



Kingsway Reports Loss in Fourth Quarter and 2008 and Dividend Reduction

Toronto, Ontario (February 20, 2009) – Kingsway Financial Services Inc. (TSX: KFS, NYSE: KFS) today announced its financial results for the fourth quarter and year ended December 31, 2008. The Company reported a net loss of \$360.4 million or \$6.53 per share diluted for the fourth quarter, and \$405.9 million or \$7.35 per share diluted for the year. The losses reflect disappointing underwriting results, net realized losses on investments, and a non-cash charge related to valuation allowances on future tax asset and goodwill impairment in the fourth quarter. The Company sold Canadian subsidiary York Fire and Casualty Insurance Company (“York Fire”) for a gain at the end of the third quarter, and York Fire accordingly is accounted for as discontinued operations, with previous year amounts updated for comparative purposes. All amounts are in U.S. dollars unless indicated otherwise.

<i>(in millions)</i>	Q4 2008	Year 2008
Net Loss	\$ 360.4	\$ 405.9
Main Components:		
Goodwill impairment	62.9	62.9
Future tax valuation allowance	152.4	160.4
Net realized investment losses after tax	86.2	108.0
Net loss at Lincoln General (excluding above items)	77.5	162.0
Net Income adjusted for the above items	\$ 18.6	\$ 87.4

As previously announced on February 9, 2009, the Company had estimated a net loss between \$324 million and \$344 million for the quarter. The actual net loss is \$16.4 million greater than the higher end of the net loss originally estimated primarily as a result of a higher than expected valuation allowance against the future tax asset.

“The disappointing results in 2008 reflect the impact of legacy operational problems,” said Shaun Jackson, President and Chief Executive Officer. “The main factors contributing to the loss were the protracted problems at our largest subsidiary Lincoln General, losses on our securities portfolio and resulting valuation allowance on future tax assets and impairments to goodwill. Offsetting these negatives were profitable performance by a number of subsidiaries, and the sale of York Fire at an attractive price.”

“We are taking further actions to restructure our operations to reduce overheads and make Kingsway a profitable enterprise. We are taking actions to strengthen our capital ratios through further strategic reduction of premium income from non-core and/or unprofitable lines of business, and we are reducing volatility of the balance sheet by divesting our common share equity portfolio. I fully commit to do better for shareholders and be accountable to them.”

“Lincoln General has been the main cause of losses beginning in 2007 relating to its legacy business. Resolution of this situation is a key component of the Company’s turnaround plans. As previously announced, we are looking at strategic alternatives in conjunction with the Pennsylvania Insurance Department regarding the future of Lincoln. The outcome of these discussions may have a bearing on our capital position. We will report back to shareholders at the April 23, 2009 Annual General Meeting.”

Mr. Jackson continued: “As a result of the disappointing results, the Company’s Board of Directors has reduced dividend payments to \$0.02 this quarter, from \$0.075 in the previous quarter as a precautionary measure in today’s challenging economic environment.”

At year end, the Company, excluding Lincoln General, had surplus capital in excess of the regulatory minimum required in its operating companies, no bank debt, and no long-term debt maturing before 2012.

Fourth Quarter Results

Investment income decreased 24% to \$28.3 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 and the sale of York Fire during the year. The cost-based yield on the fixed income portfolio decreased to 4.5% from 4.6% for the same quarter of last year. Sales from the securities portfolio and a \$94.2 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 \$114.3 million compared with a gain of \$8.5 million in the fourth quarter of 2007. The Company announced its intent to dispose of the common stock equity portfolio on February 9,

2009 and as a result, no longer has the intent to hold the securities until they recover which resulted in the additional impairment charge in the quarter.

Gross premiums written from continuing operations decreased 30% to \$295.6 million in the quarter. Estimated net unfavourable reserve development on prior years was \$69.4 million, representing \$1.11 per share, of which \$42.0 million was related to the terminated artisan contractors liability program at U.S. subsidiary Lincoln General Insurance Company ("Lincoln General").

The combined ratio for continuing operations was 132.6%, compared with 132.7% in the fourth quarter of 2007. Excluding Lincoln General except for exclusively managed business, the proforma combined ratio was 107.0% for the fourth quarter of 2008. Canadian operations, excluding York Fire, had a combined ratio of 110.1% compared with 101.0% in the fourth quarter a year ago, while U.S. operations had a combined ratio of 141.1% compared with 143.3% in the fourth quarter the previous year. For the quarter, U.S. operations accounted for 71% of gross premiums compared with 74% a year ago.

Fiscal 2008 Results

For the year, investment income excluding net realized losses was \$130.3 million, 4% below the same period of 2007, while net realized losses were \$139.0 million compared to net realized gains of \$52.2 million in 2007. Gross premiums written from continuing operations were \$1,503.2 million, compared with \$1,848.7 million in 2007. Estimated net unfavourable reserve development on prior years was \$160.8 million, representing \$2.63 per share, of which \$70.3 million was related to the terminated artisan contractors liability program at Lincoln General. The combined ratio for continuing operations was 116.4%, compared with 110.5% in 2007. Canadian operations, excluding York Fire, had a combined ratio of 108.4% compared with 95.4% a year ago, while U.S. operations had a combined ratio of 119.6% compared with 115.3% the previous year. For the year, U.S. operations accounted for 70% of gross premiums compared with 75% a year ago.

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

Future income taxes decreased due to an increased valuation allowance of \$160.4 million over last year as a result of the continued losses of U.S. operations. Uncertainty over the Company's ability to utilize these losses over the short term has led the Company to record the additional allowance.

Goodwill and intangible assets decreased by 61% since the end of 2007 mainly as a result of an impairment provision recorded against goodwill of the Company's U.S. operations of \$62.9 million due to the continued losses of U.S. operations. Amortization of definite life intangible assets in certain U.S. subsidiaries and the sale of York Fire accounted for an additional \$1.7 million decrease in goodwill and intangible assets.

At year end, the book value per share was \$8.24 (C\$10.03) compared to \$16.95 (C\$16.80) at the end of 2007.

Book value per share as at September 30, 2008	\$ 14.02
Impacted by:	
Unfavourable reserve development	(1.11)
Goodwill impairment	(1.14)
Future tax valuation allowance	(2.77)
Net realized losses after tax	(1.56)
Other items	0.80
Book value per share as at December 31, 2008	\$ 8.24

Dividend

The Board of Directors has declared a quarterly dividend of C\$0.02 per common share, payable on March 31, 2009 to shareholders of record on March 16, 2009.

Conference Call and Webcast

You are invited to participate in our quarterly results conference call that will take place on February 20, 2009 at 8:30 a.m. EST. 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=2515260>

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"

For further information, please contact:

Shelly Gobin
Senior Vice President and Chief Financial Officer
Tel: (905) 677-8889
Fax: (905) 677-5008
Web Site: www.kingsway-financial.com

Financial Summary and Highlights:

<i>(in millions of dollars except per share amounts)</i>	Quarter to December 31:			12 months to December 31:		
	2008	2007	Change	2008	2007	Change
Gross premiums written	\$ 295.6	\$ 420.6	(30%)	\$ 1,503.2	\$ 1,848.7	(19%)
Underwriting loss	(99.7)	(141.3)	(29%)	(244.4)	(180.4)	(35%)
Investment income	28.3	37.3	(24%)	130.3	136.1	(4%)
Net realized gains (loss)	(114.3)	8.5	(1,445%)	(139.0)	52.2	(366%)
Operating loss	(274.0)	(113.2)	142%	(321.3)	(71.7)	348%
Net loss	(360.4)	(103.5)	248%	(405.9)	(18.5)	2,094%
Diluted (loss) per share	(6.53)	(1.84)	255%	(7.35)	(0.33)	2,127%
Book value per share				8.24	16.95	(51%)
Combined ratio	132.6%	132.7%	(0.1%)	116.4%	110.5%	5.9%

- Gross premiums written decreased 30% to \$295.6 million in the quarter compared to \$420.6 million in Q4 last year, and for the 2008 year were \$1,503.2 million compared to \$1,848.7 million in last year, primarily as a result of the impact of soft insurance markets and the termination of several programs at Lincoln General. Non-standard automobile premiums increased 4% to \$643.6 million or 43% of the consolidated gross premiums written. Excluding Lincoln General except for exclusively managed business, proforma gross premiums written declined 14% to \$227.9 million in the quarter and increased 1% to \$1,151.0 million for the year 2008. Non-standard automobile premiums were 53% of the proforma gross premiums written.
- The combined ratio was 132.6% in the quarter compared to 132.7% in the same quarter last year, with continuing Canadian operations reporting a combined ratio of 110.1% and U.S. operations a combined ratio of 141.1%. Excluding Lincoln General except for exclusively managed business, the U.S. operations proforma combined ratio was 105.1% for the quarter and the consolidated combined ratio was 107.0% for the quarter.
- Estimated net unfavourable reserve development was \$69.4 million in the quarter (\$160.8 million for the year) of which Lincoln General accounted for \$69.8 million (\$152.1 million for the year). The reserve development increased the combined ratio by 22.7% for the quarter (10.8% for the year) and impacted earnings per share by \$1.11 per share for the quarter (\$2.63 for the year).
- Investment income, excluding net realized losses was \$28.3 million compared to \$37.3 million for the same quarter of 2007, a 24% decrease. For the full year, investment income, excluding net realized losses, has decreased by 4% to \$130.3 million compared to \$136.1 million 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 \$94.2 million (\$134.3 million for the year) or \$1.71 per share for the quarter (\$2.44 per share for the year).
- The fair value of the securities portfolio per share has decreased by 27% since the beginning of the year to \$46.08 (C\$56.13). The impact of the sale of York Fire and the repayment of all bank indebtedness during the year resulted in a decrease in the portfolio of \$322.2 million or \$5.85 per share.
- As at December 31, 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 \$2.1 million to the sub-prime mortgage market in the U.S. through home equity loan asset backed securities.
- As at December 31, 2008 the Canadian dollar book value per share was \$10.03 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 fourth 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 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'.

Kingsway Financial Services Inc.
Management's Discussion and Analysis
For the three months and year ended December 31, 2008 and 2007
(U.S. dollars)
Page 2

Premiums

<i>(in millions of dollars)</i>	Quarter to December 31:			12 Months to December 31:		
	2008	2007	Change	2008	2007	Change
Gross premiums written						
Canada	\$ 84.3	\$ 109.3	(23%)	\$ 449.1	\$ 456.0	(2%)
U.S.	211.3	311.3	(32%)	1,054.1	1,392.7	(24%)
Total	\$ 295.6	\$ 420.6	(30%)	\$ 1,503.2	\$ 1,848.7	(19%)
Net premiums written						
Canada	\$ 80.9	\$ 106.3	(24%)	\$ 429.2	\$ 435.2	(1%)
U.S.	183.5	284.1	(35%)	938.7	1,271.4	(26%)
Total	\$ 264.4	\$ 390.4	(32%)	\$ 1,367.9	\$ 1,706.6	(20%)
Net premiums earned						
Canada	\$ 83.5	\$ 110.9	(25%)	\$ 419.7	\$ 411.5	2%
U.S.	222.1	324.1	(31%)	1,064.6	1,302.5	(18%)
Total	\$ 305.6	\$ 435.0	(30%)	\$ 1,484.3	\$ 1,714.0	(13%)

The U.S. operations reported a decrease in premiums written of \$100.0 million (or 32%) during the quarter and \$338.6 million (or 24%) for the year. Lincoln General's premium volume declined by \$83.8 million in the quarter (\$353.7 million for the year) compared to last year due to the impact of terminations of unprofitable or non-core programs and the continuing soft market conditions for the trucking business in the U.S. Non-standard automobile premiums in the U.S. operations increased 4% to \$512.0 million for the year. Excluding Lincoln General except for exclusively managed business, U.S. operations gross written premiums declined 9% in the fourth quarter to \$143.6 million and increased 3% to \$702.0 million for the year compared to prior periods.

Gross premiums written for the Canadian operations decreased 23% in the quarter (2% for the year) compared to last year. In Canadian dollars, gross premiums written from Canadian operations declined by 2% for the quarter (declined 33% for the year) compared to last year. Canadian operations experienced a decline of 22% in gross premiums written in the trucking line of business due to continued aggressive pricing from certain competitors and the continued reduction in cross-border activities due to the slowing North American economy.

U.S. operations represented 71% of gross premiums written in the quarter (70% for the year) compared with 74% in the same quarter of last year (75% in last year). Non-standard automobile, trucking, and commercial automobile premiums represented 43%, 17% and 14%, respectively, of gross premiums written at the end of the quarter compared with 31%, 21% and 16% last year.

Investment Income

<i>(in millions of dollars)</i>	Quarter to December 31:			12 months to December 31:		
	2008	2007	Change	2008	2007	Change
Investment income	\$ 28.3	\$ 37.3	(24%)	\$ 130.3	\$ 136.1	(4%)

Investment income has decreased by 24% 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 and the sale of York Fire. Also contributing to the decrease in investment income in the quarter is the weakened Canadian dollar which reduces the investment income earned by the Canadian Operations when reported in U.S. dollars. Investment income for the full year has decreased by 4% for reasons described above. The reduction is mitigated somewhat by 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 4.5% compared to 4.6% for the same quarter last year, primarily attributable to the drop in short-term yields described above. The cost based yield

Kingsway Financial Services Inc.
Management's Discussion and Analysis
For the three months and year ended December 31, 2008 and 2007
(U.S. dollars)
Page 3

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 year resulted in a decrease in the portfolio of \$322.2 million or \$5.85 per share which will 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 for the year with comparative figures:

<i>(in millions of dollars)</i>	Quarter to December 31:			12 months to December 31:		
	2008	2007	Change	2008	2007	Change
Fixed income	\$ 2.8	\$ 0.3	833%	\$ 6.3	\$ (5.4)	217%
Equities	(22.9)	18.3	(225%)	(11.0)	70.8	(116%)
Capital assets	-	-	-	-	5.4	(100%)
Impairments	(94.2)	(10.1)	833%	(134.3)	(18.6)	622%
Total	\$ (114.3)	\$ 8.5	(1,445%)	\$ (139.0)	\$ 52.2	(366%)

For the three months ended December 31, 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 \$114.3 million (\$139.0 million for the year) compared to a net realized gain of \$8.5 million for the three months ended December 31, 2007 (\$52.2 million for the year). The net realized loss in the fourth quarter of 2008 includes the write-down of all of the unrealized losses on the common share equity portfolio as a result of the Company's intent to divest of this portfolio in early 2009. The challenging fixed income and equity markets which began in the third quarter of 2007 have continued throughout 2008 resulting in the write-down of \$94.2 million of securities in the fourth quarter of 2008 (\$134.3 million for the year) compared to \$10.1 million in the fourth quarter of 2007 (\$18.6 million for the year). The write-downs include the impact of the Lehman Brothers bankruptcy on the portfolio which increased the net realized loss by \$13.7 million for the full year. The net realized gain in 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

<i>(in millions of dollars)</i>	Quarter to December 31:			12 months to December 31:		
	2008	2007	Change	2008	2007	Change
Underwriting profit (loss)						
Canada	\$ (8.4)	\$ (1.0)	740%	\$ (35.4)	\$ 18.9	(287%)
U.S.	(91.3)	(140.3)	(35%)	(209.0)	(199.3)	5%
Total	\$ (99.7)	\$ (141.3)	(29%)	\$ (244.4)	\$ (180.4)	35%
Combined ratio						
Canada	110.1%	101.0%	9.1%	108.4%	95.4%	13.0%
U.S.	141.1%	143.3%	(2.2%)	119.6%	115.3%	4.3%
Total	132.6%	132.7%	(0.1%)	116.4%	110.5%	5.9%
Expense ratio						
Canada	40.8%	38.7%	2.1%	37.6%	36.9%	0.7%
U.S.	40.6%	31.4%	9.2%	34.3%	29.5%	4.8%
Total	40.6%	33.2%	7.4%	35.2%	31.2%	4.0%
Loss ratio						
Canada	69.3%	62.3%	7.0%	70.8%	58.6%	12.3%
U.S.	100.5%	111.9%	(11.4%)	85.3%	85.8%	(0.5%)
Total	92.0%	99.5%	(7.5%)	81.2%	79.3%	1.9%

The Canadian operations experienced estimated favourable reserve development of \$1.2 million for the quarter compared to \$4.4 million for the fourth quarter last year. For the year 2008, the Canadian operation experienced

Kingsway Financial Services Inc.
Management's Discussion and Analysis
For the three months and year ended December 31, 2008 and 2007
(U.S. dollars)
Page 4

estimated net unfavourable reserve development of \$14.1 million compared to favourable reserve development of \$23.1 million for 2007.

The U.S. operations experienced estimated net unfavourable reserve development of \$70.6 million for the quarter (\$146.7 million for the year) compared with \$136.6 in the same quarter (\$212.4 million for the year) last year. Lincoln General accounts for \$69.8 million of this reserve development for the quarter (\$152.1 million for the year) or \$1.12 per share after tax for the quarter (\$2.53 per share after tax for the year). The terminated artisan contractors liability program accounts for \$42.0 million of this development in the quarter. Excluding Lincoln General except for exclusively managed business, the proforma combined ratio for the U.S. operations was 105.1% for the fourth quarter and 102.2% for 2008. On a consolidated basis, the proforma combined ratio, excluding Lincoln General except for exclusively managed business, was 107.0% for the fourth quarter and 104.7% for the year 2008.

<i>(in millions of dollars)</i>	Quarter to December 31:		12 months to December 31:	
	2008	2007	2008	2007
Favourable (unfavourable) change in estimated unpaid claims for prior accident years (note 1):				
Canada	\$ 1.2	\$ 4.4	\$ (14.1)	\$ 23.1
U.S.	(70.6)	(136.6)	(146.7)	(212.4)
Total	\$ (69.4)	\$ (132.2)	\$ (160.8)	\$ (189.3)
As a % of net premiums earned (note 2):				
Canada	(1.5%)	(4.0%)	3.4%	(5.6%)
U.S.	31.8%	42.2%	13.8%	16.3%
Total	22.7%	30.6%	10.8%	11.0%
As a % of unpaid claims (note 3):				
Canada			1.8%	(3.5%)
U.S.			10.9%	18.7%
Total			7.6%	10.5%

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 Company's corporate restructuring plan, increased professional fees and increased bad debts write-offs which totaled approximately \$14 million. The general expense ratio increased to 40.6% for the quarter (35.2% for the year) compared to 33.2% (31.2% for the year) in Q4 2007 primarily due to lower premium volume at Lincoln General. Excluding the unusual items, the general expense ratio was 36.0%.

Interest Expense

Interest expense in the fourth quarter of 2008 decreased to \$6.9 million, compared to \$10.6 million for the fourth quarter of 2007 as a result of the repayment of a portion of our debt. For the 2008 year, interest expense was \$35.0 million compared to \$38.9 million last year.

Kingsway Financial Services Inc.
Management's Discussion and Analysis
For the three months and year ended December 31, 2008 and 2007
(U.S. dollars)
Page 5

Income Taxes

Income tax expense on continuing operations for the fourth quarter was \$103.6 million (\$73.4 million for the year) compared with a tax recovery of \$2.7 million for the same quarter last year (\$4.2 million for the year). A valuation allowance of \$152.4 million in the quarter (\$160.4 million for the year) was recorded against the future income tax asset. Uncertainty over the Company's ability to utilize these losses over the short term has led to the Company recording this valuation allowance. The Company has \$2.0 million remaining of the U.S. operations' future tax asset, the largest portion of which does not expire.

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

In the fourth quarter the Company reported a net loss of \$360.4 million (loss of \$405.9 million for the year), compared to net loss of \$103.5 million in the fourth quarter of last year (\$18.5 million net loss for the year). Diluted loss per share was \$6.53 for the quarter (diluted loss per share of \$7.35 for the year), compared to diluted loss per share of \$1.84 for the fourth quarter of 2007 (\$0.33 for the year 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.

<i>(in millions of dollars except per share amounts)</i>	Quarter to December 31:		12 months to December 31:	
	2008	2007	2008	2007
Loss from continuing operations	\$ (360.1)	\$ (104.9)	\$ (429.3)	\$ (30.8)
Net realized gains (losses) after tax:				
Net realized gains(losses) before tax	(114.3)	8.5	(139.0)	52.2
Less tax effect on realized gains (losses)	(28.2)	0.2	(31.0)	11.3
	(86.1)	8.3	(108.0)	40.9
Operating losses	(274.0)	(113.2)	(321.3)	(71.7)
Average outstanding shares diluted (in millions)	55.1	55.8	55.3	55.9
Operating losses per share	(4.97)	(2.03)	(5.82)	(1.28)

Kingsway Financial Services Inc.
Management's Discussion and Analysis
For the three months and year ended December 31, 2008 and 2007
(U.S. dollars)
Page 6

Balance Sheet

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

<i>(in millions of dollars except per share amounts)</i>	As at		
	December 31, 2008	December 31, 2007	Change
Assets			
Securities	\$ 2,370.5	\$ 3,256.4	(27%)
Accounts receivable and other assets	276.4	365.4	(24%)
Income taxes recoverable	14.7	1.3	1031%
Future income taxes	25.3	114.1	(78%)
Capital assets	113.4	133.4	(15%)
Goodwill and intangible assets	45.8	116.8	(61%)
Liabilities			
Bank indebtedness	-	172.4	(100%)
Unearned premiums	536.5	758.5	(29%)
Unpaid claims	1,879.0	2,267.1	(17%)
Senior unsecured debentures	185.2	220.1	(16%)
Shareholders' Equity			
Book value per share	8.24	16.95	(51%)

Securities:

The fair value of the securities portfolio including cash decreased 28% to \$2.5 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 York Fire and the impact of the credit crisis on the market value of the Company's securities 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.

Kingsway Financial Services Inc.
Management's Discussion and Analysis
For the three months and year ended December 31, 2008 and 2007
(U.S. dollars)
Page 7

The two tables below illustrate the amortized cost and fair value of securities by major securities category as at December 31, 2008 and December 31, 2007.

<i>(in millions of dollars)</i>	December 31, 2008			
	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Term Deposits	184.4	3.6	-	188.0
Bonds:				
Canadian - Government	149.2	8.3	-	157.5
- Corporate	257.8	2.4	12.4	247.8
U.S - Government	63.4	5.1	0.8	67.7
- Corporate	1,284.5	49.3	27.7	1,306.1
Other - Government	-	-	-	-
- Corporate	128.4	4.3	1.0	131.7
Sub-total	2,067.7	73.0	41.9	2,098.8
Common shares - Canadian	114.1	2.7	-	116.8
- U.S	146.4	4.9	-	151.3
Preferred shares - Canadian	6.7	-	3.6	3.1
- U.S	0.6	-	0.1	0.5
Total	2,335.5	80.6	45.6	2,370.5

<i>(in millions of dollars)</i>	December 31, 2007			
	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Term Deposits	393.8	0.8	-	394.6
Bonds:				
Canadian - Government	260.3	4.1	0.1	264.3
- Corporate	368.2	1.8	6.5	363.5
U.S - Government	90.3	2.3	-	92.6
- Corporate	1,461.2	23.2	8.7	1,475.7
Other - Government	15.5	-	0.1	15.4
- Corporate	204.9	4.4	0.8	208.5
Sub-total	2,794.2	36.6	16.2	2,814.6
Common shares - Canadian	224.1	25.6	12.8	236.9
- U.S	194.5	16.1	12.8	197.8
Preferred shares - Canadian	8.2	-	1.8	6.4
- U.S	0.8	-	0.1	0.7
Total	3,221.8	78.3	43.7	3,256.4

Kingsway Financial Services Inc.
Management's Discussion and Analysis
For the three months and year ended December 31, 2008 and 2007
(U.S. dollars)
Page 8

As previously announced, the Company elected in early 2009 to liquidate the entire common share equity portfolio in order to reduce volatility of the balance sheet and protect the Company's capital. The proceeds of this liquidation will be reinvested in high quality fixed income securities. As at December 31, 2008 the fair value of the common share equity portfolio was \$268.1 million.

As at December 31, 2008, the Company's asset quality remains very high with 95.1% of the fixed income portfolio rated 'A' or better. The following table summarizes the composition of the fair value of the fixed income securities portfolio at the dates indicated, by rating as assigned by Standard & Poor's ('S&P') or Moody's Investors Service, using the higher of these ratings for any security where there is a split rating:

<i>(in millions of dollars)</i>	December 31, 2008			December 31, 2007		
AAA/ Aaa	1,146.7	54.7	%	\$1,516.1	53.9	%
AA/Aa2	341.3	16.3		661.9	23.5	
A/A2	505.7	24.1		470.9	16.7	
BBB/Baa2	65.3	3.1		96.1	3.4	
BB/Ba2	5.1	0.2		8.1	0.3	
B/B2	7.8	0.4		12.6	0.4	
CCC/Caa or lower	5.2	0.2		1.7	0.1	
Not rated	21.7	1.0		47.2	1.7	
Total consolidated	2,098.8	100.0	%	\$2,814.6	100.0	%

The 'not rated' category consists primarily of investments in money market instruments.

In the fourth quarter, the Company has seen a modest recovery from the generalized spread widening on corporate debt instruments which took place earlier in the year. As at December 31, 2008, the gross unrealized losses on fixed income securities have increased to \$41.9 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 27% to \$46.08 (C\$56.13) per common share at December 31, 2008 compared to \$63.22 (C\$63.77) at December 31, 2007. This reduction is primarily a result of the impact of the credit crisis on the fair value of the Company's securities portfolio, the impact of a weaker Canadian dollar on the Canadian operations' securities portfolio presented in U.S. dollars and the impact of the sale of York Fire and the repayment of bank debt.

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	32.0%	13.8%	19.1%
Due in one through five years	30.7	53.8	47.1
Due in five through ten years	32.3	22.2	25.1
Due after ten years	5.0	10.2	8.7
Total	100.0%	100.0%	100.0%

There were net unrealized gains of \$35.0 million on the total securities portfolio or \$0.63 per share outstanding at December 31, 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 gains on

Kingsway Financial Services Inc.
Management's Discussion and Analysis
For the three months and year ended December 31, 2008 and 2007
(U.S. dollars)

Page 9

the common share portfolio were \$7.5 million or \$0.14 per share outstanding at December 31, 2008 compared to net unrealized gains of \$16.0 million or \$0.29 per share outstanding at December 31, 2007. This unrealized gain position on the common share portfolio follows the write-down of all securities in an unrealized loss position on the balance sheet date.

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 fixed income securities by \$69.9 million at December 31, 2008 or 3.3% of the \$2.1 billion fair value fixed income securities portfolio.

As at December 31, 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 \$2.1 million to the sub-prime mortgage market in the U.S. through home equity loan asset backed securities. As at December 31, 2008, these securities had an aggregate net unrealized loss of \$0.6 million.

Accounts receivable and other assets:

Accounts receivable and other assets decreased by 24% to \$276.4 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 have decreased due to a valuation allowance recorded in the fourth quarter of 2008 of \$152.4 million as a result of the continued losses of the U.S. operations. The total valuation allowance recorded against the U.S. operations is \$180.6 million (\$20.2 million at year end 2007). Uncertainty over the Company's ability to utilize these losses over the short term has led to the Company to record the additional allowance.

Capital assets:

Capital assets decreased by 15% 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 61% since the end of last year mainly as a result of an impairment provision recorded against goodwill of the U.S. operations of approximately \$62.9 million due to the continued losses of the U.S. operation. Amortization of definite life intangible assets in certain of the U.S. subsidiaries and the sale of York Fire accounted for an additional \$1.7 million decrease in goodwill and intangible assets.

Bank indebtedness:

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

Unearned premiums:

Unearned premiums decreased 29% since December 31, 2007 as a result of decreased premium volume and the sale of York Fire.

Kingsway Financial Services Inc.
Management's Discussion and Analysis
For the three months and year ended December 31, 2008 and 2007
(U.S. dollars)
Page 10

Unpaid claims:

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

<i>(in millions of dollars)</i>		
Line of Business	December 31, 2008	December 31, 2007
Non – Standard Automobile	\$ 489.3	\$ 575.2
Standard Automobile	1.7	144.5
Commercial Automobile	217.8	239.2
Trucking	657.4	811.6
Motorcycle	118.1	126.8
Property & Liability	317.4	303.3
Other	77.3	66.5
Total	\$ 1,879.0	\$ 2,267.1

The provisions for unpaid claims decreased by 17% to \$1.88 billion at the end of the fourth quarter compared to \$2.27 billion at the end of 2007 partly due to 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 which decreased to \$1.05 billion (\$1.21 billion at December 31, 2007) and a provision for Incurred But Not Reported (IBNR) claims which decreased 8% to \$828.1 million (\$900.2 million at December 31, 2007). Lincoln General had \$412.1 million of case reserves and \$468.3 million provision for IBNR claims as at December 31, 2008, a decrease of 11% compared to the prior year whereas gross written premiums declined 44% and net premiums earned declined 33% during 2008.

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 51% to \$8.24 (C\$10.03) at December 31, 2008 from \$16.95 (C\$16.80) at December 31, 2007 as a result of the diluted loss per share of \$7.35 and the decline of \$1.14 in the "accumulated other comprehensive income" component of shareholders' equity.

Contractual Obligations

For further details on the Company's long term debt and interest obligations, refer to 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 months and year ended December 31, 2008, the cash used in operating activities was \$143.1 million and \$462.5 million respectively, a portion of which was the result of the termination of intercompany reinsurance agreements upon the sale of York Fire. Net change in other non-cash balances generally consists of declines in unearned premium and unpaid claims balance at Lincoln General due to declines in premium volume.

As a holding company, the Company derives cash from its subsidiaries generally in the form of dividends and management fees to meet its obligations, which primarily consist of dividend payments and interest payments. The Company's insurance subsidiaries fund their obligations through the premium and investment income and the sales and maturities of the securities portfolio. The insurance subsidiaries require regulatory approval for the return of capital and, in certain circumstances, prior to the payment of dividends. In the event that dividends and management fees available to the holding company were inadequate to service its obligations, the Company would need to raise capital, sell assets or restructure its debt obligations. Any regulatory restrictions have not historically impacted the liquidity of the Company. The Company's dividend payments are reviewed and determined quarterly by the Company's Board of

Kingsway Financial Services Inc.
Management's Discussion and Analysis
For the three months and year ended December 31, 2008 and 2007
(U.S. dollars)
Page 11

Directors. Kingsway holds \$293.7 million in cash and high grade short-term assets, representing approximately 12% of invested assets. The majority of the other fixed income securities are also liquid.

During the year ended December 31, 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). The Company did not repurchase any common shares during the fourth quarter of 2008.

As at December 31, 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 150% minimum capital test (MCT) ratio. As at December 31, 2008 the MCT's of the Canadian subsidiaries are above the 150% MCT level, with MCT ratios ranging between 187% and 190% and aggregate capital of approximately \$30.6 million in excess of the 150% level.

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 December 31, 2008, all the U.S. subsidiaries, with the exception of Lincoln General, are above the required RBC levels, with RBC ratios ranging between 211% and 1574% and aggregate capital of approximately \$88.3 million in excess of the 200% level. Lincoln General's RBC is estimated at 117% as at December 31, 2008. As previously announced, the Company is looking at strategic alternatives in conjunction with the Pennsylvania Insurance Department in relation to the future of Lincoln General. Capital needs at Lincoln General, if any, will be determined in conjunction with the strategic alternatives.

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 December 31, 2008 the capital maintained by Kingsway Reinsurance Corporation was approximately \$77.9 million in excess of the regulatory requirements in Barbados and the capital maintained by Kingsway Reinsurance (Bermuda) Limited was approximately \$15.4 million in excess of regulatory requirements.

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 publicly-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. The Company initiated the process of IFRS conversion during the third quarter of 2008. The Company is in a detailed assessment phase analyzing the impact that the adoption of IFRS will have on its consolidated financial statements.

Kingsway Financial Services Inc.
Management's Discussion and Analysis
For the three months and year ended December 31, 2008 and 2007
(U.S. dollars)
Page 12

Summary of Quarterly Results

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

	2008				2007			
	<i>(in millions of dollars except per share)</i>							
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Gross premiums written	\$ 296.3	\$ 379.4	\$ 443.2	\$ 457.1	\$ 449.0	\$ 509.1	\$ 525.2	\$ 479.4
Net premiums earned	306.3	397.0	416.3	442.6	464.5	485.3	474.0	418.2
Total revenue	219.7	442.3	460.8	474.5	510.1	528.1	538.6	458.9
Net income (loss)	(360.4)	(17.4)	6.3	(34.4)	(103.5)	23.6	41.7	19.6
Earnings (loss) per share								
Basic	(6.53)	(0.32)	0.11	(0.62)	(1.86)	0.43	0.75	0.35
Diluted	(6.53)	(0.32)	0.11	(0.62)	(1.84)	0.42	0.74	0.35

Note: The above information **includes** 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:

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Rolling four quarter calculations:		
Net premiums written to estimated statutory surplus ratio	2.0x	1.6x
Senior debt to capitalization ratio	31.9%	31.0%
Total debt to capitalization ratio	42.9%	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 December 31:		12 months to December 31:	
	2008	2007	2008	2007
<i>(in millions of dollars except per share amount)</i>				
Gross premiums written	\$ 359.4	\$ 410.6	\$ 1,586.4	\$ 1,988.4
Net premiums earned	371.0	419.4	1,569.8	1,830.4
Net income (loss)	(444.0)	(100.5)	(490.3)	(7.4)
Earnings per share – diluted	(8.06)	(1.80)	(8.88)	(0.13)
Underwriting profit (loss)	(122.1)	(143.5)	(269.7)	(180.9)
Book value per share			10.03	16.80

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)

<i>(Unaudited)</i>	Quarter to December 31:		12 months to December 31:	
	2008	2007	2008	2007
Gross premiums written	\$ 295,584	\$ 420,619	\$ 1,503,191	\$ 1,848,718
Net premiums written	\$ 264,435	\$ 390,461	\$ 1,367,945	\$ 1,706,645
Revenue:				
Net premiums earned	\$ 305,543	\$ 435,029	\$ 1,484,263	\$ 1,714,006
Investment income	28,341	37,263	130,302	136,139
Net realized gains (losses)	(114,303)	8,503	(138,971)	52,187
	219,581	480,795	1,475,594	1,902,332
Expenses:				
Claims incurred	\$ 281,154	\$ 431,896	\$ 1,205,610	\$ 1,359,083
Commissions and premiums taxes	54,320	75,641	266,594	307,833
General and administrative expenses	69,819	68,824	256,483	227,505
Interest expense	6,912	10,642	35,022	38,867
Amortization of intangibles	1,059	1,379	4,887	4,007
Amortization of goodwill	62,876	-	62,876	-
	476,140	588,382	1,831,472	1,937,295
Loss from continuing operations before income taxes	(256,559)	(107,587)	(355,878)	(34,963)
Income taxes (recovery)	103,569	(2,694)	73,374	(4,150)
Loss from continuing operations	(360,128)	(104,893)	(429,252)	(30,813)
Income (loss) from discontinued operations, net of taxes (note 3)	241	1,399	(11,112)	12,287
Gain on disposal of discontinued operations, net of taxes	(486)	-	34,499	-
Net loss	\$ (360,373)	\$ (103,494)	\$ (405,865)	\$ (18,526)
Loss per share - continuing operations:				
Basic:	\$ (6.53)	\$ (1.88)	\$ (7.78)	\$ (0.55)
Diluted:	\$ (6.52)	\$ (1.87)	\$ (7.77)	\$ (0.55)
Loss per share – net income (loss):				
Basic:	\$ (6.53)	\$ (1.86)	\$ (7.35)	\$ (0.33)
Diluted:	\$ (6.53)	\$ (1.84)	\$ (7.35)	\$ (0.33)
Weighted average shares outstanding (in '000s):				
Basic:	55,069	55,589	55,197	55,657
Diluted:	55,090	55,752	55,251	55,944

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

	December 31 2008 (unaudited)	December 31 2007
ASSETS		
Cash and cash equivalents	\$ 105,656	\$ 161,635
Securities	2,370,485	3,256,365
Accrued investment income	24,554	33,186
Financed premiums	61,616	91,851
Accounts receivable and other assets	276,449	365,410
Due from reinsurers and other insurers	177,945	207,137
Deferred policy acquisition costs	127,555	176,202
Income taxes recoverable	14,737	1,348
Future income taxes	25,291	114,066
Capital assets	113,375	133,431
Goodwill and intangible assets	45,778	116,774
	\$ 3,343,441	\$ 4,657,405
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Bank indebtedness	\$ -	\$ 172,436
Loans payable	66,222	66,222
Accounts payable and accrued liabilities	135,565	144,940
Unearned premiums	536,480	758,490
Unpaid claims	1,879,016	2,267,082
Senior unsecured debentures	185,203	220,080
Subordinated indebtedness	87,383	87,354
	2,889,869	3,716,604
SHAREHOLDERS' EQUITY		
Share capital	322,344	326,151
<i>Issued and outstanding number of common shares</i>		
	<i>55,068,528 – December 31, 2008</i>	
	<i>55,515,728 – December 31, 2007</i>	
Contributed surplus	9,791	7,619
Retained earnings	98,564	521,165
Accumulated other comprehensive income	22,873	85,866
	453,572	940,801
	\$ 3,343,441	\$ 4,657,405

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

	Quarter to December 31:		12 months to December 31:	
<i>(Unaudited)</i>	2008	2007	2008	2007
Share capital				
Balance at beginning of period	\$ 322,344	\$ 327,295	\$ 326,151	\$ 328,473
Issued during the period	-	(61)	89	1,082
Repurchased for cancellation	-	(1,083)	(3,896)	(3,404)
Balance at end of period	322,344	326,151	322,344	326,151
Contributed surplus				
Balance at beginning of period	\$ 8,889	\$ 6,932	\$ 7,619	\$ 5,352
Stock option expense	902	687	2,172	2,267
Balance at end of period	9,791	7,619	9,791	7,619
Retained earnings				
Balance at beginning of period	\$ 462,282	\$ 629,793	\$ 521,165	\$ 560,126
Net loss for the period	(360,373)	(103,494)	(405,865)	(18,526)
Common share dividends	(3,345)	(4,150)	(15,460)	(15,710)
Repurchase of shares for cancellation	-	(984)	(1,276)	(4,725)
Balance at end of period	98,564	521,165	98,564	521,165
Accumulated other comprehensive income				
Balance at beginning of period	\$ (21,340)	\$ 83,248	\$ 85,866	\$ 7,011
Cumulative effect of adopting new accounting policies	-	-	-	17,672
Other comprehensive income (loss)	44,213	2,618	(62,993)	61,183
Balance at end of period	22,873	85,866	22,873	85,866
Total shareholders' equity at end of period	\$ 453,572	\$ 940,801	\$ 453,572	\$ 940,801

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

<i>(Unaudited)</i>	Quarter to December 31:		12 months to December 31:	
	2008	2007	2008	2007
Comprehensive income				
Net loss	\$ (360,373)	\$ (103,494)	\$ (405,865)	\$ (18,526)
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⁾	50,831	10,940	14,201	19,885
Recognition of realized losses (gains) to net income, net of income taxes ⁽²⁾	32,863	(5,764)	(11,361)	(13,312)
• Unrealized gains (losses) on translating financial statement of self-sustaining foreign operations	(33,462)	528	(56,988)	54,610
• Gain (loss) on cash flow hedge	(6,019)	(3,086)	(8,845)	-
Other comprehensive income (loss)	44,213	2,618	(62,993)	61,183
Comprehensive income (loss)	\$ (316,160)	\$ (100,876)	\$ (468,858)	\$ 42,657

⁽¹⁾ Net of income tax of \$3,090 for the quarter to December 31, 2008 ((\$3,827) for Year to date) and (\$152) for the quarter to December 31, 2007 (\$803 for year to date).

⁽²⁾ Net of income tax of (\$12,284) for the quarter to December 31, 2008 (\$5,516 for year to date) and \$1,256 for the quarter to December 30, 2007 (\$5,100 for year to date).

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

<i>(Unaudited)</i>	Quarter to December 31:		12 months to December 31:	
	2008	2007	2008	2007
Cash flows from operating activities				
Net loss	\$ (360,373)	\$ (103,494)	\$ (405,865)	\$ (18,526)
Items not affecting cash:				
Amortization	66,212	5,774	81,132	15,524
Future and current income taxes	105,365	(13,714)	94,746	(36,271)
Net realized (gains) losses	114,941	(6,951)	98,257	(52,111)
Amortization of bond premiums and discounts	1,652	(243)	(3,612)	(7,951)
Net change in other non-cash balances	(70,896)	91,609	(327,128)	166,403
	(143,099)	(27,019)	(462,470)	67,086
Cash flows from financing activities				
Increase in share capital	-	(61)	89	1,082
Repurchase of common shares for cancellation	-	(2,067)	(5,172)	(8,129)
Dividends paid	(3,345)	(4,150)	(15,460)	(15,710)
Increase (decrease) in bank indebtedness and loans payable	(2,199)	20,348	(175,175)	129,050
Decrease in senior unsecured indebtedness	-	-	(17,517)	-
	(5,544)	14,070	(213,235)	106,293
Investing activities				
Purchase of securities	(557,951)	(997,985)	(2,980,183)	(4,135,457)
Proceeds from sale of securities	615,869	1,085,008	3,541,683	4,074,167
Financed premiums receivable, net	338	(2,053)	18,258	(14,440)
Acquisitions, net of cash acquired	-	(4,034)	(212)	(44,721)
Net proceeds from sale of discontinued operations	-	-	44,067	-
Net change to capital assets	(1,338)	(3,617)	(3,887)	(20,999)
	56,918	77,319	619,726	(141,450)
Net change in cash and cash equivalents	(91,725)	64,370	(55,979)	31,929
Cash and cash equivalents at beginning of period	197,381	97,265	161,635	129,706
Cash and cash equivalents at end of period	\$ 105,656	\$ 161,635	\$ 105,656	\$ 161,635