

## **KINGSWAY REPORTS RECORD QUARTERLY EARNINGS AND REVENUES**

**Toronto, Ontario (August 9, 2001)** – Kingsway Financial Services Inc. (TSE:KFS, NYSE:KFS) today announced record financial results for the quarter and six months ended June 30, 2001.

### **Q2 2001 Summary**

- Earnings per share increased 57% to a quarterly record of 33 cents (fully diluted and basic)
- Trailing 12 month earnings per share (fully diluted) increased from 98 cents to \$1.10
- Net income increased 59% to a quarterly record of \$11.4 million
- Combined ratio of 98.4%
- Annualized return on equity was 15.6%
- Gross premiums written increased 51% to a quarterly record of \$260 million

Net income for the second quarter increased by 59% to a quarterly record of \$11.4 million compared to \$7.2 million reported last year. Net income for the six month period was \$20.6 million, an increase of 98% over the \$10.4 million reported last year. Net income before goodwill was \$12.9 million for the second quarter compared to \$8.5 million last year, an increase of 51%. For the six month period, net income before goodwill was \$23.5 million, an increase of 81% over \$13.0 million last year.

Fully diluted and basic earnings per share for the second quarter increased by 57% to a new quarterly record of 33 cents, compared to 21 cents last year. For the six month period, fully diluted and basic earnings per share doubled to 60 cents compared to 30 cents last year. Fully diluted earnings per share for the twelve month trailing period increased by 12 cents to \$1.10. For the first six months, earnings per share before goodwill amortization increased 79% to 68 cents on a fully diluted basis, compared to 38 cents last year.

“I am very pleased to report record levels of earnings and premiums this quarter”, said Bill Star, President and Chief Executive Officer. “We have made an extremely good start to the year achieving record profits, earnings per share and premium levels. For the third consecutive quarter we have reported record written premiums which will translate into higher levels of earned premiums in future quarters.”

### **Premium Growth**

During the second quarter of 2001 gross premiums written increased 51% to a quarterly record of \$260.1 million compared with \$172.1 million last year. Gross premiums written were \$44.1 million or 20% higher than the first quarter of 2001 which was the previous quarterly record. For the year-to-date, gross premiums written increased by 56% to \$476.2 million compared to \$306.1 million last year.

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For the quarter, gross premiums written grew by 19% to \$105.3 million for the Company's Canadian operations, and by 86% to \$154.8 million for the U.S. operations compared to last year. For the six months, gross premiums written from Canadian operations were \$172.8 million, an increase of 19% compared to \$144.8 million last year, and for the U.S. operations increased by 88% to \$303.4 million compared to \$161.3 million last year.

Net premiums earned for the first half of 2001 were a record \$357.1 million, an increase of 48% over the \$241.8 million last year. Net premiums earned for the first half of the year represented 78% of net premiums written, reflecting the substantial increase in premiums to be earned during the remainder of the current year and early 2002. As a result of the continued quarter over quarter growth in written premiums, the unearned premiums as at June 30, 2001 increased 37% to \$368.4 million over the \$268.2 million reported at the end of 2000.

### **Underwriting Profit and Combined Ratio**

The combined ratio continued to improve on a quarter over quarter basis, and for the second quarter 2001 was 98.4% (99.0% year-to-date) compared to 100.6% (102.9% year-to-date) last year. The combined ratio for the Company's Canadian operations improved to 97.7% (100.5% year-to-date) compared to the 100.1% (104.3% year-to-date) last year. The combined ratio of the Company's U.S. operations improved to 98.9% (98.0% year-to-date) for the quarter compared to 101.1% (101.7% year-to-date) last year.

The expense ratio for the quarter improved to 29.1% (28.9% year-to-date) compared with 31.3% (32.2% year-to-date) last year. The general expense ratio improved to 10.7% (11.2% year-to-date) compared with 12.2% (13.4% year-to-date) last year, as a result of the increasing earned premium base.

### **Investment Income**

Investment income increased to \$11.6 million (\$25.1 million year-to-date) compared to \$11.2 million (\$20.9 million year-to-date) last year. During the quarter, realized gains amounted to \$3.2 million (\$5.0 million year-to-date) compared to \$2.3 million (\$4.0 million year-to-date) last year.

### **Balance Sheet**

Total assets at June 30, 2001 grew to \$1.3 billion. Book value per share increased by 16% to \$8.69 from \$7.50 a year ago. The investment portfolio increased to \$868.2 million (market value \$872.4 million), compared to \$787.5 million (market value \$787.1 million) as at December 31, 2000. The investment portfolio represents \$25.38 per common share at June 30, 2001 compared to \$23.12 at December 31, 2000.

### **Subsequent Event**

The Company completed its previously announced public offering on July 12, 2001. In total, 5,750,000 common shares were issued for total gross proceeds of \$71,875,000. Following the offering, the proforma book value per share was \$9.10, and the total shares outstanding were 39,953,579.

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## **Conference Call**

The Company will have a conference call starting at 4:00 p.m. (Eastern time) on August 9, 2001. If interested in participating, please dial 1-888-740-8120 about five minutes before the start of the call. A live broadcast of the conference call can be accessed through the Kingsway's website at [www.kingsway-financial.com](http://www.kingsway-financial.com) and at [www.q1234.com](http://www.q1234.com).

## **Forward Looking Statements**

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 2000 Annual Report. Further information about our financial results and condition can be found in our Annual Report and other filings.

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 2000 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'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 nine wholly-owned 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 and Avalon Risk Management, Inc. The Company also operates reinsurance subsidiaries in Barbados and Bermuda. Kingsway Financial, Kingsway General, York Fire, Jevco and Kingsway Reinsurance (Bermuda) are all rated "A" Excellent by A.M. Best. The Company's senior debt is rated 'BBB-' (investment grade) by Standard and Poor's. 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".

- 30 -

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**KINGSWAY FINANCIAL SERVICES INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

**For the six months ended June 30, 2001 and 2000**

**(In thousands of Canadian dollars, except for per share amounts)**

	Quarter to June 30:		6 months to June 30:	
	2001	2000	2001	2000
	<b>(unaudited)</b>			
Gross premiums written	\$260,127	\$172,108	\$476,162	\$306,110
Net premiums written	\$249,838	\$163,452	\$456,852	\$290,527
Revenue:				
Net premiums earned	\$194,867	\$133,436	\$357,073	\$241,818
Investment income	11,567	11,248	25,076	20,939
Net realized gains	3,187	2,345	5,045	4,022
	209,621	147,029	387,194	266,779
Expenses:				
Claims incurred	135,032	92,491	250,243	170,941
Commissions and premium taxes	35,865	25,468	63,174	45,659
General and administrative expenses	20,909	16,291	40,091	32,340
Interest expense	3,301	2,693	5,866	5,166
	195,107	136,943	359,374	254,106
Income before income taxes	14,514	10,086	27,820	12,673
Income taxes	1,639	1,586	4,300	(298)
Net income before goodwill	12,875	8,500	23,520	12,971
Amortization of goodwill, net of applicable income tax	1,445	1,317	2,928	2,592
Net income	\$11,430	\$7,183	\$20,592	\$10,379
Earnings per share before goodwill:				
Basic:	\$0.38	\$0.25	\$0.69	\$0.38
Fully diluted:	\$0.37	\$0.25	\$0.68	\$0.38
Earnings per share:				
Basic:	\$0.33	\$0.21	\$0.60	\$0.30
Fully diluted:	\$0.33	\$0.21	\$0.60	\$0.30
Weighted average shares outstanding:				
Basic:	34,112	33,999	34,092	34,005
Fully diluted:	34,701	34,094	34,594	34,249
Claims ratio	69.3%	69.3%	70.1%	70.7%
Expense ratio	29.1%	31.3%	28.9%	32.2%
Combined ratio	98.4%	100.6%	99.0%	102.9%
Underwriting profit (loss)	\$3,061	\$(814)	\$3,565	\$(7,122)
Return on equity (annualized)	15.6%	11.5%	14.5%	8.4%
Book value per share			\$8.69	\$7.50

**KINGSWAY FINANCIAL SERVICES INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**As at June 30, 2001 and December 31, 2000**  
**(In thousands of Canadian dollars)**

	<b>2001</b>	<b>2000</b>
	<b>(unaudited)</b>	<b>(audited)</b>
<b>ASSETS</b>		
Cash	\$ 31,638	\$ 29,840
Investments	828,763	750,670
Accrued investment income	7,783	6,960
Accounts receivable and other assets	147,387	92,343
Due from reinsurers and other insurers	110,823	112,510
Deferred policy acquisition costs	75,384	53,467
Income taxes recoverable	978	-
Future income taxes	18,361	21,149
Capital assets	33,905	28,229
Goodwill	76,234	78,758
	<u>\$1,331,256</u>	<u>\$1,173,926</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Bank indebtedness	\$ 140,900	\$ 143,129
Accounts payable and accrued liabilities	48,179	42,462
Income taxes payable	-	1,837
Unearned premiums	368,397	268,208
Unpaid claims	470,317	435,322
Other liabilities	6,075	10,255
	<u>1,033,868</u>	<u>901,213</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	149,218	148,481
Currency translation adjustment	7,398	4,052
Retained earnings	140,772	120,180
	<u>297,388</u>	<u>272,713</u>
	<u>\$1,331,256</u>	<u>\$1,173,926</u>

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

As at June 30, 2001 and December 31, 2000  
(In thousands of Canadian dollars)

**1. Investments:**

	June 30, 2001	
	Carrying Amount	Fair value
Term deposits	\$ 126,996	\$ 126,996
Bonds:		
Government	248,994	248,499
Corporate	258,486	256,936
Preferred shares	12,241	10,963
Common shares	86,454	93,942
Financed premiums	95,592	95,592
	\$ 828,763	\$ 832,928

	December 31, 2000	
	Carrying Amount	Fair value
Term deposits:	\$ 114,912	\$ 114,861
Bonds:		
Government	219,819	219,278
Corporate	236,506	233,883
Preferred shares	12,778	11,862
Common shares	83,332	87,056
Financed premiums	83,323	83,323
	\$ 750,670	\$ 750,263

**KINGSWAY FINANCIAL SERVICES INC.**  
**CONSOLIDATED STATEMENTS OF CASHFLOWS**  
**For the six months ended June 30, 2001 and 2000**  
**(In thousands of Canadian dollars)**

	<b>2001</b>	<b>2000</b>
	<b>(unaudited)</b>	
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<b>Cash provided by (used in):</b>		
<b>Operating activities:</b>		
Net income	\$20,592	\$10,379
Items not affecting cash:		
Amortization	5,754	4,714
Future income taxes	4,314	178
Net realized gains	(5,045)	(4,022)
Amortization of bond premiums and discounts	(3,352)	(1,147)
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	22,263	10,102
Net change in non-cash balances:	52,079	17,993
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	74,342	28,095
<b>Financing activities:</b>		
Increase (cancellation) of share capital, net	737	(402)
Decrease in bank indebtedness	(3,797)	(2,499)
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	(3,060)	(2,901)
<b>Investing activities:</b>		
Purchase of investments	(994,308)	(487,495)
Proceeds from sale of investments	944,384	485,624
Financed premiums receivable, net	(12,105)	(9,559)
Additions to capital assets	(7,455)	(1,316)
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	(69,484)	(12,746)
Increase in cash during period	1,798	12,448
Cash, beginning of period	29,840	12,062
Cash, end of period	<hr/> <hr/>	<hr/> <hr/>
	\$31,638	\$24,510