



KINGSWAY INCREASES NET OPERATING INCOME BY 11%

Toronto, Ontario (May 3, 2006) – Kingsway Financial Services Inc. (TSE:KFS, NYSE:KFS) today announced financial results in **U.S. dollars** for the first quarter ended March 31, 2006.

Q1 2006 compared to Q1 2005

- Net operating income increased 11% to \$30.0 million compared to \$27.0 million
- Net income decreased to \$28.9 million compared to \$38.1 million
- Diluted earnings per share of \$0.51 compared with \$0.67
- Net realized investment losses after tax of \$0.02 per share compared to gains of \$0.20 per share in Q1 2005
- Combined ratio improved to 96.2%
- Underwriting profit increased 6% to Q1 record \$16.4 million
- Annualized return on equity of 14.2%
- Book value per share was \$14.67 compared to \$12.47 at Q1 2005

Net income decreased by 24% to \$28.9 million (C\$33.4 million), compared to \$38.1 million (C\$46.8 million) in the first quarter of last year due to the impact of net losses realized on investments. Net realized investment losses were \$1.1 million (C\$1.2 million) after tax, compared with net realized gains of \$11.1 million (C\$13.6 million) after tax in Q1 last year. Net operating income, however, increased 11% to \$30.0 million (C\$34.6 million) compared to \$27.0 million (C\$33.2 million) last year. Net operating income information is calculated as net income excluding after-tax net realized gains and losses on investments.

The combined ratio improved to 96.2% compared to 96.3% in the same quarter last year, producing a record first quarter underwriting profit of \$16.4 million (C\$18.9 million). Investment income increased by 20% to \$26.6 million (C\$30.7 million) compared to \$22.1 million (C\$27.1 million) in the same quarter last year.

Diluted earnings per share decreased 24% to \$0.51 (C\$0.58) for the quarter, compared to \$0.67 (C\$0.82) for the first quarter of 2005. Net realized investment losses after tax reduced earnings per share by \$0.02 (C\$0.02) in the quarter, whereas net investment gains after tax increased earnings per share by \$0.20 (C\$0.24) in the same quarter last year. Net operating earnings per share increased 11% to \$0.53 (C\$0.60) compared to \$0.47 (C\$0.58).

“We are pleased with the positive start that we have made to 2006,” said Bill Star, President & Chief Executive Officer. “Each of our operating subsidiaries reported an underwriting profit which led to a record underwriting profit and an improved combined ratio for the quarter. Our investment managers repositioned their portfolios and disposed of underperforming equity investments, and as a result, the unrealized gain position in our equity portfolio increased by \$15.5 million to \$55.6 million from year end. We continue to maintain our underwriting discipline in all of our markets, and anticipate that capacity constraints in reinsurance markets in the United States will provide opportunities for our growth as 2006 progresses.”

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Premium Growth

During the first quarter of 2006, gross premiums written were \$507.2 million (C\$585.7 million), compared with \$524.6 million (C\$643.6 million) in the first quarter last year. In the quarter, U.S. operations represented 75% of gross premiums written, compared with 74% in the first quarter last year. Trucking, non-standard automobile and commercial automobile premiums represented 28%, 28% and 19%, respectively, of gross premiums written in the first quarter compared with 27%, 31% and 20%, respectively, last year.

Gross premiums written from U.S. operations decreased 3% to \$380.2 million (C\$439.0 million) compared with \$390.3 million (C\$479.0 million) last year. During the first quarter of 2006 gross premiums written from the Robert Plan Corporation ('RPC') were \$24.1 million (C\$27.9 million). The RPC provides underwriting and claims administration services to insurance companies in the United States who seek to transfer their assigned risk premiums and obligations to Kingsway for a fee. The contract with RPC was previously announced on November 23, 2005 and business commenced on January 1, 2006. Gross premiums written from Canadian operations were \$127.0 million (C\$146.7 million) for the quarter, compared to \$134.3 million (C\$164.6 million) in Q1 last year.

Net premiums written increased 2% to \$476.0 million (C\$549.6 million) compared with \$466.0 million (C\$571.8 million) for the first quarter of last year. Net premiums earned increased 3% to \$427.0 million (C\$493.0 million) for the quarter, compared with \$415.8 million (C\$510.1 million) for the first quarter last year. For the U.S. operations, net premiums earned increased 1% to \$292.9 million (C\$338.2 million) compared with \$290.8 million (C\$356.7 million) in the first quarter of 2005. Net premiums earned from Canadian operations increased by 7% to \$134.1 million (C\$154.9 million) compared with \$125.0 million (C\$153.4 million) last year.

Underwriting Profit & Combined Ratio

The combined ratio of 96.2% for the first quarter produced a record first quarter underwriting profit of \$16.4 million (C\$18.9 million) compared with \$15.4 million (C\$18.9 million) in Q1 last year. For the quarter, the U.S. operations combined ratio was 96.8% (96.0% Q1 last year) which produced an underwriting profit of \$9.3 million (\$11.5 million Q1 last year) and the Canadian operations improved to 94.7% (96.9% Q1 last year) which produced an underwriting profit of \$7.1 million (\$3.8 million Q1 last year).

Investment Income

Investment income, excluding net realized gains and losses, increased 20% to \$26.6 million (C\$30.7 million) compared with \$22.1 million (C\$27.1 million) for the first quarter of 2005. The yield on the fixed income portfolio was 3.9% in the quarter compared to 3.6% in the same quarter last year.

Net realized losses amounted to \$1.5 million (C\$1.8 million) compared with net realized gains of \$14.0 million (C\$17.1 million) in the first quarter of 2005. Net realized losses after tax were \$1.1 million (C\$1.2 million) or \$0.02 (C\$0.02) per share compared with net realized gains of \$11.1 million (C\$13.6 million) or \$0.20 (C\$0.24) per share in the first quarter of 2005. Net realized losses include adjustments to the carrying value for declines in market value considered other than temporary of \$1.7 million (\$2.1 million in Q1 2005) in the quarter on investments still held and realized losses of \$8.8 million (\$3.5 million in Q1 2005).

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Net unrealized gains on the investment portfolio were \$13.4 million (C\$15.7 million) or \$0.24 (C\$0.28) per share outstanding at March 31, 2006, as compared to \$18.2 million (C\$21.2 million) or \$0.32 (C\$0.37) per share outstanding at the end of 2005. Net unrealized gains on the common shares portfolio were \$55.6 million (C\$65.0 million) or \$0.99 (C\$1.15) per share outstanding at March 31, 2006 compared to \$40.1 million (C\$46.6 million) or \$0.71 (C\$0.83) per share outstanding) at the end of 2005.

Balance Sheet

Total assets as at March 31, 2006 were \$3.9 billion (C\$4.5 billion) compared to \$3.8 billion (C\$4.4 billion) at the end of 2005. Book value per share increased by 18% to \$14.67 (C\$17.13) from \$12.47 (C\$15.09) as at March 31, 2005.

The carrying value of the investment portfolio, including cash was \$2,909.4 million (C\$3,398.1 million), compared to \$2,914.8 million (C\$3,389.9 million) as at December 31, 2005. At March 31, 2006, 25% of the fixed income portfolio matures in less than one year and 47% matures after one year and in less than five years. The fair value of the investment portfolio including cash represents \$51.84 (C\$60.55) per common share at March 31, 2006.

The Company reported favourable development in the provision for unpaid claims occurring prior to December 31, 2005 of approximately \$2.9 million (C\$3.3 million). During the quarter, provisions for unpaid claims increased slightly to \$1,853.4 million (C\$2,164.7 million) compared to \$1,844.2 million (C\$2,144.8 million) at the end of 2005.

Normal Course Issuer Bid

During the quarter, we repurchased and cancelled 159,300 common shares under the normal course issuer bid for a total purchase price of C\$3.7 million.

Quarterly Dividend

The Board of Directors today approved the payment of the Company's quarterly dividend to shareholders of C\$0.0625 per common share. The dividend payment will be made on June 30, 2006 to shareholders of record as at June 15, 2006.

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 2005 Annual Report. Further information about our financial results and condition can be found in our Annual Report and other filings available on our website at www.kingsway-financial.com, on the Canadian Securities Administrators' website at www.sedar.com, and on the EDGAR section of the U.S. Securities and Exchange Commission's website at www.sec.gov.

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Conference Call and Annual General Meeting

The Company will have its quarterly conference call today at 5:00pm (EDT). The call may be accessed by telephone at 1-800-814-4860. A live broadcast of the conference call can be accessed at www.newswire.ca/en/webcast/viewEvent.cgi?eventID=1434620 or through a link from our website at www.kingsway-financial.com. A rebroadcast of the conference call will also be available and can be accessed through our website.

The Company's Annual General Meeting ("AGM") will be held tomorrow Thursday May 4, 2006 at 4:00pm (EDT) at The Design Exchange, 234 Bay Street, Toronto, Ontario. A live webcast can be accessed at www.newswire.ca/en/webcast/viewEvent.cgi?eventID=1473560.

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 2005 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 Financial Services Inc. is the largest truck insurer in North America and the seventh 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 eleven 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, Zephyr Insurance Company and Avalon Risk Management, Inc. The Company also operates reinsurance subsidiaries in Barbados and Bermuda.

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Lincoln General Insurance Company, Universal Casualty Insurance Company, American Service Insurance Company, Southern United Fire Insurance Company, Jevco Insurance Company, Kingsway Reinsurance Corporation, Barbados and Kingsway Reinsurance (Bermuda) Ltd. are all rated "A-" (Excellent) by A.M. Best. Kingsway General and York Fire are rated "B++" (Very Good) and American Country and U.S. Security are rated "B+" (Very Good) by A.M. Best. The Company's senior debt is rated investment grade "BBB-" (stable) by Standard and Poor's and A.M. Best 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".

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KINGSWAY FINANCIAL SERVICES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the three months ended March 31, 2006 and 2005
(In thousands of U.S. dollars, except for per share amounts)

	2006	2005
	(unaudited)	
Gross premiums written	\$507,243	\$524,606
Net premiums written	\$475,972	\$466,003
Revenue:		
Net premiums earned	\$427,015	\$415,825
Investment income	26,575	22,066
Net realized gains (losses)	(1,541)	13,962
	452,049	451,853
Expenses:		
Claims incurred	285,892	285,245
Commissions and premium taxes	82,798	80,326
General and administrative expenses	41,959	34,885
Interest expense	7,164	5,912
Amortization of intangibles	-	129
	417,813	406,497
Income before income taxes	34,236	45,356
Income taxes	5,354	7,235
Net income	\$28,882	\$38,121
Earnings per share:		
Basic:	\$0.51	\$0.68
Diluted:	\$0.51	\$0.67
Weighted average shares outstanding (in '000s):		
Basic:	56,461	56,308
Diluted:	57,114	56,747
Claims ratio	67.0%	68.6%
Expense ratio	29.2%	27.7%
Combined ratio	96.2%	96.3%
Underwriting profit	\$16,366	\$15,369
Return on equity (annualized)	14.2%	22.3%
Book value per share	\$14.67	\$12.47

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

	March 31	Dec. 31
	2006	2005
	(unaudited)	
ASSETS		
Cash and cash equivalents	\$ 106,285	\$ 111,034
Investments	2,803,084	2,803,790
Accrued investment income	24,999	25,126
Accounts receivable and other assets	330,343	282,764
Due from reinsurers and other insurers	232,206	222,974
Deferred policy acquisition costs	158,357	148,829
Income taxes recoverable	6,087	-
Future income taxes	62,228	57,939
Capital assets	76,942	71,608
Goodwill and intangible assets	71,103	71,130
	<u>\$ 3,871,634</u>	<u>\$ 3,795,194</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Bank indebtedness	\$ 23,701	\$ 11,767
Loans payable	66,222	66,222
Accounts payable and accrued liabilities	121,989	129,666
Income taxes payable	-	6,817
Unearned premiums	697,054	649,228
Unpaid claims	1,853,374	1,844,211
Senior unsecured debentures	191,781	192,068
Subordinated indebtedness	90,500	90,500
	<u>3,044,621</u>	<u>2,990,479</u>
SHAREHOLDERS' EQUITY		
Share capital	331,206	331,470
<i>Issued and outstanding number of common shares</i>		
<i>56,382,822 – March 31, 2006</i>		
<i>56,480,453 – December 31, 2005</i>		
Contributed surplus	3,503	3,237
Currency translation adjustment	8,509	9,958
Retained earnings	483,795	460,050
	<u>827,013</u>	<u>804,715</u>
	<u>\$ 3,871,634</u>	<u>\$ 3,795,194</u>

KINGSWAY FINANCIAL SERVICES INC.
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
For the three months ended March 31, 2006 and 2005
(In thousands of U.S. dollars)

	2006	2005
	(unaudited)	
Retained earnings, beginning of period	\$ 460,050	\$ 334,468
Net income for the period	28,882	38,121
Common share dividends	(3,047)	(2,320)
Repurchase of common shares for cancellation	(2,090)	-
Retained earnings, end of period	\$ 483,795	\$ 370,269

KINGSWAY FINANCIAL SERVICES INC.
SUPPLEMENTARY INFORMATION TO PRESS RELEASE

As at March 31, 2006 and December 31, 2005

(In thousands of U.S. dollars)

1. Investments:

	March 31, 2006	
	Carrying Amount	Fair value
Term deposits	\$ 354,411	\$ 350,764
Bonds:		
Government	356,012	353,245
Corporate	1,664,397	1,628,612
Common shares	349,297	404,921
Financed premiums	78,967	78,967
	\$ 2,803,084	\$ 2,816,509
	December 31, 2005	
	Carrying Amount	Fair value
Term deposits	\$ 383,071	\$ 381,734
Bonds:		
Government	428,316	427,801
Corporate	1,581,579	1,561,443
Preferred shares	1,290	1,352
Common shares	323,830	363,955
Financed premiums	85,704	85,704
	\$ 2,803,790	\$ 2,821,989

KINGSWAY FINANCIAL SERVICES INC.
SUPPLEMENTARY INFORMATION TO PRESS RELEASE

For the three months ended March 31, 2006 and 2005
(In thousands of U.S. dollars)

2. Underwriting Results:

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

	Quarter to March 31:	
	2006	2005
Underwriting Profit		
Canada	\$ 7,100	\$ 3,849
U.S.	9,266	11,520
Total	<u>\$ 16,366</u>	<u>\$ 15,369</u>
Combined Ratio		
Canada	94.7%	96.9%
U.S.	96.8%	96.0%
Total	<u>96.2%</u>	<u>96.3%</u>
Expense Ratio		
Canada	31.4%	26.7%
U.S.	28.2%	28.1%
Total	<u>29.2%</u>	<u>27.7%</u>
Loss Ratio		
Canada	63.3%	70.2%
U.S.	68.6%	67.9%
Total	<u>67.0%</u>	<u>68.6%</u>
Favourable change in estimated unpaid claims for prior accident years (note 1):		
Canada	\$ 853	\$ 638
U.S.	1,998	3,471
Total	<u>\$ 2,851</u>	<u>\$ 4,109</u>
As a % of net premiums earned (note 2):		
Canada	(0.6%)	(0.5%)
U.S.	(0.7%)	(1.2%)
Total	<u>(0.7%)</u>	<u>(1.0%)</u>
As a % of unpaid claims (note 3):		
Canada	(0.1%)	(0.1%)
U.S.	(0.2%)	(0.3%)
Total	<u>(0.2%)</u>	<u>(0.2%)</u>

Note 1 - Decrease in estimates for unpaid claims from prior accident years reflected in current financial year results.

Note 2 - Decrease in current financial year reported combined ratio

Note 3 - 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 March 31, 2006, December 31, 2005 and March 31, 2005
(In thousands of U.S. dollars, except for per share amount)
(Unaudited)

3. Financial Strength:

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

	March 31, 2006	December 31, 2005
Rolling four quarter calculations:		
Net Premiums Written to Estimated Statutory Surplus Ratio	1.8x	1.9x
Interest Coverage Ratio	6.5x	7.2x
Total Bank and Senior Debt to Capitalization Ratio	23.6%	23.5%

4. Summary of Quarterly Results in Canadian dollars over the previous five quarters

	2006	2005			
	Q1	Q4	Q3	Q2	Q1
Gross premiums written	\$585,718	\$515,304	\$543,889	\$595,069	\$643,637
Net premiums earned	493,047	522,439	554,559	583,762	510,100
Total revenue	521,963	561,261	595,307	618,555	554,229
Net realized gains (losses) after tax	(1,234)	6,943	1,677	7,947	13,559
Underwriting profit	18,923	11,918	12,114	17,668	18,926
Net income	33,355	42,078	37,500	36,739	46,758
Book value per share	\$17.13	\$16.57	\$15.87	\$15.84	\$15.09
<i>Earnings per share</i>					
Basic	\$0.59	\$0.75	\$0.66	\$0.65	\$0.83
Diluted	0.58	0.74	0.66	0.65	0.82

The selected financial information disclosed above has been translated using the Bank of Canada monthly average exchange rate for the income statement and the month end rate for the balance sheet. Readers should be cautioned as to the limited usefulness of the selected financial information presented above.

KINGSWAY FINANCIAL SERVICES INC.
CONSOLIDATED STATEMENTS OF CASHFLOWS
For the three months ended March 31, 2006 and 2005
(In thousands of U.S. dollars)

	2006	2005
	(unaudited)	
<hr/>		
Cash provided by (used in):		
Operating activities:		
Net income	\$28,882	\$38,121
Items not affecting cash:		
Amortization	2,042	1,949
Future income taxes	(5,058)	(1,078)
Net realized losses (gains)	1,541	(13,962)
Amortization of bond premiums and discounts	1,286	4,107
	<hr/> 28,693	<hr/> 29,137
Net change in other non-cash balances:	(25,912)	5,778
	<hr/> 2,781	<hr/> 34,915
Financing activities:		
Increase of share capital	898	2,034
Repurchase of common shares for cancellation	(3,252)	-
Common dividends	(3,047)	(2,320)
Increase in bank indebtedness and loans payable	12,152	6,037
	<hr/> 6,751	<hr/> 5,751
Investing activities:		
Purchase of investments	(804,000)	(530,444)
Proceeds from sale of investments	790,797	496,464
Financed premiums receivable, net	6,539	586
Additions to capital assets	(7,617)	(926)
	<hr/> (14,281)	<hr/> (34,320)
Increase (decrease) in cash during period	(4,749)	6,346
Cash and cash equivalents, beginning of period	111,034	87,103
Cash and cash equivalents, end of period	<hr/> <hr/> \$106,285	<hr/> <hr/> \$93,449