



KINGSWAY REPORTS RECORD NET INCOME AND EARNINGS PER SHARE FOR QUARTER AND SIX MONTHS

Toronto, Ontario (August 5, 2004) – Kingsway Financial Services Inc. (TSE:KFS, NYSE:KFS) today announced financial results for the quarter ended June 30, 2004 and year to date.

Q2 2004 Summary

- Diluted earnings per share increased 7% to a quarterly record 59 cents
- Net income increased 22% to \$33.3 million compared to Q2 2003
- Combined ratio improved to 97.7% compared to 99.2% for Q2 2003
- Underwriting profit of \$13.2 million compared to \$4.7 million in Q2 2003
- Annualized return on equity 17.2%
- Book value per share \$14.21 an increase of 13% from year end
- Investment portfolio increased to \$3.1 billion or \$54.68 per share

Net income increased by 22% to \$33.3 million, compared to \$27.3 million reported in the second quarter of last year. Net income for the six month period was a record \$64.1 million, an increase of 24% over the \$51.7 million reported last year. Income before income taxes for the quarter increased by 44% (29% year to date) to \$40.4 million (\$72.9 million year to date) compared to the same period last year. The income tax provision for the quarter was \$7.2 million (\$8.8 million year to date) or 17.7% (12.1% year to date) of income before income taxes compared with \$0.8 million (\$4.7 million year to date) or 2.8% (8.3% year to date) for the same period last year. Return on equity on an annualized basis was 17.2% for the quarter and 17.0% for the six months.

Diluted earnings per share increased 7% to 59 cents for the quarter on 14% more shares outstanding, compared to 55 cents for the second quarter of 2003 last year. For the six month period, diluted earnings per share increased by 10% to \$1.14 on 14% more shares outstanding than last year.

“I am again pleased to report record net income and earnings per share for the quarter and six month periods”, said Bill Star, President & Chief Executive Officer. “The results of our Canadian operations are particularly pleasing with each Canadian subsidiary producing an underwriting profit in the quarter. The decisive actions that we have taken in Canada are leading to premium growth and improved underwriting results. The current maturity profile of our fixed income portfolio should also allow us to grow our investment income should interest rates rise. We are well positioned to benefit from the favourable insurance conditions in many of our markets and a rising interest rate climate.”

Premium Growth

During the second quarter of 2004, gross premiums written increased 11% to \$702.0 million compared with \$629.9 million last year. For the year to date gross premiums written increased by 6% to \$1.4 billion compared to \$1.3 billion last year.

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For the quarter, gross premiums written from U.S. operations increased 5% to \$476.4 million (U.S.\$350.6 million) compared with \$453.9 million (U.S.\$324.4 million) last year and Canadian operations grew 28% to \$225.6 million. For the six months, gross premiums written by the U.S. operations were \$1.02 billion (\$1.03 billion last year). In source currency gross premiums written by U.S. operations increased 8% to U.S.\$764.3 million compared to the first half of last year. For the Canadian operations gross premiums written for the first half of 2004 increased by 29% to \$390.2 million over \$303.1 million last year. Net premiums written were \$1.2 billion compared with \$1.3 billion for the first six months of last year. Net premiums earned were \$1.2 billion for the first six months of this year and \$1.2 billion last year.

During the quarter the Company entered into two quota-share reinsurance arrangements in Canada and the United States. Under these treaties the Company ceded \$71.6 million of the unearned premiums at the beginning of the quarter and \$66.1 million of net premiums written in the quarter to reinsurers rated A+ or better by A.M. Best. As a result, the rolling four quarter net premiums written to surplus ratio declined from 2.8x at March 31, 2004 to 2.5x at June 30, 2004. Under both treaties the Company has the option to vary the amount of premiums ceded in any quarter, which provides flexibility in managing premium leverage. As a result of entering into these treaties, net premiums earned were reduced by \$61.4 million, underwriting profit by \$2.4 million, net income by \$1.6 million and earnings per share by 3 cents for the quarter and year to date.

Underwriting Profit & Combined Ratio

The combined ratio of 97.7% for the second quarter produced an underwriting profit of \$13.2 million, compared with 99.2% and \$4.7 million of underwriting profit reported in the second quarter of 2003. The combined ratio improved to 98.0% compared with 98.1% in the first six months of 2003, which produced a record six month underwriting profit of \$23.6 million compared with \$22.5 million in the first half of last year. The U.S. operations combined ratio was 98.5% compared to 96.1% in the first half of last year and for the Canadian operations it improved to 96.5% compared to 105.4% for the same period last year.

Investment Income

Investment income increased 26% to \$24.1 million (\$46.4 million year to date) compared with \$19.2 million (\$34.9 million year to date) for the second quarter of 2003. Net realized gains amounted to \$9.4 million (\$7.9 million after tax) compared with \$9.5 million (\$8.6 million after tax) for the second quarter last year, and for the year to date were \$16.1 million (\$13.2 million after tax) compared to \$8.8 million (\$9.1 million after tax) last year. Net unrealized gains of \$23.8 million include net unrealized gains on the common shares portfolio of \$43.5 million (77 cents per share outstanding) at June 30, 2004.

Balance Sheet

Total assets as at June 30, 2004 grew to \$4.2 billion. The investment portfolio, including cash and accrued investment income, increased to \$3,071.4 million (market value \$3,095.2 million), compared to \$2,674.1 million (market value \$2,726.7 million) as at December 31, 2003. Investment portfolio per share increased 14% to \$54.68 compared to \$47.90 as at December 31, 2003. During the quarter, the incurred but not reported claims (IBNR) provision was increased by \$25 million (\$76 million year to date) to \$822.5 million or 42% of total unpaid claims provisions.

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Book value per share increased by \$1.58 or 13% since the beginning of the year to \$14.21 at June 30, 2004, which is inclusive of the unrealized currency translation adjustment which increased book value per share 45 cents for the year to date.

Currency

A significant portion of the Company's operations and net assets are denominated in U.S. dollars whereas the Company reports in Canadian dollars. During the first six months of 2003, the Canadian dollar appreciated significantly against the U.S. dollar thereby affecting the comparability of results for this year to last year. Had the results of the U.S. operations been translated at the same exchange rates as the first half of last year, net income and earnings per share would have been further increased by \$3.4 million (\$0.2 million in the quarter) and 6 cents, respectively.

The supplementary information contained in this press release contains selected financial information expressed in U.S. dollars. For the six month period to June 30, 2004 net income and earnings per share increased by 38% and 21% to U.S.\$49.0 million and U.S.\$0.87, respectively. Book value per share grew by 18% from a year ago to U.S.\$10.60.

Effective January 1, 2005, the Company will change its reporting currency from Canadian dollars to U.S. dollars and this change will be accounted for on a prospective basis.

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 2003 Annual Report. Further information about our financial results and condition can be found in our Annual Report and other filings.

Conference Call

The Company will have a conference call starting today at 5:00pm (Eastern time) on August 5, 2004. If interested in participating, please dial 1-800-814-4860 about five minutes before the start of the call. A live broadcast of the conference call can be accessed at www.newswire.ca/en/webcast/viewEvent.cgi?eventID=863720. You may also link to the broadcast through our website at www.kingsway-financial.com. A rebroadcast of the conference call will also be available and can be accessed through our website.

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 2003 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.

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About the Company

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 nine 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 and Avalon Risk Management, Inc. The Company also operates reinsurance subsidiaries in Barbados and Bermuda. Lincoln General Insurance Company, Universal Casualty Insurance Company, Jevco and Kingsway Reinsurance (Bermuda) are all rated "A-" Excellent by A.M. Best. Kingsway General and York Fire are rated "B++" (very good). The Company's senior debt is rated investment grade "BBB-" by Standard and Poor's and "BBB" 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 STATEMENTS OF OPERATIONS

For the six months ended June 30, 2004 and 2003

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

	Quarter to June 30:		6 months to June 30:	
	2004	2003	2004	2003
	(unaudited)			
Gross premiums written	\$701,980	\$629,928	\$1,412,425	\$1,332,488
Net premiums written	\$556,017	\$607,192	\$1,240,098	\$1,273,855
Revenue:				
Net premiums earned	\$585,864	\$621,280	\$1,170,694	\$1,172,535
Investment income	24,064	19,169	46,393	34,935
Net realized gains	9,357	9,477	16,127	8,789
	619,285	649,926	1,233,214	1,216,259
Expenses:				
Claims incurred	408,601	441,451	830,807	830,115
Commissions and premium taxes	115,796	141,144	226,351	255,453
General and administrative expenses	48,258	33,993	89,920	64,425
Interest expense	6,001	5,048	12,931	9,510
Amortization of intangibles	180	214	355	444
	578,836	621,850	1,160,364	1,159,947
Income before income taxes	40,449	28,076	72,850	56,312
Income taxes	7,162	812	8,795	4,654
Net income	\$33,287	\$27,264	\$64,055	\$51,658
Earnings per share:				
Basic:	\$0.59	\$0.56	\$1.14	\$1.06
Diluted:	\$0.59	\$0.55	\$1.14	\$1.04
Weighted average shares outstanding:				
Basic:	56,160	48,931	56,063	48,880
Diluted:	56,488	49,531	56,417	49,507
Claims ratio	69.7%	71.0%	71.0%	70.8%
Expense ratio	28.0%	28.2%	27.0%	27.3%
Combined ratio	97.7%	99.2%	98.0%	98.1%
Underwriting profit	\$13,209	\$4,692	\$23,616	\$22,542
Return on equity (annualized)	17.2%	18.2%	17.0%	17.2%
Book value per share			\$14.21	\$12.09

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

	June 30	Dec. 31
	2004	2003
	(unaudited)	(audited)
ASSETS		
Cash	\$ 82,663	\$ 140,883
Investments	2,960,140	2,512,052
Accrued investment income	28,593	21,189
Accounts receivable and other assets	497,967	387,052
Due from reinsurers and other insurers	217,506	176,295
Deferred policy acquisition costs	200,919	167,960
Income taxes recoverable	13,195	-
Future income taxes	64,693	72,184
Capital assets	75,442	66,981
Goodwill and intangible assets	89,435	85,840
	<u>\$ 4,230,553</u>	<u>\$ 3,630,436</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Bank indebtedness	\$ 48,691	\$ 153,895
Accounts payable and accrued liabilities	125,861	128,797
Income taxes payable	-	2,589
Unearned premiums	935,879	776,481
Unpaid claims	1,954,952	1,669,734
Senior unsecured indebtedness	245,550	78,000
Subordinated indebtedness	121,306	115,981
	<u>3,432,239</u>	<u>2,925,477</u>
SHAREHOLDERS' EQUITY		
Share capital	471,546	468,668
<i>Issued and outstanding number of common shares</i>		
<i>56,169,663 – June 30, 2004</i>		
<i>55,829,794 – December 31, 2003</i>		
Contributed surplus	1,446	678
Currency translation adjustment	(68,659)	(94,313)
Retained earnings	393,981	329,926
	<u>798,314</u>	<u>704,959</u>
	<u>\$ 4,230,553</u>	<u>\$ 3,630,436</u>

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

**For the six months ended June 30, 2004 and 2003
(In thousands of Canadian dollars)**

2. Underwriting Results:

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

	Quarter to June 30:		6 months to June 30:	
	2004	2003	2004	2003
Underwriting Profit (Loss)				
Canada	\$8,523	\$(13,653)	\$10,993	\$(13,490)
U.S.	4,686	18,345	12,623	36,032
Total	\$13,209	\$4,692	\$23,616	\$22,542
Combined Ratio				
Canada	94.7%	110.0%	96.5%	105.4%
U.S.	98.9%	96.2%	98.5%	96.1%
Total	97.7%	99.2%	98.0%	98.1%
Expense Ratio				
Canada	25.1%	26.8%	25.5%	28.1%
U.S.	29.1%	28.6%	27.5%	27.1%
Total	28.0%	28.2%	27.0%	27.3%
Loss Ratio				
Canada	69.6%	83.2%	71.0%	77.3%
U.S.	69.8%	67.6%	71.0%	69.0%
Total	69.7%	71.0%	71.0%	70.8%
Change in estimated unpaid claims for prior accident years (note 1):				
Canada	\$(11,170)	\$(25,412)	\$(10,754)	\$(34,287)
U.S.	(12,233)	(25,391)	(19,136)	(34,453)
Total	\$(23,403)	\$(50,803)	\$(29,890)	\$(68,740)
As a % of net premiums earned (note 2):				
Canada	6.9%	18.5%	3.4%	13.8%
U.S.	2.9%	5.2%	2.2%	3.7%
Total	4.0%	8.2%	2.6%	5.9%
As a % of unpaid claims (note 3):				
Canada			2.0%	10.4%
U.S.			1.6%	4.3%
Total			1.8%	5.7%

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, 2004, December 31, 2003 and June 30, 2003
(In thousands of Canadian dollars, except for per share amount)

3. Financial Strength:

Some of the key indicators of the Company's financial strength are as follows:

	June 30, 2004	December 31, 2003
Rolling four quarter calculations:		
Net Premiums Written to Estimated Statutory Surplus Ratio	2.5x	2.9x
Interest Coverage Ratio	5.3x	5.2x
Total Bank and Senior Debt to Capitalization Ratio	24.9%	22.1%

4. Selected Financial Information expressed in thousands of U.S. dollars, except for per share amounts

	Quarter to June 30:		6 months to June 30:	
	2004	2003	2004	2003
Gross Premiums Written	\$529,644	\$448,005	\$1,080,505	\$913,954
Net Premiums Earned	442,034	441,855	895,581	804,242
Net Income	25,115	19,390	49,002	35,432
Earnings Per Share – diluted	\$0.44	\$0.39	\$0.87	\$0.72
Underwriting Profit	9,967	3,336	18,066	15,461
Book Value Per Share			\$10.60	\$8.97

The selected financial information disclosed above has been translated using a foreign exchange rate for the income statement of Canadian \$1 = U.S. \$0.7545 and Canadian \$1 = U.S. \$0.7112 for the quarter ended June 30, 2004 and 2003, respectively, and Canadian \$1 = U.S. \$0.7650 and Canadian \$1 = U.S. \$0.6859 for the six months ended June 30, 2004 and 2003, respectively. The book value per share was translated at the quarter end rate of Canadian \$1 = U.S. \$0.7460 and Canadian \$1 = U.S. \$0.7418 for June 30, 2004 and 2003, respectively. Readers should be cautioned as to the limited usefulness of the selected financial information presented above.

CONSOLIDATED STATEMENTS OF CASHFLOWS

For the six months ended June 30, 2004 and 2003

(In thousands of Canadian dollars)

	Quarter to June 30:		6 months to June 30:	
	2004	2003	2004	2003
	(unaudited)			
Cash provided by (used in):				
Operating activities:				
Net income	\$33,287	\$27,264	\$64,055	\$51,658
Items not affecting cash:				
Amortization	3,040	2,023	5,149	3,487
Future income taxes	5,117	(4,568)	9,428	(4,141)
Net realized gains	(9,357)	(9,477)	(16,127)	(8,789)
Amortization of bond premiums & discounts	9,288	3,084	16,064	5,681
	<u>41,375</u>	<u>18,326</u>	<u>78,569</u>	<u>47,896</u>
Net change in non-cash balances:	<u>97,900</u>	<u>111,107</u>	<u>167,141</u>	<u>178,061</u>
	139,275	129,433	245,710	225,957
Financing activities:				
Increase of share capital, net	214	414	2,878	1,216
Increase (decrease) in bank indebtedness	21,655	(6,548)	(108,808)	8,743
Increase in senior unsecured indebtedness	2,389	-	169,521	-
Increase in subordinated indebtedness	-	44,458	-	44,458
	<u>24,258</u>	<u>38,324</u>	<u>63,591</u>	<u>54,417</u>
Investing activities:				
Purchase of investments	(995,449)	(2,133,793)	(1,685,682)	(4,530,957)
Proceeds from sale of investments	819,369	1,859,049	1,340,144	4,109,862
Financed premiums receivable, net	(9,078)	(1,689)	(12,054)	(1,756)
Purchase of subsidiary, net of cash acquired	-	-	-	-
Net change to capital assets	<u>(3,019)</u>	<u>(20,908)</u>	<u>(9,929)</u>	<u>(20,493)</u>
	(188,177)	(297,341)	(367,521)	(443,344)
Increase (decrease) in cash during period	(24,644)	(129,584)	(58,220)	(162,970)
Cash, beginning of period	107,307	211,535	140,883	244,921
Cash, end of period	<u>\$82,663</u>	<u>\$81,951</u>	<u>\$82,663</u>	<u>\$81,951</u>