET**  
**As at June 30, 1998 and 1997**  
**(\$ in Thousands)**

	<b>1998</b>	<b>1997</b>
	<b>(unaudited)</b>	
<b>ASSETS</b>		
Cash & Investments	\$430,144	\$194,010
Financed premiums receivable	38,509	32,181
Deferred policy acquisition costs	38,675	19,482
Amounts due from reinsurers and other insurers	157,358	74,115
Accounts receivable and other assets	62,018	27,194
Capital assets	16,064	6,084
Goodwill	43,505	10,333
Deferred income taxes	18,214	1,735
	<u>\$804,487</u>	<u>\$365,134</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Unpaid claims	\$350,589	\$160,639
Unearned premiums	178,031	96,839
Bank Loan	29,951	-
Accounts payable & accrued liabilities	12,874	6,262
Other	3,237	3,401
	<u>574,682</u>	<u>267,141</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	165,428	60,077
Share warrant	-	1,455
Currency translation adjustment	2,388	-
Retained earnings	61,989	36,461
	<u>229,805</u>	<u>97,993</u>
	<u>\$804,487</u>	<u>\$365,134</u>

**KINGSWAY FINANCIAL SERVICES INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**For the six months ended June 30, 1998 and 1997**  
**(\$ in Thousands)**

	<b>1998</b>	<b>1997</b>
	<b>(unaudited)</b>	
<b>Operating activities:</b>		
Net income	\$13,888	\$10,512
Items not involving cash:		
Amortization	2,446	604
Deferred income taxes	1,990	(67)
Net realized gain on sale of investments	(5,728)	(996)
Amortization of bond premiums & discounts	223	(770)
	12,819	9,283
Net change in non-cash balances:	21,825	27,196
	34,644	36,479
<b>Financing activities:</b>		
Issuance of share capital, net	280	1,040
Share warrant	(753)	(192)
Bank indebtedness	14,037	-
	13,564	848
<b>Investing activities:</b>		
Purchase of investments	(587,493)	(137,120)
Proceeds from sales of investments	624,667	140,703
Purchase of subsidiary, net of cash acquired	(75,790)	(8,273)
Additions to capital assets	(1,562)	(540)
	(40,178)	(5,230)
Increase (decrease) in cash during period	8,030	32,097
Cash, beginning of period	5,780	4,165
Cash, end of period	\$13,810	\$36,262

**KINGSWAY FINANCIAL SERVICES INC.**  
**SUMMARY OF KEY DATA**

(\$'000's)	1995	1996	1997				1998		
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2
Gross Premiums Written	\$60,049	\$140,610	\$32,686	\$75,223	\$54,889	\$47,997	\$210,795	\$95,901	\$123,801
Net Premiums Written	50,440	134,121	29,392	66,311	47,827	43,283	186,813	66,041	97,673
Net Earned Premiums	46,063	107,679	33,318	46,252	52,282	42,610	174,462	61,940	81,499
Investment income	4,913	11,049	3,488	3,036	7,854	7,458	21,836	10,452	10,018
Total Revenues	50,976	118,728	36,806	49,288	60,136	50,068	196,298	72,392	91,517
Income before income taxes	6,473	\$15,756	5,043	7,543	8,093	7,661	\$28,340	\$13,109	10,237
Net income	3,767	\$11,162	4,191	6,321	6,591	5,048	\$22,151	\$7,456	6,432
Underwriting profit	1,560	\$4,707	1,555	4,507	239	203	\$6,504	\$3,298	1,510
Total Assets	95,601	248,233	306,525	365,134	491,088	511,229	511,229	724,671	804,487
Investment Float	38,107	100,820	101,355	128,198	145,315	140,219	140,219	218,604	238,849
Unearned Premiums	27,463	64,064	76,326	96,839	90,270	89,885	89,885	153,183	178,031
Shareholders Equity	36,677	86,634	91,557	97,993	206,741	213,248	213,248	219,504	229,805
Claims ratio	66.5%	64.9%	61.9%	61.2%	68.7%	67.1%	65.3%	62.5%	66.0%
Expense ratio	30.1%	30.7%	33.4%	29.0%	30.8%	32.4%	31.0%	32.1%	32.1%
General expense ratio	13.0%	10.7%	8.9%	10.3%	12.2%	12.1%	11.0%	16.8%	13.6%
Combined ratio	96.6%	95.6%	95.3%	90.2%	99.5%	99.5%	96.3%	94.6%	98.1%
Return on Equity	19.8%	21.4%	18.9%	26.7%	18.6%	9.6%	16.5%	13.8%	11.5%
Earnings per share									
Basic	\$0.31	\$0.52	\$0.16	\$0.23	\$0.22	\$0.14	\$0.75	\$0.21	\$0.18
Fully-Diluted	\$0.30	\$0.49	\$0.15	\$0.22	\$0.21	\$0.14	\$0.72	\$0.21	\$0.18
Average shares O/S ('000)									
Basic	12,260	21,448	26,551	26,934	30,398	35,820	29,956	35,847	35,882
Fully-Diluted	12,260	22,586	27,765	28,102	30,970	36,374	30,495	36,348	36,461
Book Value per share	\$1.90	\$3.26	\$3.41	\$3.63	\$5.77	\$5.95	\$5.95	\$6.12	\$6.40