



KINGSWAY ANNOUNCES ACQUISITION OF HI HOLDINGS

Toronto, Ontario (September 12, 2005) – Kingsway Financial Services Inc. (TSE:KFS, NYSE:KFS) today announced that it has reached a definitive agreement to acquire HI Holdings, Inc. (HI). The transaction includes HI's wholly owned Zephyr Insurance Company Inc. (Zephyr). HI and Zephyr were formed in 2000 by its current shareholders that include Everest Reinsurance Company, Guy Carpenter & Company, Inc., Hannover Ruckversicherung AG, and Island Holdings, Inc. Subject to regulatory approval, HI and Kingsway expect the sale to close in the fourth quarter of this year. Philo Smith & Co. acted as financial advisor to HI.

"We are extremely pleased with the acquisition of Zephyr Insurance Company," said Bill Star, President & Chief Executive Officer of Kingsway Financial Services, Inc. "This transaction is consistent with our niche business strategy and our interest in acquiring profitable businesses that provide geographic and product diversification. Zephyr is a well run organization and we look forward to the company's continued success as part of Kingsway."

HI Chairman Paul Picardo said, "This is a successful outcome for all parties. Zephyr has developed into the market leader in its business, while serving the needs of the Hawaii community. Kingsway's specialty business focus and long term commitment to the insurance business, align Zephyr with excellent owners. We wish Zephyr's President Richard Toyama and his team success as they transition to Kingsway."

Zephyr is the leading provider of residential hurricane insurance coverage in the State of Hawaii. For the first six months of 2005, Zephyr generated Gross Premiums Written of U\$24 million and is projected to write approximately U\$50 million in Gross Premiums Written for 2005. Kingsway currently operates in the State of Hawaii through Lincoln General Insurance Company, and American Service Insurance Company is also licenced to transact business in the State.

Conference Call

The Company will be holding a conference call today at 5:00pm (EDT). The call may be accessed by telephone at 1-800-814-4890. A rebroadcast of the conference call will also be available until midnight on September 19, 2005 by dialing 1-877-289-8525, passcode 21152233#.

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About the Company

Kingsway Financial Services Inc. is the largest truck insurer in North America and the sixth largest non-standard automobile insurer in North America according to A.M.Best. 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 ten 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-"(stable) by Standard and Poor's 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".

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