Kingsway Reports Net Loss of $17.4 million in the Third Quarter

Toronto, Ontario (November 5, 2008) – Kingsway Financial Services Inc. (TSX: KFS, NYSE: KFS) today announced its financial results for the third quarter and nine months ended September 30, 2008. The Company reported a net loss of $17.4 million or $0.32 per share diluted, primarily reflecting disappointing underwriting results and net realized losses, including the write-down of investments, which were partially offset by the gain on the sale of York Fire and Casualty Insurance Company (York Fire). Operating losses resulted from a combination of factors, including net unfavourable reserve development from terminated programs at Lincoln General and a significant drop in trucking premiums on both sides of the border. York Fire, a Canadian subsidiary which was sold at quarter end, is accounted for as discontinued operations. As a result of this reclassification, certain comparative figures have been updated to conform to current period's financial statement presentation to reflect the effect of discontinued operations. All amounts are in U.S. dollars unless indicated otherwise.

Investment income decreased 8% to $33.1 million in the quarter, compared with a year ago, primarily due to lower short-term yields in Canada and the U.S. and a reduction in the size of the portfolio as a result of the sale of investments to repay the Company's bank debt in the quarter. The cost-based yield on the fixed income portfolio decreased to 4.4% from 4.8% for the same quarter of last year. Sales from the securities portfolio and a $22.9 million write-down of fixed income and equity investments that are considered to be other than temporarily impaired resulted in a net realized loss of $29.6 million ($0.53 per share) compared with a gain of $4.2 million ($0.07 per share) in Q3 2007.

The Company reported an operating loss from continuing operations of $17.5 million or $0.32 per share diluted, which compares with operating earnings in Q3 2007,on a pro forma basis excluding York Fire, of $16.0 million or $0.29 diluted per share. Gross premiums written from continuing operations decreased 26% to $354.5 million, primarily as a result of the impact of soft trucking markets and the termination of non-core and unprofitable business at Lincoln General, the Company's largest subsidiary. Estimated net unfavourable reserve development on prior years was $26.4 million in the quarter, representing $0.46 per share, of which $19.2 million was related to the terminated artisan contractors liability program at Lincoln General. Lincoln General has made the decision to bring all new and outstanding claims related to the artisan program in-house during the run-off period. An expert third party was engaged to provide recommendations which are being used to ensure that the run-off will be efficiently managed.

The combined ratio for continuing operations was 113.6%, compared with 102.1% in the third quarter of 2007. Canadian operations, excluding York Fire, had a combined ratio of 103.4% compared with 87.9% a year ago, while U.S. operations had a combined ratio of 118.5% compared with 106.8% the previous year. For the quarter, U.S. operations accounted for 68% of gross premiums compared with 76% a year ago.

"Our results need to be viewed in the context of turbulent credit and securities markets, and economic weakness affecting some business lines, notably trucking, at a time when we are fundamentally changing our business to achieve improved and consistent future performance," said Shaun Jackson, President and Chief Executive Officer. "The current market conditions are causing operating losses throughout the North American property and casualty insurance industry which we believe will accelerate the withdrawal of cyclical players from specialty markets. The weak underwriting results and substantial impairment of investment portfolios at many leading insurers and reinsurers throughout the world will lead to a reduction of available capital at a time when premium rates need to be increased. These are predictable preconditions for much firmer pricing in insurance markets. This will create opportunities for Kingsway to expand its underwritings and improve its profitability. The actions we have taken to deleverage and reduce risk at the company, to eliminate unprofitable lines of business, and to strengthen core operations since the beginning of this year should position us to improve performance throughout the cycle, particularly when markets harden."

"Our high quality investment portfolio performed relatively well in this period of extraordinary financial market conditions. Moreover, as it is our policy to hold fixed-income securities until maturity and the credit quality of this portfolio remains high we anticipate that most of these write-downs will be recovered in future periods. The reduction in premiums from last year has temporarily raised expense ratios and unfavourable development in Lincoln's terminated artisan program has had a significant negative impact; however, I am satisfied we are making progress in addressing these and other challenges while fundamentally changing Kingsway towards a more focused book of insurance business operated with strengthened capital and management practices."

On September 30, the Company completed the previously announced sale of York Fire for C$95 million (or 1.8 times book value). York Fire was considered non-core to our future and produced a loss of $11.4 million for the year to date. Kingsway realized an estimated initial gain on the sale of $35.0 million after tax. The final net gain will be determined subject to the completion of an audit of York Fire.

During the third quarter of 2008, the Company fully repaid its entire bank indebtedness of $157.9 million and thus improved its senior debt to total capital ratio to 23.3% from 31.2% as at June 30, 2008. The Company now does not have obligations to repay any additional debt until July 11, 2012.

Nine month results

For the nine months ended September 30, Kingsway reported a net loss of $45.5 million ($0.82 diluted per share) compared with net income of $85.0 million ($1.51 diluted per share) in the same period of 2007. Investment income excluding net realized losses was $102.0 million, 3% above the same period of 2007, while net realized losses were $24.7 million compared to net realized gains of $43.7 million. Gross premiums written from continuing operations were $1,207.6 million, 15% below the comparable nine month period of 2007.

Dividend

The Board of Directors has declared a quarterly dividend of C$0.075 per common share, payable on December 31, 2008 to shareholders of record on December 15, 2008.

Conference Call and Webcast

You are invited to participate in our quarterly results conference call that will take place on November 5, 2008 at 8:30 a.m. EDT. To access please dial 1-800-733-7571 about 5 minutes before the start of the call. An audio webcast will also be broadcast live and can be accessed through our website at http://www.kingsway-financial.com or directly at http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=2424180

Annual Investor Day

The Company will be hosting its annual Investor Day on Thursday, November 13, 2008 at the TSX Broadcast Centre – Gallery located at The Exchange Tower, 2 First Canadian Place, Toronto, Ontario, beginning at 8:30 a.m. A web cast can be accessed through our website at http://www.kingsway-financial.com or directly at http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=2423960. Kingsway senior management team will provide investors with and overview of the performance, strategy and outlook for the Company.

About the Company

Kingsway Financial Services Inc. “Kingsway” is one of the largest non-standard automobile insurers and truck insurers in North America based on A.M. Best data that we have compiled. Kingsway's primary business is the insuring of automobile risks for drivers who do not meet the criteria for coverage by standard automobile insurers and trucking insurance. The Company currently operates through eleven wholly-owned insurance subsidiaries in Canada and the U.S. Canadian subsidiaries include Kingsway General 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, Mendota Insurance Company and Mendakota Insurance Company. The Company also operates reinsurance subsidiaries in Barbados and Bermuda.

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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Financial Summary and Highlights:

(in millions of dollars except per share amounts)	Quarter to September 30: 2008	2007	Change	9 months to September 30: 2008	2007	Change
Gross premiums written	$ 354.5	$ 477.5	(26%)	$ 1,207.6	$ 1,428.1	(15%)
Underwriting loss	(50.6)	(9.3)	444%	(144.7)	(39.1)	270%
Investment income	33.1	36.1	(8%)	102.0	98.9	3%
Net realized gains (loss)	(29.6)	4.2	(805%)	(24.7)	43.7	(157%)
Operating earnings (loss)	(17.5)	16.0	(209%)	(47.4)	41.6	(214%)
Net income (loss)	(17.4)	23.6	(174%)	(45.5)	85.0	(154%)
Diluted earnings (loss) per share	(0.32)	0.42	(176%)	(0.82)	1.51	(154%)
Book value per share				14.02	18.83	(26%)
Combined ratio	113.6%	102.1%	11.5%	112.3%	103.1%	9.2%

- Gross premiums written decreased 26% to $354.5 million in the quarter compared to $477.5 million in Q3 last year, and for the first nine months of the year were $1,207.6 million compared to $1,428.1 million for the same period last year, primarily as a result of the impact of soft insurance markets and the termination of several programs at Lincoln General. Lincoln General's premium volume declined by $109.9 million in the quarter (52%) and $269.9 million year to date (42%) compared to the same periods last year. The Company, however, has also experienced a positive shift in business mix to non-standard automobile, where premiums increased 9% to $508.1 million for the year to date, from less stable business lines such as trucking and liability.

- The combined ratio was 113.6% in the quarter compared to 102.1% in the same quarter last year, with continuing Canadian operations reporting a combined ratio of 103.4% and U.S. operations a combined ratio of 118.5%. Excluding the run-off programs at Lincoln General, the U.S. operations pro-forma combined ratio was 110.4% for the quarter and the consolidated combined ratio was 108.0%.

- Estimated net unfavourable reserve development was $26.4 million in the quarter ($91.4 million for the year to date) of which the artisan contractors liability program accounted for $19.2 million ($28.3 million for the year to date). The reserve development increased the combined ratio by 7.1% for the quarter (7.8% for the year to date) and impacted earnings per share by $0.46 per share for the quarter ($1.52 for the year to date).

- Investment income, excluding net realized gains was $33.1 million compared to $36.1 million for the same quarter of 2007, an 8% decrease. For the year to date investment income, excluding net realized gains, has increased by 3% to $102.0 million compared to $98.9 million for the corresponding period last year. Included in net realized losses were adjustments to the carrying values of securities for declines in market value considered other than temporary of $22.9 million ($40.7 million for the year to date) or $0.42 per share for the quarter ($0.74 per share for the year to date).

- The fair value of the securities portfolio per share decreased by 19% since the beginning of the year to $51.07 (C$54.35). The impact of the sale of York Fire and the repayment of all bank indebtedness during the quarter resulted in a decrease in the portfolio of $329.3 million or $5.98 per share.

- The decline in the value of the securities portfolio brought about primarily by widening of credit spreads on corporate bonds and decreased equity prices lowered book value per share by $1.01 in the quarter. At September 30, 2008, 94.6% of the fixed income portfolio is rated 'A' or better. The Company has the ability and intent to hold the fixed income securities to maturity.

- As at September 30, 2008 the securities portfolio did not include any collateralized debt obligations nor any direct exposure to any asset backed commercial paper. The securities portfolio has an exposure of approximately $2.6 million to the sub-prime mortgage market in the U.S. through home equity loan asset backed securities.

- As at September 30, 2008 the Canadian dollar book value per share was $14.93 compared to $16.80 as at December 31, 2007.

The following management's discussion and analysis (MD&A) should be read in conjunction with the Company's unaudited interim consolidated financial statements for the third quarter of fiscal 2008 and 2007; with the MD&A set out on pages 12 to 57 in the Company's 2007 Annual Report, including the section on risk factors; and with the notes to the interim consolidated financial statements for the third quarter of fiscal 2008 and the notes to the audited consolidated financial statements for fiscal 2007 set out on pages 68 to 85 of the Company's 2007 Annual Report.

The Company's financial results are reported in U.S. dollars. Unless otherwise indicated, all amounts are in U.S. dollars and have been derived from financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP).

Non-GAAP Financial Measures

The Company uses both GAAP and certain non-GAAP financial measures to assess performance. Securities regulators require that companies caution readers about non-GAAP financial measures that do not have a standardized meaning under GAAP and are unlikely to be comparable to similar measures used by other companies. Kingsway, like many insurance companies, analyzes performance based on underwriting ratios such as combined, expense and loss ratios. These terms are defined in the glossary of terms section beginning on page 87 of the 2007 Annual Report. Although there is not a property and casualty industry defined standard that is consistently applied in calculating these ratios, Kingsway has historically included costs such as corporate office expenses and excluded premium finance revenues whereas other public companies have done otherwise in the calculation of their expense and combined ratios. Readers are therefore cautioned when comparing Kingsway's combined ratios to those of other public companies as they may not have been calculated on a comparable basis.

The Company also uses securities portfolio per share information which is calculated based on the fair value of the securities portfolio divided by the number of issued and outstanding common shares. The Company uses operating earnings which are calculated as net income excluding after-tax net realized gains and losses on securities to assess the profitability of its operations. A reconciliation of net income to operating earnings is presented in the section titled 'Operating Earnings'.

Premiums

(in millions of dollars)	Quarter to September 30:			9 Months to September 30:		
	2008	2007	Change	2008	2007	Change
Gross premiums written						
Canada	$ 112.5	$ 115.1	(2%)	$ 364.8	$ 346.7	5%
U.S.	242.0	362.4	(33%)	842.8	1,081.4	(22%)
Total	$ 354.5	$ 477.5	(26%)	$ 1,207.6	$ 1,428.1	(15%)
Net premiums written						
Canada	$ 106.6	$ 109.5	(3%)	$ 348.3	$ 328.9	6%
U.S.	211.6	326.2	(35%)	755.2	987.3	(24%)
Total	$ 318.2	$ 435.7	(27%)	$ 1,103.5	$ 1,316.2	(16%)
Net premiums earned						
Canada	$ 119.7	$ 113.5	5%	$ 336.2	$ 300.6	12%
U.S.	251.4	337.1	(25%)	842.5	978.4	(14%)
Total	$ 371.1	$ 450.6	(18%)	$ 1,178.7	$ 1,279.0	(8%)

The U.S. operations reported a decrease in premiums written of $120.4 million (or 33%) during the quarter and $238.6 million (or 22%) year to date. Lincoln General's premium volume declined by $109.9 million in the quarter ($269.9 million year to date) compared to the same period last year due to the impact of terminations of unprofitable programs and the continuing soft market conditions for the trucking business in the U.S. Non-standard automobile premiums increased 9% to $508.1 million for the year to date.

Gross premiums written for the Canadian operations decreased 2% in the quarter (increase of 5% year to date) compared to last year. In Canadian dollars, gross premiums written from Canadian operations declined by 4% for the quarter (declined 3% year to date) compared to last year. Canadian operations experienced a decline of 28% in gross premiums written in the trucking line of business due to aggressive pricing from certain competitors and the reduction in cross-border activities due to the slowing North American economy.

U.S. operations represented 68% of gross premiums written in the quarter (70% year to date) compared with 76% in the same quarter of last year (76% year to date last year). Non-standard automobile, trucking, and commercial automobile premiums represented 42%, 16% and 15%, respectively, of gross premiums written at the end of the quarter compared with 33%, 23% and 17% last year.

Investment Income

	Quarter to September 30:			9 months to September 30:		
(in millions of dollars)	2008	2007	Change	2008	2007	Change
Investment income	$ 33.1	$ 36.1	(8%)	$ 102.0	$ 98.9	3%

Investment income has decreased by 8% in the quarter primarily due to lower short-term yields in Canada and the U.S. and a reduction in the size of the portfolio as a result of the repayment of the Company's bank debt. Investment income has increased by 3% for the nine months to September 30 as a result of the higher short-term yields in the first quarter of 2008 compared to the first quarter of 2007 as well as the impact of the strength of the Canadian dollar for much of the current year, which increases the investment income from Canadian operations reported in U.S. dollars. The cost based yield on the fixed income portfolio decreased to 4.4% compared to 4.8% for the same quarter last year, primarily attributable to the drop in short-term yields described above. The cost based yield represents the total interest income before expenses divided by the average amortized cost base of fixed income securities held in the portfolio during the period. The impact of the sale of York Fire and the repayment of all bank indebtedness during the quarter resulted in a decrease in the portfolio of $329.3 million or $5.98 per share which is expected to reduce investment income going forward.

Net Realized Gains (Losses)

The table below presents a summary of the net realized gains (losses) for the current quarter and year to date with comparative figures:

	Quarter to September 30:			9 months to September 30:		
(in millions of dollars)	2008	2007	Change	2008	2007	Change
Fixed income	$ (0.8)	$ (4.3)	81%	$ 3.7	$ (5.9)	163%
Equities	(5.9)	11.0	(154%)	12.3	52.6	(77%)
Capital assets	-	-	-	-	5.4	(100%)
Impairments	(22.9)	(2.5)	816%	(40.7)	(8.4)	385%
Total	$ (29.6)	$ 4.2	(805%)	$ (24.7)	$ 43.7	(157%)

For the three months ended September 30, 2008, sales from the securities portfolio and the write-down of securities that are considered to be other than temporarily impaired resulted in a net realized loss of $29.6 million ($24.7 million for year to date) compared to a net realized gain of $4.2 million for the three months ended September 30, 2007 ($43.7 million for year to date). The challenging fixed income and equity markets which began in the third quarter of 2007 have continued into 2008 resulting in the write-down of $22.9 million of securities in the third quarter of 2008 ($40.7 million for year to date) compared to $2.5 million in the third quarter of 2007 ($8.4 million for year to date). The write-downs include the impact of the Lehman Brothers bankruptcy on the portfolio which was a net realized loss of $14.5 million. The net realized gain in the first half of 2007 included a $5.4 million gain on the sale of the Company's former head office building and a gain of $17.7 million on a major equity holding in the Canadian portfolio which was the subject of a completed takeover.

Underwriting Results

	Quarter to September 30:			9 months to September 30:		
(in millions of dollars)	2008	2007	Change	2008	2007	Change
Underwriting profit (loss)						
Canada	$ (4.1)	$ 13.8	(130%)	$ (27.0)	$ 19.9	(236%)
U.S.	(46.5)	(23.1)	101%	(117.7)	(59.0)	99%
Total	$ (50.6)	$ (9.3)	444%	$ (144.7)	$ (39.1)	270%
Combined ratio						
Canada	103.4%	87.9%	15.5%	108.0%	93.4%	14.6%
U.S.	118.5%	106.8%	11.7%	114.0%	106.0%	8.0%
Total	113.6%	102.1%	11.5%	112.3%	103.1%	9.2%
Expense ratio						
Canada	36.2%	36.2%	0.0%	36.8%	36.2%	0.6%
U.S.	34.9%	29.1%	5.6%	32.7%	28.8%	3.9%
Total	35.3%	30.9%	4.4%	33.9%	30.6%	3.2%
Loss ratio						
Canada	67.2%	51.7%	15.5%	71.2%	57.2%	14.0%
U.S.	83.6%	77.7%	5.9%	81.3%	77.2%	4.1%
Total	78.3%	71.1%	7.3%	78.4%	72.5%	5.9%

The Canadian operations experienced estimated net unfavourable reserve development of $1.3 million ($15.4 million year to date) or 1.1% to the Canadian operations combined ratio for the quarter (4.6% year to date) compared to favourable reserve development of $9.6 million for the third quarter last year ($18.7 million year to date). The loss ratio in the quarter was 67.2% (71.2% year to date) compared to 51.7% in Q3 (57.2% year to date) 2007.

The third quarter results of the U.S. operations includes the impact of Hurricane Ike which increased claims incurred by $2.0 million. The Company has gross losses from Hurricane Ike of $19.5 million however, the Company's catastrophe reinsurance program limited the net impact of Hurricane Ike to $2.0 million (the Company's previous year catastrophe retention was $5 million). The U.S. operations experienced estimated unfavourable reserve development of $25.1 million for the quarter ($76.0 million for the year to date) compared with $20.4 in the same quarter ($75.8 million year to date) last year. Lincoln General accounts for $22.6 million of this reserve development for the quarter ($82.2 million year to date) or $0.41 per share after tax for the quarter ($1.42 per share after tax year to date). The terminated artisan contractors liability program accounts for $19.2 million of this development in the quarter. Combined ratio was 215.5% for the quarter on Lincoln's terminated (run-off) programs including unfavourable development compared with 115.1% on active programs for the quarter. The earned premium on Lincoln's active programs was $96.7 million and $19.3 million on the terminated programs in the third quarter of 2008.

	Quarter to September 30:		9 months to September 30:	
(in millions of dollars)	2008	2007	2008	2007
Favourable (unfavourable) change in estimated unpaid claims for prior accident years (note 1):				
Canada	$ (1.3)	$ 9.6	$ (15.4)	$ 18.7
U.S.	(25.1)	(20.4)	(76.0)	(75.8)
Total	$ (26.4)	$ (10.8)	$ (91.4)	$ (57.1)
As a % of net premiums earned (note 2):				
Canada	(1.1%)	8.5%	(4.6%)	6.2%
U.S.	(10.0%)	(6.1%)	(9.0%)	(7.7%)
Total	(7.1%)	(2.4%)	(7.8%)	(4.5%)
As a % of unpaid claims (note 3):				
Canada			(1.7%)	2.3%
U.S.			(5.7%)	(6.7%)
Total			(4.0%)	(2.9%)

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

Expenses

The overall expenses increased in the quarter due to the severance costs associated with the integration of Kingsway's American Country subsidiary into its American Service subsidiary and increased bad debts write-offs. Higher operating costs and depreciation expense of the new Head Office building in Canada also impacted expenses. The general expense ratio increased to 17.4% (15.8% year to date) compared to 12.8% (12.4% year to date 2007) in Q3 2007 primarily due to lower premium volume at Lincoln General.

Interest Expense

Interest expense in the third quarter of 2008 decreased to $9.3 million, compared to $10.3 million for the third quarter of 2007 as a result of the repayment of a portion of our debt. On a year to date basis, interest expense was $28.1 million compared to $28.2 million last year. As a result of the repayment of all bank indebtedness during the quarter, it is anticipated that interest expense will decrease for the remaining three months of 2008.

Income Taxes

Income taxes recovery on continuing operations for the third quarter was $16.7 million ($30.2 million year to date) as a result of losses recognized in the U.S. domiciled subsidiaries and the fully taxable status of the Canadian subsidiaries. This compares with a tax recovery of $0.2 million for the same quarter last year ($1.5 million year to date)

Net Income (Loss) and Earnings (Loss) Per Share

In the third quarter the Company reported a net loss of $17.4 million (loss of $45.5 million year to date), compared to net income of $23.6 million in the third quarter of last year ($85.0 million net income year to date 2007). Diluted loss per share was $0.32 for the quarter (diluted loss per share of $0.82 year to date), compared to diluted earnings per share of $0.42 for the third quarter of 2007 ($1.51 year to date 2007).

Operating Earnings

Operating earnings are calculated as income from continuing operations excluding after-tax net realized gains and losses on securities to assess the profitability of the operations.

	Quarter to September 30:		9 months to September 30:	
(in millions of dollars except per share amounts)	2008	2007	2008	2007
Income (loss) from continuing operations	$ (40.8)	$ 19.9	$ (69.1)	$ 74.1
Net realized gains (losses) after tax:				
Net realized gains(losses) before tax	(29.6)	4.2	(24.7)	43.7
Tax effect on realized gains (losses)	(6.3)	0.3	(2.9)	11.2
	(23.3)	3.9	(21.8)	32.5
Operating earnings (losses)	(17.5)	16.0	(47.4)	41.6
Average outstanding shares diluted (in millions)	55.2	55.9	55.3	56.1
Operating earnings (losses) per share	(0.32)	0.29	(0.86)	0.74

Balance Sheet

The table below shows a review of selected categories from the balance sheet reported in the financial statements at the end of Q3 2008 compared to December 31, 2007.

(in millions of dollars except per share amounts)	As at September 30, 2008	As at December 31, 2007	Change
Assets			
Securities	$ 2,546.4	$ 3,256.4	(22%)
Accounts receivable and other assets	309.2	365.4	(15%)
Income taxes recoverable	9.3	1.3	615%
Future income taxes	149.9	114.1	32%
Capital assets	119.0	133.4	(11%)
Goodwill and intangible assets	111.4	116.8	(5%)
Liabilities			
Bank indebtedness	-	172.4	(100%)
Unearned premiums	604.7	758.5	(20%)
Unpaid claims	2,032.4	2,267.1	(10%)
Senior unsecured debentures	196.9	220.1	(11%)
Shareholders' Equity	772.2	940.8	(18%)
Book value per share	14.02	16.95	(17%)

Securities:
The fair value of the securities portfolio including cash decreased 20% to $2.8 billion, compared to $3.5 billion as at December 31, 2007. This decrease is primarily due to the sale of securities to repay of the Company's bank debt, the disposition of a subsidiary and the impact of the credit crisis on the market value of the Company's fixed income portfolio. Also contributing to the drop in the securities portfolio is the impact of a weaker Canadian dollar at the balance sheet date on the conversion of the Canadian dollar portfolio to U.S. dollars.

The Company has previously announced the major credit exposures to noteworthy names affecting its third quarter earnings. Despite these exposures, the Company's asset quality remains very high. As at September 30, 2008, 94.6% of the fixed income portfolio is rated 'A' or better. For a quantitative analysis of the credit exposure of the Company from its investment in fixed income securities and term deposits by rating as assigned by S&P or Moody's Investor Services see Note 6 to the financial statements.

Due to generalized spread widening on corporate debt instruments, the gross unrealized losses on fixed income securities have increased to $65.8 million representing 2% of the securities portfolio. The Company has the ability and intent to hold these securities to maturity and does not expect any significant ultimate earnings impact in respect of these gross unrealized losses.

The fair value of the securities portfolio per share including cash decreased 19% to $51.07(C$54.35) per common share at September 30, 2008 compared to $63.22 (C$63.77) at December 31, 2007 primarily as a result of the sale of York Fire and the repayment of bank debt.

(U.S. dollars)

The table below summarizes the fair value by contractual maturity of the fixed income securities portfolio, which includes term deposits and bonds, split between Canadian and U.S. operations:

Maturity Profile:

	Canadian Operations	U.S. Operations	Total
Due in less than one year	24.7%	16.1%	18.8%
Due in one through five years	38.4	52.9	48.5
Due in five through ten years	31.2	20.8	23.9
Due after ten years	5.7	10.2	8.8
Total	100.0%	100.0%	100.0%

There were net unrealized losses of $71.0 million on the total securities portfolio or $1.29 per share outstanding at September 30, 2008 which is included as a component of "accumulated other comprehensive income", as compared to net unrealized gains of $34.6 million or $0.62 per share outstanding at December 31, 2007. Net unrealized losses on the common share portfolio were $45.3 million or $0.82 per share outstanding at September 30, 2008 compared to net unrealized gains of $16.0 million or $0.29 per share outstanding at December 31, 2007.

For a quantitative analysis of the impact to the fair value to the fixed income portfolio of a change in interest rates see Note 6 to the financial statements.

As at September 30, 2008 the securities portfolio did not include any collateralized debt obligations nor any direct exposure to any asset backed commercial paper. The securities portfolio has a small exposure of approximately $2.6 million to the sub-prime mortgage market in the U.S. through home equity loan asset backed securities. As at September 30, 2008, these securities had an aggregate net unrealized loss of $0.3 million.

Accounts receivable and other assets:
Accounts receivable and other assets decreased by 15% to $309.2 million since the end of last year, primarily as a result of the settlement of reinsurance receivables and the sale of a Canadian subsidiary which removed its assets from the consolidated total assets.

Income taxes recoverable:
Income taxes recoverable increased as a result of the recording of the Canadian operations tax loss carry back in 2008.

Future income taxes:
Future income taxes increased due to tax losses recognized by the U.S. operations which can be utilized in future periods up to twenty years.

Capital assets:
Capital assets decreased by 11% since the end of last year primarily as a result of depreciation of the capital assets and the removal of York Fire's capital assets from the consolidated total.

Goodwill and intangible assets:
Goodwill and intangible assets decreased by 5% since the end of last year due to the amortization of definite life intangible assets in certain of our U.S. subsidiaries and the sale of York Fire which accounted for $1.0 million of the decrease in goodwill.

Bank indebtedness:
The Company had no bank indebtedness as of September 30, 2008 compared to $172.4 million at December 31, 2007. During the first nine months of the year the Company repaid all of the outstanding debt under its credit facilities and is no longer subject to any financial covenants requirements under the terms of these cancelled credit facilities.

Unearned premiums:
Unearned premiums decreased 20% since December 31, 2007 as a result of decreased premium volume and the sale of York Fire.

Unpaid claims:
The following table presents a summary of the provision for unpaid claims by line of business:

(in millions of dollars)		
Line of Business	September 30, 2008	December 31, 2007
Non – Standard Automobile	$ 539.5	$ 575.2
Standard Automobile	1.8	144.5
Commercial Automobile	228.4	239.2
Trucking	756.0	811.6
Motorcycle	138.9	126.8
Property & Liability	292.5	303.3
Other	75.3	66.5
Total	$ 2,032.4	$ 2,267.1

The provisions for unpaid claims decreased by 10% to $2.03 billion at the end of the third quarter compared to $2.27 billion at the end of 2007 of which 6 percentage points was a result of the sale of York Fire which carried $156.5 million of unpaid claims as of September 30, 2008. The provision for unpaid claims comprised case reserves for individual claims decreased to $1.20 billion ($1.21 billion at December 31, 2007) and a provision for Incurred But Not Reported (IBNR) claims which decreased 7% to $837.1 million ($900.2 million at December 31, 2007).

Senior unsecured debentures:
On July 10, 2007 the Company through its newly formed wholly-owned subsidiary Kingsway 2007 General Partnership issued C$100 million 6% senior unsecured debentures with a maturity date of July 11, 2012.

Book value per share:
Book value per share decreased by 17% to $14.02 (C$14.93) at September 30, 2008 from $16.95 (C$16.80) at December 31, 2007 as a result of the diluted loss per share of $0.82 and the decline of $1.36 in the "accumulated other comprehensive income" component of shareholders' equity.

Contractual Obligations

Information concerning contractual obligations as at September 30, 2008 is shown in Note 6 of the financial statements. For further details on the Company's long term debt and interest obligations, refer to Note 10 – Bank Indebtedness of the accompanying financial statements and Note 15 of the Company's 2007 audited consolidated financial statements and pages 39 to 43 of the 2007 Annual Report which sets out the Company's contractual obligations as at December 31, 2007.

Liquidity and Capital Resources

During the three and nine months ended September 30, 2008, the cash used in operating activities was $239.8 million and $319.4 million respectively, a portion of which was the result of the termination of intercompany reinsurance agreements upon the sale of York Fire. The Company believes that the cash generated from the operating activities of the continuing operations will be sufficient to meet its ongoing cash requirements, including interest payment obligations and dividend payments. Kingsway holds $351.9 million in cash and high grade short-term assets, representing approximately 13% of invested assets. The majority of the other fixed income securities are also liquid.

During the nine months ended September 30, 2008, the Company repurchased 468,200 common shares under the normal course issuer bid for a total purchase price of $5.2 million at an average price of $11.02 (Cdn $11.17).

As at September 30, 2008 the Company's subsidiaries were adequately capitalized to support their premium volume. For a more detailed discussion of the capital adequacy of the Companies insurance and reinsurance subsidiaries see Note 7 to the financial statements.

Off-Balance Sheet Financing

The Company entered into an off-balance sheet transaction through the Kingsway Linked Return of Capital Trust transaction that was completed on July 14, 2005 which is more fully described in Note 15(d) of the 2007 audited consolidated financial statements and page 42 of the 2007 Annual Report. The Company has one other off-balance sheet financing arrangement as described on page 43 of the 2007 Annual Report.

International Financial Reporting Standards (IFRS)

In 2006, the Accounting Standards Board (AcSB) published a new plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publically-listed companies to use IFRS, replacing existing Canadian GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Summary of Quarterly Results

The following table presents the financial results including discontinued operations over the previous eight quarters.

	2008			2007				2006
(in millions of dollars except per share)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Gross premiums written	$ 379.4	$ 443.2	$ 457.1	$ 449.0	$ 509.1	$ 525.2	$ 479.4	$ 409.1
Net premiums earned	397.0	416.3	442.6	464.5	485.3	474.0	418.2	425.0
Total revenue	442.3	460.8	474.5	510.1	528.1	538.6	458.9	466.6
Net income (loss)	(17.4)	6.3	(34.4)	(103.5)	23.6	41.7	19.6	16.8
Earnings (loss) per share								
Basic	(0.32)	0.11	(0.62)	(1.86)	0.43	0.75	0.35	0.30
Diluted	(0.32)	0.11	(0.62)	(1.84)	0.42	0.74	0.35	0.30

Note: The above information <u>includes</u> the discontinued operations of York Fire.

Supplementary Financial Information from Continuing Operations

Financial Strength Indicators:

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

	September 30, 2008	December 31, 2007
Rolling four quarter calculations:		
Net premiums written to estimated statutory surplus ratio	1.9x	1.6x
Senior debt to capitalization ratio	23.3%	31.0%
Total debt to capitalization ratio	31.1%	36.8%

Selected Financial Information expressed in Canadian dollars, except for per share amounts

The selected financial information disclosed below 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 below.

	Quarter to September 30:		9 months to September 30:	
(in millions of dollars except per share amount)	2008	2007	2008	2007
Gross premiums written	$ 368.0	$ 499.9	$ 1,227.0	$ 1,577.8
Net premiums earned	385.5	471.8	1,198.8	1,411.0
Net income (loss)	(18.0)	24.8	(46.3)	93.1
Earnings per share – diluted	(0.33)	0.44	(0.84)	1.66
Underwriting profit (loss)	(53.0)	(9.5)	(147.6)	(37.4)
Book value per share			14.93	18.72

Outlook

The Company's 2007 Annual Report includes description and analysis of the key factors and events that could impact future earnings under the heading Risks Factors in the Management's Discussion and Analysis section. These factors and events have, for the most part, remained substantially unchanged.

Disclosure Controls and Procedures

Management of the Company is responsible for establishing and maintaining disclosure controls and procedures for the Company as defined under Multilateral Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such disclosure controls and procedures, or caused them to be designed under its supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the Chief Executive Officer and the Chief Financial Officer by others within those entities, particularly during the period in which the annual filings are being prepared.

Internal Controls over Financial Reporting

Management of the Company is responsible for designing internal controls over financial reporting for the Company as defined under Multilateral Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with GAAP. There has been no change in the Company's internal control over financial reporting that occurred during the Company's most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Forward Looking Statements

This press release (including the Management's Discussion and Analysis) 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 2007 Annual Report under the heading Risk Factors in the Management's Discussion and Analysis section. The securities filings can be accessed 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 or through the Company's website at www.kingsway-financial.com. 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.

KINGSWAY FINANCIAL SERVICES INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands of U.S. dollars, except for per share amounts)

(Unaudited)	Quarter to September 30:		9 months to September 30:	
	2008	2007	**2008**	2007
Gross premiums written	**$ 354,520**	$ 477,476	**$1,207,607**	$ 1,428,099
Net premiums written	**$ 318,175**	$ 435,740	**1,103,510**	$ 1,316,184
Revenue:				
Net premiums earned	**$ 371,051**	$ 450,617	**$ 1,178,720**	$ 1,278,977
Investment income	**33,116**	36,095	**101,961**	98,876
Net realized gains (losses)	**(29,619)**	4,156	**(24,668)**	43,684
	374,548	490,868	**1,256,013**	1,421,537
Expenses:				
Claims incurred	**$ 290,726**	$ 320,554	**$ 924,456**	$ 927,187
Commissions and premiums taxes	**66,191**	81,890	**212,274**	232,192
General and administrative expenses	**64,714**	57,514	**186,664**	158,681
Interest expense	**9,322**	10,275	**28,110**	28,225
Amortization of intangibles	**1,058**	876	**3,828**	2,628
	432,011	471,109	**1,355,332**	1,348,913
Income (loss) from continuing operations before income taxes	**(57,463)**	19,759	**(99,319)**	72,624
Income taxes (recovery)	**(16,695)**	(158)	**(30,195)**	(1,456)
Income (loss) from continuing operations	**(40,768)**	19,917	**(69,124)**	74,080
Income (loss) from discontinued operations, net of taxes (note 3)	**(11,631)**	3,694	**(11,353)**	10,888
Gain on disposal of discontinued operations, net of taxes	**34,985**	-	**34,985**	-
Net income (loss)	**$ (17,414)**	$ 23,611	**$ (45,492)**	$ 84,968
Earnings (loss) per share - continuing operations:				
Basic:	**$ (0.74)**	$ 0.36	**$ (1.25)**	$ 1.33
Diluted:	**$ (0.74)**	$ 0.36	**$ (1.25)**	$ 1.32
Earnings (loss) per share – net income (loss):				
Basic:	**$ (0.32)**	$ 0.43	**$ (0.82)**	$ 1.53
Diluted:	**$ (0.32)**	$ 0.42	**$ (0.82)**	$ 1.51
Weighted average shares outstanding (in ‘000s):				
Basic:	**55,147**	55,630	**55,238**	55,682
Diluted:	**55,185**	55,937	**55,305**	56,118

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

	September 30 2008 (unaudited)	December 31 2007
ASSETS		
Cash and cash equivalents	$ **197,381**	$ 161,635
Securities	**2,546,360**	3,256,365
Accrued investment income	**26,233**	33,186
Financed premiums	**68,389**	91,851
Accounts receivable and other assets	**309,212**	365,410
Due from reinsurers and other insurers	**211,982**	207,137
Deferred policy acquisition costs	**142,119**	176,202
Income taxes recoverable	**9,271**	1,348
Future income taxes	**149,878**	114,066
Capital assets	**119,042**	133,431
Goodwill and intangible assets	**111,429**	116,774
	$ **3,891,296**	$ 4,657,405
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Bank indebtedness	$ **-**	$ 172,436
Loans payable	**66,222**	66,222
Accounts payable and accrued liabilities	**131,573**	144,940
Unearned premiums	**604,711**	758,490
Unpaid claims	**2,032,365**	2,267,082
Senior unsecured debentures	**196,874**	220,080
Subordinated indebtedness	**87,376**	87,354
	3,119,121	3,716,604
SHAREHOLDERS' EQUITY		
Share capital	**322,344**	326,151
Issued and outstanding number of common shares		
55,068,528 – September 30, 2008		
55,515,728– December 31, 2007		
Contributed surplus	**8,889**	7,619
Retained earnings	**462,282**	521,165
Accumulated other comprehensive income	**(21,340)**	85,866
	772,175	940,801
	$ **3,891,296**	$ 4,657,405

KINGSWAY FINANCIAL SERVICES INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands of U.S. dollars)

	Quarter to September 30:		9 months to September 30:	
(Unaudited)	**2008**	2007	**2008**	2007
Share capital				
Balance at beginning of period	**$ 323,102**	$ 327,199	**$ 326,151**	$ 328,473
Issued during the period	**41**	96	**89**	1,143
Repurchased for cancellation	**(799)**	-	**(3,896)**	(2,321)
Balance at end of period	**322,344**	327,295	**322,344**	327,295
Contributed surplus				
Balance at beginning of period	**$ 8,287**	$ 6,144	**$ 7,619**	$ 5,352
Stock option expense	**602**	788	**1,270**	1,580
Balance at end of period	**8,889**	6,932	**8,889**	6,932
Retained earnings				
Balance at beginning of period	**$ 83,598**	$ 610,251	**$ 521,165**	$ 560,126
Net income (loss) for the period	**(17,414)**	23,611	**(45,492)**	84,968
Common share dividends	**(3,907)**	(4,069)	**(12,115)**	(11,560)
Repurchase of shares for cancellation	**5**	-	**(1,276)**	(3,741)
Balance at end of period	**462,282**	629,793	**462,282**	629,793
Accumulated other comprehensive income				
Balance at beginning of period	**$ 39,454**	$ 44,875	**$ 85,866**	$ 7,011
Cumulative effect of adopting new accounting policies		-	**-**	17,672
Other comprehensive income (loss)	**(60,794)**	38,373	**(107,206)**	58,565
Balance at end of period	**(21,340)**	83,248	**(21,340)**	83,248
Total shareholders' equity at end of period	**$ 772,175**	$1,047,268	**$ 772,175**	$ 1,047,268

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(In thousands of U.S. dollars)

	Quarter to September 30:		9 months to September 30:	
(Unaudited)	**2008**	2007	**2008**	2007
Comprehensive income				
Net income (loss)	**$ (17,414)**	$ 23,611	**$ (45,492)**	$ 84,968
Other comprehensive income, net of taxes:				
• Change in unrealized gains (losses) on available-for securities:				
Unrealized gains (losses) arising during the period, net of income taxes [(1)]	**(55,883)**	22,047	**(77,065)**	12,798
Recognition of realized losses (gains) to net income, net of income taxes [(2)]	**11,256**	(7,492)	**(3,789)**	(11,401)
• Unrealized gains (losses) on translating financial statement of self-sustaining foreign operations	**(13,872)**	20,732	**(23,526)**	54,082
• Gain (loss) on cash flow hedge	**(2,295)**	-	**(2,826)**	-
Other comprehensive income (loss)	**(60,794)**	38,373	**(107,206)**	58,565
Comprehensive income	**$ (78,208)**	$ 61,984	**$ (152,698)**	$ 143,533

[(1)] Net of income tax of $(18,999) for the quarter to September 30, 2008($(23,120) for Year to date) and $1,791 for the quarter to September 30, 2007 ($2,159 for year to date).
[(2)] Net of income tax of $4,001 for the quarter to September 30, 2008 ($(1,598) for year to date) and $(2,051) for the quarter to September 30, 2007 ($(5,049) for year to date).

KINGSWAY FINANCIAL SERVICES INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands of U.S. dollars)

	Quarter to September 30:		9 months to September 30:	
(Unaudited)	**2008**	2007	**2008**	2007
Cash flows from operating activities				
Net income (loss)	**$ (17,414)**	$ 23,611	**$ (45,492)**	$ 84,968
Items not affecting cash:				
Amortization	3,681	3,336	14,920	9,768
Future and current income taxes	(3,470)	(7,798)	(10,619)	(22,557)
Net realized gains	(11,215)	(5,290)	(16,684)	(45,160)
Amortization of bond premiums and discounts	(1,232)	(4,296)	(5,264)	(7,708)
Net change in other non-cash balances	(210,153)	30,222	(256,232)	74,794
	(239,803)	39,785	(319,371)	94,105
Cash flows from financing activities				
Increase in share capital	41	96	89	1,143
Repurchase of common shares for cancellation	(1,684)	-	(5,172)	(6,062)
Dividends paid	(3,907)	(4,069)	(12,115)	(11,560)
Increase (decrease) in bank indebtedness and loans payable	(157,693)	1,758	(172,976)	108,702
Decrease in senior unsecured indebtedness	-	-	(17,517)	-
	(163,243)	(2,215)	(207,691)	92,223
Investing activities				
Purchase of securities	(830,152)	(946,858)	(2,422,232)	(3,137,472)
Proceeds from sale of securities	1,166,002	887,748	2,925,814	2,989,159
Financed premiums receivable, net	31,173	(4,792)	17,920	(12,387)
Acquisitions, net of cash acquired	-	(4)	(212)	(40,687)
Net proceeds from sale of discontinued operations	44,067	-	44,067	-
Net change to capital assets	789	(2,555)	(2,549)	(17,382)
	411,879	(66,461)	562,808	(218,769)
Net change in cash and cash equivalents	**8,833**	(28,891)	**35,746**	(32,441)
Cash and cash equivalents at beginning of period	**188,548**	126,156	**161,635**	129,706
Cash and cash equivalents at end of period	**$ 197,381**	$ 97,265	**$ 197,381**	$ 97,265

NOTE 1 Basis of Presentation

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies as were used for the Company's consolidated financial statements for the year ended December 31, 2007 except for the changes in accounting policies as noted below. These interim consolidated financial statements do not contain all disclosures required by generally accepted accounting principles and accordingly should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2007 as set out on pages 63 to 85 of the Company's 2007 Annual Report. The results of the operations for the interim periods are not necessarily indicative of the full-year results.

NOTE 2 Change In Accounting Polices

On January 1, 2008, the Company adopted CICA Handbook Section 1535 Accounting Changes – Capital Disclosures, Section 3862 Financial Instruments – Disclosures and Section 3863 Financial Instruments – Presentation.

Handbook Section 1535 requires the following disclosures: (i) qualitative information about an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity manages as capital; (iii) whether the entity has complied with any externally imposed capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. See Note 7 for additional details.

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements but not changing the existing presentation requirements for financial instruments. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Handbook Section 3862 requires qualitative and quantitative disclosure of: (i) exposures to risks arising from financial instruments, how they arose and the potential impact on the amount, timing and certainty of future cash flows; (ii) information about the risk management function and the reporting and measurement systems used; (iii) the entity's policies for hedging or mitigating risk and avoiding concentrations of risk; and (iv) the sensitivity to individual market risk factors together with the methodology for performing the analysis. Handbook Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. See Note 6 for additional details.

NOTE 3 Discontinued Operations

On September 30, 2008 the company completed its previously announced sale of York Fire and Casualty Insurance Company (York Fire), a primarily standard insurance writer, for C$95 million in cash. The sale will enable the Company to focus on its core lines of business, such as non-standard automobile and trucking, build a stronger platform for achieving growth and sustainable profitability in its leading products. The Company has classified York Fire as discontinued operations and the results of its operations are separately reported for all periods presented.

Summarized financial information for discontinued York Fire operations is shown below.

(Unaudited – tabular amounts in thousands of U.S. dollars)

	Quarter to September 30:		9 months to September 30:	
	2008	2007	2008	2007
Operations:				
Revenue	$ 25,736	$ 37,212	$ 79,580	$ 104,016
Income (loss) from discontinued operations before taxes	(14,753)	4,324	(16,377)	12,541
Income tax (recovery)	(3,122)	630	(5,024)	1,653
Income (loss) from discontinued operations before disposal, net of taxes	$ (11,631)	$ 3,694	$ (11,353)	$ 10,888
Disposals:				
Gain on disposal before income taxes	$ 42,049	$ -	$ 42,049	$ -
Income tax	7,064	-	7,064	-
Gain on disposal, net of taxes	$ 34,985	$ -	$ 34,985	$ -
Total Income from discontinued operations, net of taxes	$ 23,354	$ 3,694	$ 23,632	$ 10,888

Selected major classes of assets and liabilities of York Fire included in the sale at balance sheet date are as follows:

	September 30 2008	December 31 2007
Assets		
Securities	-	65,209
Financed premiums	-	34,088
Deferred policy acquisitions costs	-	2,660
Other assets	-	29,908
Assets of discontinued operations	-	131,865
Liabilities		
Unearned premiums	-	22,785
Unpaid claims	-	62,504
Other liabilities	-	6,212
Liabilities of discontinued operations	-	91,501

(Unaudited – tabular amounts in thousands of U.S. dollars)

NOTE 4 Stock-based Compensation

As reported on pages 74 – 75 of the Company's 2007 Annual Report, effective January 1, 2003 the Company adopted on a prospective basis the fair-value method of accounting for stock-based compensation awards granted to employees and non-employee directors. During the third quarter 2008, the Company recorded C$640,000 (C$1,306,000 year to date) of stock-based compensation expense included in employee compensation expense.

Per share weighted average fair value of options granted during 2008 was C$2.88 in February, C$2.43 in May and C$2.45 in September. Per share weighted average fair value of options granted during 2007 was C$5.34 February and C$2.38 in December. The fair value of the options granted was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	As at September 30:	
	2008	2007
Risk-free interest rate	3.22%	4.11%
Dividend yield	2.23%	1.30%
Volatility of the expected market price of the Company's common shares	27.8%	25.2%
Expected option life (in years)	4.0	3.7

The Black-Scholes option valuation model was developed for use in estimating fair value of traded options which have no vesting restrictions and are fully transferable. As the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the above pro forma adjustments are not necessarily a reliable single measure of the fair value of the Company's employee stock options.

NOTE 5 Segmented Information

The Company provides property and casualty insurance and other insurance related services in three reportable segments, Canada, the United States and corporate and other insurance related services. The Company's Canadian and United States segments include transactions with the Company's reinsurance subsidiaries. At the present time, other insurance related services are not significant. Results for the Company's operating segments are based on the Company's internal financial reporting systems and are consistent with those followed in the preparation of the consolidated financial statements. The reportable segments for Canada have been updated to conform to current period's financial statement presentation to exclude the results of discontinued operations.

	Three months ended September 30, 2008			
	Canada	United States	Corporate and other	Total
Gross premiums written	$ 112,483	$ 242,037	$ -	$ 354,520
Net premiums earned	119,621	251,430	-	371,051
Investment income	12,235	20,432	449	33,116
Net realized loss	(10,079)	(19,540)	-	(29,619)
Interest expense	-	7,594	1,728	9,322
Amortization of capital assets	511	2,191	1,011	3,713
Amortization of intangible assets	-	1,058	-	1,058
Income tax expense (recovery)	(2,758)	(12,888)	(1,049)	(16,695)
Income (loss) from continuing operations	(3,653)	(41,331)	4,216	(40,768)

(Unaudited – tabular amounts in thousands of U.S. dollars)

	Three months ended September 30, 2007			
	Canada	United States	Corporate and other	Total
Gross premiums written	$ 115,105	$ 362,371	$ -	$ 477,476
Net premiums earned	113,489	337,128	-	450,617
Investment income (loss)	14,188	22,046	(139)	36,095
Net realized gains	1,455	2,701	-	4,156
Interest expense	-	8,090	2,185	10,275
Amortization of capital assets	525	1,285	1,170	2,980
Amortization of intangible assets	-	876	-	876
Income tax expense (recovery)	5,820	(9,848)	3,870	(158)
Income (loss) from continuing operations	22,471	2,556	(5,110)	19,917

	Nine months ended September 30, 2008			
	Canada	United States	Corporate and other	Total
Gross premiums written	$ 364,843	$ 842,764	$ -	$ 1,207,607
Net premiums earned	336,234	842,486	-	1,178,720
Investment income (loss)	38,898	63,357	(294)	101,961
Net realized loss	(1,749)	(22,919)	-	(24,668)
Interest expense	-	24,182	3,928	28,110
Amortization of capital assets	1,567	5,951	3,546	11,064
Amortization of intangible assets	-	3,828	-	3,828
Income tax expense (recovery)	(9,957)	(26,153)	5,915	(30,195)
Income (loss) from continuing operations	7,654	(79,142)	2,364	(69,124)
Capital assets	$ 55,776	$ 57,616	$ 5,650	$ 119,042
Goodwill and intangible assets	7,602	103,827	-	111,429
Total assets	1,325,197	2,494,552	71,547	3,891,296

(Unaudited – tabular amounts in thousands of U.S. dollars)

	Nine months ended September 30, 2007			
	Canada	United States	Corporate and other	Total
Gross premiums written	$ 346,678	$1,081,421	$ -	$1,428,099
Net premiums earned	300,545	978,432	-	1,278,977
Investment income (loss)	38,316	61,647	(1,087)	98,876
Net realized gains	26,444	17,240	-	43,684
Interest expense	-	22,067	6,158	28,225
Amortization of capital assets	1,350	3,750	2,300	7,400
Amortization of intangible assets	-	2,628	-	2,628
Income tax expense (recovery)	16,168	(29,459)	11,835	(1,456)
Income (loss) from continuing operations	63,296	24,695	(13,911)	74,080
Capital assets	$ 62,028	$ 60,972	$ 10,932	$ 133,932
Goodwill and intangible assets	9,240	104,606	-	113,846
Total assets	1,817,773	2,829,209	35,489	4,682,471

NOTE 6 Securities

The table below provides the amortized cost and fair values of securities:

		September 30, 2008			
		Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Term Deposits		$ 154,068	$ 594	$ 173	$ 154,489
Bonds:					
Canadian	- Government	185,759	3,419	923	188,255
	- Corporate	312,457	1,354	8,873	304,938
U.S	- Government	102,481	2,364	562	104,283
	- Corporate	1,379,830	16,489	54,474	1,341,845
Other	- Government	-	-	-	-
	- Corporate	130,724	2,010	760	131,974
Sub-total		**$2,265,319**	**$ 26,230**	**$ 65,765**	**$2,225,784**
Common shares	- Canadian	188,167	1,893	31,355	158,705
	- U.S	155,583	6,226	5,759	156,050
Preferred shares	- Canadian	7,648	1	2,413	5,236
	- U.S	635	-	50	585
		$2,617,352	**$ 34,350**	**$ 105,342**	**$2,546,360**

(Unaudited – tabular amounts in thousands of U.S. dollars)

		December 31, 2007			
		Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Term Deposits		$ 393,788	$ 836	$ 69	$ 394,555
Bonds:					
Canadian	- Government	260,309	4,164	115	264,358
	- Corporate	368,243	1,834	6,464	363,613
U.S	- Government	90,305	2,270	13	92,562
	- Corporate	1,461,177	23,153	8,657	1,475,673
Other	- Government	15,492	-	106	15,386
	- Corporate	204,876	4,381	812	208,445
Sub-total		**$2,794,190**	**$ 36,638**	**$ 16,236**	**$2,814,592**
Common shares	- Canadian	224,086	25,624	12,786	236,924
	- U.S	194,545	16,045	12,847	197,743
Preferred shares	- Canadian	8,211	-	1,828	6,383
	- U.S	780	-	57	723
		$3,221,812	**$ 78,307**	**$ 43,754**	**$3,256,365**

Fair values of term deposits, bonds and common and preferred shares are considered to approximate quoted market values based on the latest bid prices.

Net investment income for the quarter and period ended is comprised as follows:

	Quarter to September 30:		9 months to September 30	
	2008	2007	2008	2007
Investment income				
Interest on short term securities	$ 2,666	$ 5,281	$ 9,943	$ 15,053
Interest on Bonds	25,923	28,998	83,801	79,193
Dividends	3,898	3,123	8,345	9,193
Premium Finance	1,264	308	3,361	1,406
Other	1,121	369	1,917	(6)
Gross Investment Income	**$ 34,872**	**$ 38,079**	**$ 107,367**	**$ 104,839**
Investment Expenses	1,756	1,984	5,406	5,963
Net Investment Income	**$ 33,116**	**$ 36,095**	**$ 101,961**	**$ 98,876**

Net realized losses for the quarter ended September 30, 2008 were $29.6 million ($24.7 million for year to date) compared to net realized gains of $4.2 million for the quarter ended September 30, 2007 ($43.7 million for year to date). Included in net realized losses were adjustments to the carrying values of securities for declines in market value considered other than temporary of $22.9 million for the quarter ended September, 2008 ($40.7 million for year to date) compared to $2.5 million for the quarter ended September, 2007 ($8.4 million for year to date).

(Unaudited – tabular amounts in thousands of U.S. dollars)

NOTE 7 Financial Instruments

Risk Management

The Company's risk management policies and practices are described on pages 23, 47 and 72 to 73 of the Company's 2007 Annual Report. There has been no significant change in the risk management framework.

In addition, the Company has provided herein the disclosures required under the Canadian Institute of Chartered Accountants (CICA) handbook section 3862, "Financial Instruments – Disclosures" related to the nature and extent of risks arising from financial instruments. These disclosures form an integral part of the interim consolidated financial statements.

Credit risk:
The Company remains exposed to credit risk principally through its investment securities and balances receivable from policyholders and reinsurers. The Company monitors concentration and credit quality risk through policies to limit and monitor its exposure to individual issuers or related groups (with the exception of U.S. and Canadian government bonds) as well as through ongoing review of the credit ratings of issuers held in the securities portfolio. The Company's credit exposure to any one individual policyholder is not material. The Company has policies to evaluate the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer's insolvency.

The table below summarizes the credit exposure of the Company from its investments in fixed income securities and term deposits by rating as assigned by S&P or Moody's Investor Services, using the higher of these ratings for any security where there is a split rating:

	September 30, 2008				December 31, 2007			
	$				$			
AAA/ Aaa	$	1,234,088	55.4	%	$	1,516,064	53.9	%
AA/Aa2		415,040	18.6			661,891	23.5	
A/A2		457,461	20.6			470,909	16.7	
BBB/Baa2		62,427	2.8			96,076	3.4	
BB/Ba2		5,764	0.3			8,081	0.3	
B/B2		11,492	0.5			12,629	0.4	
CCC/Caa or lower		1,497	0.1			1,724	0.1	
Not rated		38,015	1.7			47,218	1.7	
Total consolidated	**$**	**2,225,784**	**100**	**%**	**$**	**2,814,592**	**100.0**	**%**

As at September 30, 2008, 94.6% of the fixed income portfolio is rated 'A' or better. The 'not rated' category consists primarily of investments in money market instruments.

Market risk:
Our primary market risk exposures continue to be the changes in interest rates and equity prices. Because most of the securities portfolio is comprised of fixed income securities that are usually held to maturity, periodic changes in interest rate levels generally impact the financial results to the extent that reinvestment yields are different than the original yields on maturing securities. Also, during periods of rising interest rates, the market value of the existing fixed income securities will generally decrease and realized gains on fixed income securities will likely be reduced. The reverse is true during periods of declining interest rates.

Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that an immediate hypothetical 100 basis point or 1 percent parallel increase in interest rates would decrease the market value of the fixed income securities by $75.1 million at September 30, 2008, representing 3.4% of the $2.2 billion fair value fixed income securities portfolio.

(Unaudited – tabular amounts in thousands of U.S. dollars)

Fluctuations in value of the equity securities due to changes in general economic or stock market conditions affect the carrying value of these securities and the level and timing of recognition of gains and losses on securities held, causing changes in realized and unrealized gains and losses.

We have a smaller exposure to changes in the U.S. to Canadian dollar foreign currency exchange rate. We do not hedge any foreign currency exposure that may exist in the securities portfolio. Our U.S. operations generally hold their investments in U.S. dollar denominated securities, and the Canadian operations in Canadian dollar denominated securities.

Liquidity risk:
Liquidity risk is the risk of having insufficient cash resources to meet current financial obligations without raising funds at unfavorable rates or selling assets on a forced basis. Liquidity risk arises from the general business activities and in the course of managing the assets and liabilities. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity requirements of the Company's business have been met primarily by funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements. To meet these cash requirements, the Company has policies to limit and monitor its exposure to individual issuers or related groups and to ensure that assets and liabilities are broadly matched in terms of their duration and currency. The Company believes that it has the flexibility to obtain, from internal sources, the funds needed to fulfill the cash requirements, including the quarterly dividend, during the current financial year and also to satisfy regulatory capital requirements.

The following table summarizes carrying amounts of financial instruments by contractual maturity or expected cash flow dates (the actual re pricing dates may differ from contractual maturity because certain securities and debentures have the right to call or prepay obligations with or without call or prepayment penalties):

As at September 30, 2008	One year or less	One to five years	Five to ten years	More than ten years	No specific date	Total
Assets:						
Cash & cash equivalents	$ 197,381	$ -	$ -	$ -	$ -	$ 197,381
Securities	416,849	1,079,692	532,495	196,426	320,898	2,546,360
Accrued Investment Income	26,233	-	-	-	-	26,233
Finance Premiums	68,389	-	-	-	-	68,389
Accounts receivable and other assets	309,212	-	-	-	-	309,212
Due from reinsurers and other insurers	66,507	122,066	20,189	3,220	-	211,982
Liabilities:						
Bank Indebtedness	-	-	-	-	-	-
Loans payable	-	-	66,222	-	-	66,222
Accounts payable and accrued liabilities	131,573	-	-	-	-	131,573
Unpaid claims	637,635	1,170,302	193,560	30,868	-	2,032,365
Senior unsecured debentures	-	92,943	103,931	-	-	196,874
Subordinated indebtedness	-	-	-	87,376	-	87,376

(Unaudited – tabular amounts in thousands of U.S. dollars)

As at December 31, 2007	One year or less	One to five years	Five to ten years	More than ten years	No specific date	Total
Assets:						
Cash & cash equivalents	$ 161,635	$ -	$ -	$ -	$ -	$ 161,635
Securities	714,339	1,242,667	720,464	137,122	441,773	3,256,365
Accrued Investment Income	33,186	-	-	-	-	33,186
Finance Premiums	91,851	-	-	-	-	91,851
Accounts receivable and other assets	365,410	-	-	-	-	365,410
Due from reinsurers and other insurers	(5,999)	181,135	27,676	4,325	-	207,137
Liabilities:						
Bank Indebtedness	172,436	-	-	-	-	172,436
Loans payable	-	-	66,222	-	-	66,222
Accounts payable and accrued liabilities	144,940	-	-	-	-	144,940
Unpaid claims	735,534	1,284,106	213,264	34,178	-	2,267,082
Senior unsecured debentures	-	99,680	120,400	-	-	220,080
Subordinated indebtedness	-	-	-	87,354	-	87,354

Collateral pledged: As at September 30, 2008, bonds and term deposits with an estimated fair value of $51.6 million were on deposit with state and provincial regulatory authorities. Also, from time to time, the Company pledges securities to third parties to collateralize liabilities incurred under its policies of insurance. At September 30, 2008, the amount of such pledged securities was $103.6 million. Collateral pledging transactions are conducted under terms that are common and customary to standard collateral pledging and are subject to the Company's standard risk management controls.

On October 4, 2002 the Company entered into an annually renewable syndicated $350 million letter of credit facility. The letter of credit facility is principally used to collateralize inter-company reinsurance balances for statutory capital management purposes. The Company pledges securities to collateralize the utilized portion of the letter of credit facility. At September 30, 2008 the letter of credit facility utilization was $276.3 million.

Past due loans but not impaired: Past due loans are loans where repayment of principal or payment of interest is contractually in arrears. There are no such loans as at September 30, 2008.

Fair value:

Refer to Note 5 with respect to fair value disclosure on securities. The carrying value of unpaid claims does not take into consideration the time value of money or make an explicit provision for adverse deviation. In order to estimate the fair value of the unpaid claims, the Company uses an actuarial approach recognizing the time value of money which incorporates assumptions concerning projected cash flows and appropriate provisions for adverse deviation. As at September 30, 2008 the estimated fair value of the unpaid claims was $2,166.8 million ($2,022.9 million net of reinsurers' share of unpaid claims). There is no active market for policy liabilities, so a market value is not readily available.

The table below summarizes the fair valuation of debt liabilities:

	September 30, 2008		
	Total fair value*	Total carrying value	Favorable (Unfavorable)
Loans Payable	$ 42,581	$ 66,222	$ 23,641
Senior unsecured debentures	169,897	196,874	26,977
Subordinated indebtedness	90,500	87,376	(3,124)

	December 31, 2007		
	Total fair value*	Total carrying value	Favorable (Unfavorable)
Loans Payable	$ 54,493	$ 66,222	$ 11,729
Senior unsecured debentures	221,517	220,080	(1,437)
Subordinated indebtedness	90,500	87,354	(3,146)

*The carrying value of all other financial instruments approximates their fair value due to the short term to maturity of those financial instruments.

The Company uses fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. The extent of the Company's use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information (Level 3) in the valuation of securities as at September 30, 2008 were as follows:

($ in 000s)

Description	September 30, 2008	Quoted prices in active markets for identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$ 2,546,360	$ 320,576	$ 2,225,784	$ -

NOTE 8 Capital Management

The Company has a capital management process in place to measure, deploy and monitor its available capital and assess its adequacy. The process is aimed to achieve three major objectives: Meet regulatory requirements, maintain strong credit rating and maximize returns to shareholders. Senior executive management develops the capital strategy and oversees the capital management processes of the Company. Capital is managed using both regulatory capital measures and internal metrics.

As at September 30, 2008 the Company was adequately capitalized to support the premium volume of the insurance subsidiaries. Canadian property and casualty insurance companies are regulated by the Office of the Superintendent of Financial Institutions (OSFI) and the Financial Services Commission of Ontario (FSCO) and are required to maintain a level of capital sufficient to achieve a target of 150% of a minimum capital test (MCT) formula. As at September 30, 2008 the MCT's of the Canadian subsidiaries are above the target MCT level, with MCT margins ranging between 169% and 203% and aggregate available capital of approximately $36.3 million in excess of required capital. The MCT of Kingsway General fell from 219% at June 30, 2008 to 169% at September 30, 2008 primarily due to the impact on the minimum capital required of the decrease in market value of the assets in trust for Kingsway General at the captive reinsurer. Additional funds have been placed in the trust account subsequent to quarter-end, bringing Kingsway General's MCT to 198% and the aggregate available capital from Canadian subsidiaries to $48.8 million on a pro-forma basis.

In the United States, a risk based capital (RBC) formula is used by the National Association of Insurance Commissioners (NAIC) to identify property and casualty insurance companies that may not be adequately capitalized. The NAIC requires that capital and surplus not fall below 200% of the authorized control level. As at September 30, 2008, all the U.S. subsidiaries are above the required RBC levels, with RBC ratios ranging between 227% and 1,708% and have aggregate available capital of approximately $119.2 million in excess of required capital.

The reinsurance subsidiaries, which are domiciled in Barbados and Bermuda, are required by the regulator in the jurisdictions in which they operate to maintain minimum capital levels. As at September 30, 2008 the capital maintained by Kingsway Reinsurance Corporation was approximately $94.1 million ($224.1 as at June 30, 2008) in excess of the regulatory requirements in Barbados and the capital maintained by Kingsway Reinsurance (Bermuda) Limited was approximately $30.4 million ($55.6 million as at June 30, 2008) in excess of regulatory requirements. The decline in excess regulatory capital is primarily due to the repatriation of funds during the quarter to repay a significant portion of bank indebtedness.

For additional details, refer to page 39 to 42 of the Company's 2007 Annual Report.

NOTE 9 Hedges

On July 10, 2007, a general partnership of the Company (Kingsway 2007 General Partnership) issued a five year C$100 million debt obligation due on July 11, 2012 with fixed semi-annual C$3 million interest payments. Kingsway 2007 General Partnership's risk management objective is to lock in the cash flow requirements on this debt obligation in U.S dollar terms which is the currency in which its cash inflows are received, thus mitigating exposure to variability in expected future cash flows. In order to meet this objective, Kingsway 2007 General Partnership has entered into a cross-currency swap with Bank of Nova Scotia to swap U.S. dollar cash flows into Canadian dollar cash flows providing the Company with the required Canadian dollar funds each semi-annual period and upon maturity to settle the senior debenture offering interest payments.

The swap transaction has been designated as a cash flow hedge. Any changes in the fair value of hedging instrument are recorded in other comprehensive income until the hedged item affects the Consolidated Statement of Income. Hedge ineffectiveness is measured and recorded in the current period in the Consolidated Statement of Income. The Company has recorded a $0.2 million loss during the quarter ($0.1 million loss year to date) due to the ineffective portion of the designated hedge. As at September 30, 2008, the time length of cash flow hedge outstanding was less than five years. When the hedge is discontinued, any cumulative adjustment to either the hedged item or other comprehensive income will be recognized in income over the remaining term of the original hedge, or when the hedged item is derecognized.

NOTE 10 Acquisitions

On April 1, 2007 the Company acquired 100% of the voting shares of Mendota Insurance Company ('Mendota') whose primary business is non-standard automobile insurance. This transaction includes Mendota's wholly owned subsidiaries, Mendakota Insurance Company and Mendota Insurance Agency, Inc. The earnings of Mendota have been included in the statement of operations from April 1, 2007.

During the first quarter of 2008, the final purchase price was determined at $51.1 million. The Company has recognized total goodwill $1.2 million related to this acquisition, of which $0.2 million was recorded in 2008 and $1.0 million during 2007.

The Company also recognized total intangible assets of $10.7 million related to this acquisition during 2007, of which $7.8 million was assigned to insurance licenses with an indefinite life and not subject to amortization, $1.1 million was assigned to computer software and is being amortized straight line over its defined useful life of 5 years and $1.8 million assigned to agent relationships and is also being amortized of a 5 year term but based on a pattern in which the economic benefits of the asset are expected to be consumed.

NOTE 11 Bank Indebtedness

During the first nine months of the year the Company repaid all of the outstanding debt under its credit facilities and is no longer subject to any financial covenants requirements under the terms of these cancelled credit facilities.

(Unaudited – tabular amounts in thousands of U.S. dollars)

NOTE 12 Supplemental Condensed Consolidating Financial Information

On July 10, 2007, K2007GP issued C$100 million of 6% senior unsecured debentures unconditionally guaranteed by the Company ("KFSI") and Kingsway America Inc. ("KAI"), a wholly-owned subsidiary of the Company. The following is the condensed consolidating financial information for the Company as of September 30, 2008 and December 31, 2007, and for the period ended September 30, 2008 and 2007, with a separate column for each Guarantor, the issuer and the other businesses of the Company combined ("Non-Guarantor subsidiaries").

Condensed Consolidating Statement of Operations

For the nine months ended September 30, 2008

	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation adjustments	Total
	(a "Guarantor")	(a "Guarantor")	(the "Issuer")	(the "Non-Guarantor subsidiaries")		
Revenue:						
Net premiums earned	$ -	$ -	$ -	$ 1,187,906	$ (9,186)	$ 1,178,720
Investment related income	(295)	2,770	5,104	96,187	(26,473)	77,293
Management fees	78,797	14,041	-	-	(92,838)	-
	$ 78,502	$ 16,811	$ 5,104	$ 1,284,093	$ (128,497)	$ 1,256,013
Expenses:						
Claims incurred	$ -	$ -	$ -	$ 957,091	$ (32,635)	$ 924,456
Commissions and premium taxes	-	-	-	212,274	-	212,274
Other expenses	66,296	21,238	177	193,374	(90,593)	190,492
Interest expense	3,928	21,100	4,612	3,739	(5,269)	28,110
	70,224	42,338	4,789	1,366,478	(128,497)	1,355,332
Income (loss) from continuing operations before income taxes	8,278	(25,527)	315	(82,385)	-	(99,319)
Income taxes (recovery)	5,915	(8,679)	107	(27,538)	-	(30,195)
Income (loss) from continuing operations	2,363	(16,848)	208	(54,847)	-	(69,124)
Income (loss) from discontinued operations	-	-	-	(11,353)	-	(11,353)
Gain on disposal of discontinued operations	34,985	-	-	-	-	34,985
Equity in undistributed net income of subsidiaries	(82,840)	(51,881)	-	-	134,721	-
Net income (loss)	$ (45,492)	$ (68,729)	$ 208	$ (66,200)	$ 134,721	$ (45,492)

(Unaudited – tabular amounts in thousands of U.S. dollars)

Condensed Consolidating Statement of Operations

For the nine months ended September 30, 2007

	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation adjustments	Total
	(a "Guarantor")	(an "issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
Revenue:						
Net premiums earned	$ -	$ -	$ -	$ 1,278,977	$ -	$1,278,977
Investment related income	(1,087)	3,634	1,480	140,013	(1,480)	142,560
Management fees	60,851	10,134	-	-	(70,985)	-
	$ 59,764	$ 13,768	$ 1,480	$ 1,418,990	$ (72,465)	$1,421,537
Expenses:						
Claims incurred	$ -	$ -	$ -	$ 944,547	$ (17,360)	$ 927,187
Commissions and premium taxes	-	-	-	232,192	-	232,192
Other expenses	55,681	14,114	48	145,091	(53,625)	161,309
Interest expense	6,158	18,767	1,411	3,369	(1,480)	28,225
	61,839	32,881	1,459	1,325,199	(72,465)	1,348,914
Income (loss) from continuing operations before income taxes	(2,075)	(19,113)	21	93,791	-	72,624
Income taxes (recovery)	11,836	(6,498)	7	(6,801)	-	(1,456)
Income (loss) from continuing operations	(13,911)	(12,615)	14	100,592	-	74,080
Income (loss) from discontinued operations	-	-	-	10,888	-	10,888
Gain on disposal of discontinued operations	-	-	-	-	-	-
Equity in undistributed net income of subsidiaries	98,879	(44,003)	-	-	(54,876)	-
Net income (loss)	$ 84,968	$ (56,618)	$ 14	$ 111,480	$ (54,876)	$ 84,968

(Unaudited – tabular amounts in thousands of U.S. dollars)

Condensed Consolidating Balance Sheet

As at September 30, 2008

	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation adjustments	Total
	(a “Guarantor”)	(an “issuer” / “Guarantor”)	(an “Issuer”)	(the “Non-Guarantor subsidiaries”)		
Assets						
Investments in subsidiaries	$ 723,833	$ 744,352	$ -	$ (540,927)	$ (927,258)	$ -
Cash	47,608	4,250	710	144,813	-	197,381
Securities	-	-	-	2,630,691	(15,942)	2,614,749
Goodwill and other assets	8,399	-	-	103,030	-	111,429
Other assets	(4,207)	74,353	107,475	2,822,946	(2,032,830)	967,737
	$775,633	$ 822,955	$ 108,185	$ 5,160,553	$ (2,976,030)	$3,891,296
Liabilities and Shareholders’ Equity						
Liabilities:						
Bank Indebtedness	$ -	$ 170,175	$ -	$ -	$ (103,953)	$ 66,222
Other liabilities	3,458	27,576	4,862	251,317	(155,640)	131,573
Unearned premiums	-	-	-	934,516	(329,805)	604,711
Unpaid claims	-	-	-	3,335,302	(1,302,937)	2,032,365
Senior unsecured debentures	-	125,000	93,404	(4,653)	(16,877)	196,874
Subordinated indebtedness	-	90,500	-	-	(3,124)	87,376
	$ 3,458	$ 413,251	$ 98,266	$ 4,516,482	$ (1,912,336)	$3,119,121
Shareholders’ equity:						
Share capital	322,344	454,133	10,667	1,883,515	(2,348,315)	322,344
Contributed surplus	8,889	-	-	-	-	8,889
Retained Earnings	462,282	(44,429)	2,261	(1,178,828)	1,220,996	462,282
Accumulated other comprehensive income	(21,340)	-	(3,009)	(60,616)	63,625	(21,340)
	772,175	409,704	9,919	644,071	(1,063,694)	772,175
	$ 775,633	$ 822,955	$ 108,185	$ 5,160,553	$ (2,976,030)	$3,891,296

(Unaudited – tabular amounts in thousands of U.S. dollars)

Condensed Consolidating Balance Sheet
As at December 31, 2007

	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation adjustments	Total
	(a "Guarantor")	(an "Issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
Assets						
Investments in subsidiaries	$ 964,286	$ 682,266	$ -	$ (150,463)	$ (1,496,089)	$ -
Cash	13,716	6,960	566	140,393	-	161,635
Securities	-	-	-	3,348,216	-	3,348,216
Goodwill and other assets	-	-	-	116,774	-	116,774
Other assets	34,042	16,302	113,217	3,181,277	(2,314,058)	1,030,780
	$1,012,044	$ 705,528	$ 113,783	$ 6,636,197	$ (3,810,147)	$4,657,405
Liabilities and Shareholders' Equity						
Liabilities:						
Bank Indebtedness	$ 42,369	$ 170,175	$ -	$ 130,068	$ (103,954)	$ 238,658
Other liabilities	7,797	25,184	6,607	339,938	(234,586)	144,940
Unearned premiums	-	-	-	1,220,813	(462,323)	758,490
Unpaid claims	-	-	-	3,810,139	(1,543,057)	2,267,082
Senior unsecured debentures	21,077	125,000	94,429	(20,426)	-	220,080
Subordinated indebtedness	-	90,500	-	-	(3,146)	87,354
	71,243	410,859	101,036	5,480,532	(2,347,066)	3,716,604
Shareholders' equity:						
Share capital	326,151	342,450	10,667	1,773,287	(2,126,404)	326,151
Contributed surplus	7,619	-	-	-	-	7,619
Retained Earnings	521,165	(47,781)	2,053	(713,618)	759,346	521,165
Accumulated other comprehensive income	85,866	-	27	95,996	(96,023)	85,866
	940,801	294,669	12,747	1,155,665	(1,463,081)	940,801
	$1,012,044	$ 705,528	$ 113,783	$ 6,636,197	$ (3,810,147)	$4,657,405

(Unaudited – tabular amounts in thousands of U.S. dollars)

Condensed Consolidating Statement of Cash Flows

For the nine months ended September 30, 2008

	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation adjustments	Total
	(a "Guarantor")	(an "issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
Cash provided by (used in):						
Operating Activities:						
Net income	$ (45,492)	$ (68,729)	$ 208	$ (66,200)	$ 134,721	$ (45,492)
Adjustments to reconcile net income to net cash used by operating activities:						
Equity in undistributed earnings in subsidiaries	82,840	51,881	-	-	(134,721)	-
Other	(56,898)	(34,977)	(237)	(337,947)	156,180	(273,879)
	(19,550)	(51,825)	(29)	(404,147)	156,180	(319,371)
Financing Activities:						
Increase in share capital, net	89	111,683	-	-	(111,683)	89
Repurchase of common shares for cancellation	(5,172)	-	-	-	-	(5,172)
Common share dividend	(12,115)	-	-	-	-	(12,115)
Increase/(decrease) in bank indebtedness	(60,793)	-	173	(172,976)	60,620	(172,976)
Increase in senior unsecured indebtedness	-	-	-	-	(17,517)	(17,517)
	(77,991)	111,683	173	(172,976)	(68,580)	(207,691)
Investing Activities:						
Purchase of securities	(1,625)	-	-	(2,420,607)	–	(2,422,232)
Proceeds from sale of securities	1,184	-	-	2,924,630	-	2,925,814
Proceeds from sale of discontinued operations	44,067	-	-	-	-	44,067
Acquisitions	87,600	-	-	(212)	(87,600)	(212)
Other	207	(62,568)	-	77,732	-	15,371
	131,433	(62,568)	-	581,543	(87,600)	562,808
Increase (decrease) in cash during the year	33,892	(2,710)	144	4,420	-	35,746
Cash, beginning of year	13,716	6,960	566	140,393	-	161,635
	$ 47,608	$ 4,250	$ 710	$ 144,813	$ -	$ 197,381

(Unaudited – tabular amounts in thousands of U.S. dollars)

Condensed Consolidating Statement of Cash Flows

For the nine months ended September 30, 2007

	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation adjustments	Total
	(a "Guarantor")	(an "issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
Cash provided by (used in):						
Operating Activities:						
Net income	$ 84,968	$ (56,618)	$ 14	$ 111,380	$ (54,776)	$ 84,968
Adjustments to reconcile net income to net cash used by operating activities:						
Equity in undistributed earnings in subsidiaries	(98,779)	44,003	-	-	54,776	-
Other	18,230	(8,030)	(104,546)	103,483	-	9,137
	4,419	(20,645)	(104,532)	214,863	-	94,105
Financing Activities:						
Increase in share capital, net	1,143	71,822	10,667	-	(82,489)	1,143
Repurchase of common shares for cancellation	(6,062)	-	-	-	-	(6,062)
Common share dividend	(11,560)	-	-	-	-	(11,560)
Increase/(decrease) in bank indebtedness	2,509	103,953	94,429	11,764	(103,953)	108,702
Increase in senior unsecured indebtedness	-	-	-	-	-	-
	(13,970)	175,775	105,096	11,764	(186,442)	92,223
Investing Activities:						
Purchase of securities	-	-	-	(3,137,472)	-	(3,137,472)
Proceeds from sale of securities	99	-	-	2,989,060	-	2,989,159
Acquisitions	19,805	(51,065)	-	10,378	(19,805)	(40,687)
Other	(8,929)	(103,816)	-	(123,271)	206,247	(29,769)
	10,975	(154,881)	-	(261,305)	186,442	(218,769)
Increase (decrease) in cash during the year	1,424	249	564	(34,678)	-	(32,441)
Cash, beginning of year	3,475	3,204	-	123,027	-	129,706
	$ 4,899	$ 3,453	$ 564	$ 88,349	$ -	$ 97,265