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TSE SYMBOL: KFS

**KINGSWAY'S EARNINGS MOMENTUM CONTINUES
Company Reports Record Q3 & YTD 1998 Financial Results**

Toronto, Ontario (October 26, 1998) – Kingsway Financial Services Inc. today announced financial results for the third quarter and nine months ended September 30, 1998.

Highlights

- Highest ever quarterly earnings per share (fully diluted), which increased 24% to 26 cents for the third quarter and 12% to 65 cents for the year to date
- Net income increased 42% to \$9.3 million for the third quarter and 36% to \$23.2 million for the year to date
- Net income before tax increased 88% to \$15.2 million for the quarter and 87% to \$38.6 million for the year to date
- Significant contribution from Jevco operations, which produced income before tax of \$3.9 million for the quarter and \$5.0 million for the year to date
- Underwriting profit for the quarter increased to a record \$7.2 million and \$12.0 million for the year to date, including a positive contribution from the company's U.S. operations
- Kingsway group combined ratio for the third quarter was 92.2% (94.9% year to date), a substantial improvement over the 99.0% reported for the same quarter last year
- Year to date combined ratio was 93.9% for the Canadian operations and 96.8% for the company's U.S. operations
- Return on equity was 15.8% for the third quarter and 13.6% for the year to date.

Strong Earnings Performance

Consolidated net income for the third quarter of 1998 increased 42% to a record \$9,329,000, compared to \$6,591,000 reported in the same quarter last year. Income before tax, which included \$4,618,000 from U.S. operations, was \$15,222,000 (\$38,569,000 year to date), an increase of 88% over the third quarter of 1997 (87% year to date).

On a fully diluted basis, earnings per share increased 24% to 26 cents for the quarter, compared to 21 cents for the third quarter of 1997. For the first nine months of 1998, fully diluted earnings per common share were 65 cents, an increase of 7 cents over the prior year period of 58 cents. The weighted average number of shares outstanding increased by 18% in the third quarter and 28% for first nine months of 1998, compared to the same periods last year.

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Earnings per common share (basic) for the third quarter increased 18% to 26 cents, as compared to 22 cents for the same quarter of 1997. For the first nine months of 1998, earnings per common share (basic) increased to 65 cents, compared to 61 cents for the first nine months of 1997.

“We are extremely pleased with the strong results reported by both our Canadian and U.S. operations this past quarter,” said Bill Star, President and Chief Executive Officer. “We are particularly pleased with the significant increase in income from Jevco, which, together with Kingsway General, had another very strong motorcycle season in Canada.”

Solid Premium Growth

During the third quarter, gross premiums written increased by 84% (97% year to date) to a record \$100,760,000 (\$320,462,000 year to date), compared to \$54,889,000 (\$162,798,000 year to date) for the same period of 1997. Gross premiums written in the quarter from the Canadian operations were \$51,674,000 (\$166,721,000 year to date) and \$49,086,000 (\$153,741,000 year to date) from U.S. operations.

Net earned premiums increased 77% (79% year to date) to \$92,545,000 (\$235,984,000 year to date) for the quarter, compared to \$52,282,000 (\$131,852,000 year to date) for the same period last year. Net earned premiums from Canadian operations were \$57,754,000 for the quarter (\$150,269,000 year to date), and \$34,791,000 (\$85,715,000 year to date) from U.S. operations.

Underwriting Profit & Combined Ratio

Despite significant growth in premiums through organic growth and acquisitions, Kingsway continues to produce an underwriting profit this year, as it has in each of the previous eight years. Underwriting profit for the quarter was a record \$7,187,000, compared to \$506,000 reported in the same quarter of 1997. Underwriting profit for the year to date increased 75% to \$11,995,000, compared to \$6,848,000 for the first nine months of 1997.

Profitable underwriting from both Canadian and U.S. operations helped produce a combined ratio of 92.2% for the third quarter, a significant improvement over the 99.0% reported for the same period last year when the company operated solely in Canada. The combined ratio for the year to date was 94.9%, compared to 94.8% reported for the first nine months of 1997.

Investment and Premium Finance Income

Investment and premium finance income increased 19% to \$9,346,000 for the third quarter (107% to \$29,816,000 year to date), compared to the \$7,854,000 (\$14,378,000 year to date) for the same period last year. Investment income includes gains of \$308,000 realized in the quarter (\$5,830,000 year to date), compared to \$3,733,000 in the same quarter of 1997 (\$4,729,000 year to date).

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Strong Balance Sheet

Total assets as at September 30, 1998 grew 67% to \$821 million, compared to \$491 million for the same period last year. The investment portfolio increased to \$514 million (market value \$509 million), compared to \$352 million a year ago, and the investment float now stands at \$271 million, compared to \$145 million a year ago. The investment portfolio represents \$14.25 per common share, an increase of 45% over \$9.83 reported for the previous year. Unearned premium reserves as at September 30, 1998 grew to \$163,618,000, an increase of 81% over the \$90,270,000 reported in the previous year.

Normal Course Issuer Bid

September 8, 1998, the company announced they had filed a notice of intention to make a normal course issuer bid for its common shares through the facilities of the Toronto Stock Exchange. Commencing September 9, 1998 through to October 23, 1998, the company bought back 110,400 shares at an average price of \$8.44 per share. Kingsway has continued to repurchase its shares as it believes that its common shares have been trading in a price range which does not adequately reflect their value in relation to the company's business and its future prospects.

About the Company

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 currently operates through six wholly-owned insurance subsidiaries in Canada and the United States. Canadian subsidiaries include Kingsway General Insurance Company, York Fire & Casualty Insurance Company and Jevco Insurance Company. A.M. Best recently reaffirmed the "A" Excellent ratings for both Kingsway General Insurance and York. U.S. subsidiaries include Universal Casualty Company, American Service Insurance Company and Southern United Fire Insurance Company. Kingsway anticipates that it will complete the previously announced acquisition of two additional U.S. companies, Walshire Assurance Company and Hamilton Investments, Inc., by the end of fiscal 1998. 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

Tel: (905) 629-7888

Fax: (905) 629-5008

Web Site: www.kingsway-financial.com

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

	Quarter to September 30:		9 months to September 30:	
	1998	1997	1998	1997
	(Unaudited)		(Unaudited)	
Gross premiums written	\$100,760	\$54,889	\$320,462	\$162,798
Net premiums written	\$81,234	\$47,827	\$244,948	\$143,530
Net earned premiums	\$92,545	\$52,282	\$235,984	\$131,852
Investment income	7,845	7,016	25,290	12,140
Premium finance income	1,501	838	4,526	2,238
	101,891	60,136	265,800	146,230
Claims incurred	56,884	35,913	149,446	85,327
Commissions & premium taxes	17,938	9,760	42,548	26,117
General & other expenses	10,536	6,103	31,995	13,560
Goodwill	906	267	2,440	547
Interest expense	405	-	803	-
	86,669	52,043	227,232	125,551
Income before income taxes	15,222	8,093	38,569	20,679
Income taxes	5,893	1,502	15,352	3,576
Net income	\$9,329	\$6,591	\$23,217	\$17,103
Earnings per share:				
Basic:	\$0.26	\$0.22	\$0.65	\$0.61
Fully -diluted:	\$0.26	\$0.21	\$0.65	\$0.58
Claims ratio	61.5%	68.7%	63.3%	64.7%
Expense ratio	30.7%	30.3%	31.6%	30.1%
Combined ratio	92.2%	99.0%	94.9%	94.8%
Underwriting profit	\$7,187	\$506	\$11,995	\$6,848
Return on Equity (Annualized)	15.8%	18.6%	13.6%	20.9%
Book value per share			\$6.75	\$5.77

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 September 30, 1998 and 1997
(\$ in Thousands)

	1998	1997
	(unaudited)	
ASSETS		
Cash & Investments	\$476,635	\$319,600
Financed premiums receivable	37,495	32,456
Deferred policy acquisition costs	38,203	18,624
Amounts due from reinsurers and other insurers	131,079	77,500
Accounts receivable and other assets	59,755	21,717
Capital assets	16,710	6,276
Goodwill	46,589	13,427
Deferred income taxes	14,883	1,488
	<u>\$821,349</u>	<u>\$491,088</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Unpaid claims	\$364,036	\$183,555
Unearned premiums	163,618	90,270
Bank Loan	29,220	-
Accounts payable & accrued liabilities	14,025	7,640
Other	6,955	2,882
	<u>577,854</u>	<u>284,347</u>
SHAREHOLDERS' EQUITY		
Share capital	165,410	163,634
Share warrant	-	54
Currency translation adjustment	6,768	-
Retained earnings	71,317	43,053
	<u>243,495</u>	<u>206,741</u>
	<u>\$821,349</u>	<u>\$491,088</u>

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

	1998	1997
	(unaudited)	
Operating activities:		
Net income	\$23,217	\$17,103
Items not involving cash:		
Amortization	3,904	1,064
Deferred income taxes	4,557	180
Net realized gain on sale of investments	(6,021)	(4,729)
Amortization of bond premiums & discounts	(72)	(1,387)
	25,585	12,231
Net change in non-cash balances:	47,746	47,096
	73,331	59,327
Financing activities:		
Issuance of share capital, net	262	104,597
Share warrant	-	(1,593)
Bank indebtedness	12,925	-
	13,187	103,004
Investing activities:		
Purchase of investments	(842,899)	(499,758)
Proceeds from sales of investments	837,961	362,553
Purchase of subsidiary, net of cash acquired	(76,096)	(11,635)
Additions to capital assets	(2,314)	(925)
	(83,348)	(149,765)
Increase (decrease) in cash during period	3,170	12,566
Cash, beginning of period	5,780	4,165
Cash, end of period	\$8,950	\$16,731

KINGSWAY FINANCIAL SERVICES INC.
SUMMARY OF KEY DATA

(\$000's)	1995	1996	1997				1998			
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Gross Premiums Written	\$60,049	\$140,610	\$32,686	\$75,223	\$54,889	\$47,997	\$210,795	\$95,901	\$123,801	\$100,760
Net Premiums Written	50,440	134,121	29,392	66,311	47,827	43,283	186,813	66,041	97,673	81,234
Net Earned Premiums	46,063	107,679	33,318	46,252	52,282	42,610	174,462	61,940	81,499	92,545
Investment income	4,913	11,049	3,488	3,036	7,854	7,458	21,836	10,452	10,018	9,346
Total Revenues	50,976	118,728	36,806	49,288	60,136	50,068	196,298	72,392	91,517	101,891
Income before income taxes	6,473	15,756	5,043	7,543	8,093	7,661	28,340	13,109	10,237	15,222
Net income	3,767	11,162	4,191	6,321	6,591	5,048	22,151	7,456	6,432	9,329
Underwriting profit	1,560	4,707	1,568	4,774	506	471	7,319	3,298	1,510	7,187
Total Assets	95,601	248,233	306,525	365,134	491,088	511,229	511,229	724,671	804,487	821,349
Investment Float	38,107	100,820	101,355	128,198	145,315	140,219	140,219	218,604	238,849	270,634
Unearned Premiums	27,463	64,064	76,326	96,839	90,270	89,885	89,885	153,183	178,031	163,618
Shareholders Equity	36,677	86,634	91,557	97,993	206,741	213,248	213,248	219,504	229,805	243,495
Claims ratio	66.5%	64.9%	61.9%	61.2%	68.7%	67.1%	65.3%	62.5%	66.0%	61.5%
Expense ratio	30.1%	30.7%	33.4%	28.5%	30.3%	31.8%	30.5%	32.1%	32.1%	30.7%
General expense ratio	13.0%	10.7%	8.9%	9.7%	11.7%	11.4%	10.6%	16.8%	13.6%	11.4%
Combined ratio	96.6%	95.6%	95.3%	89.7%	99.0%	98.9%	95.8%	94.6%	98.1%	92.2%
Return on Equity	19.8%	21.4%	18.9%	26.7%	18.6%	9.6%	16.5%	13.8%	11.5%	15.8%
Earnings per share										
Basic	\$0.31	\$0.52	\$0.16	\$0.23	\$0.22	\$0.14	\$0.75	\$0.21	\$0.18	\$0.26
Fully-Diluted	\$0.30	\$0.49	\$0.15	\$0.22	\$0.21	\$0.14	\$0.72	\$0.21	\$0.18	\$0.26
Average shares O/S (000's)										
Basic	12,260	21,448	26,551	26,934	30,398	35,820	29,956	35,847	35,882	35,954
Fully-Diluted	12,260	22,586	27,765	28,102	30,970	36,374	30,496	36,348	36,461	36,526
Book Value per share	\$1.90	\$3.26	\$3.41	\$3.63	\$5.77	\$5.95	\$5.95	\$6.12	\$6.40	\$6.75