

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the “**Board**”) of Kingsway Financial Services Inc. (the “**Company**”) has developed and adopted this Statement of Corporate Governance Practices after consideration of the corporate governance guidelines set forth in National Policy 58-201. The Company’s corporate governance practices are comprised of a number of policies and resolutions adopted by the Board from time to time. These policies include the mandate for the Board of Directors set out in this Statement of Corporate Governance Practices, the charter for each of the Board Committees, the Code of Business Conduct and Ethics and the Whistleblower Policy adopted by the Board.

Canadian securities regulatory authorities have adopted National Instrument 58-101 – *Disclosure of Corporate Governance Practices* (“**NI 58-101**”) which requires disclosure of the approach of the Company to corporate governance. National Policy 58-201 – *Corporate Governance Guidelines* (“**NP 58-201**”), the United States *Sarbanes- Oxley Act* of 2002 as well as listing standards and corporate governance requirements of the New York Stock Exchange have been considered in determining these policies.

Many of the items for which disclosure is required by Form 58-101F1 are dealt with in the mandate of the Board of Directors of the Company.

### MANDATE OF THE BOARD OF DIRECTORS

#### 1. General

The Board of Directors (the “**Board**”) either directly or through board committees is responsible for the management or supervision of the management of the business and affairs of the Company with the objective of enhancing shareholder value. The Board believes that sound corporate governance is essential to the well-being of the Company, and the promotion and protection of its interests.

The Board has adopted this mandate to assist the Board in supervising the management of the business and affairs of the Company as required under applicable law and the rules and regulations of the stock exchanges upon which the Company’s stock is listed. The Board, either directly or through the Audit Committee, regularly monitors the financial performance of the Company, including receiving and reviewing detailed financial information contained in management reports. The Board promotes fair reporting, including financial reporting, to shareholders of the Company and other interested persons as well as ethical and legal corporate conduct through an appropriate system of corporate governance, internal controls and disclosure controls. The Board believes that the Company is best served by an informed and engaged Board of Directors which functions independently of management.

The Board has explicitly delegated to the Nominating and Corporate Governance Committee the obligation to periodically review and provide recommendations on such changes to corporate governance policies as it deems appropriate in light of the Company’s needs and legal and regulatory developments. These recommendations are reviewed and considered by the Board.

## **2. Board Composition**

### **(a) Board Membership Criteria**

The Nominating and Corporate Governance Committee of the Board is responsible for establishing the skills and competencies that the Board considers to be necessary for the Board as a whole to possess. The Nominating and Corporate Governance Committee is also responsible for reviewing the competencies and skills that the Board considers each existing director to possess, and the competencies and skills of each new candidate for the Board. It annually recommends nominees to the Board for nomination at the annual meeting of the Company's shareholders. The Board seeks members who have an owner mindset. Directors are considered based upon contributions they can make and must have sufficient time to carry out their duties, and not assume other obligations which would materially interfere or be incompatible with board membership.

### **(b) Director Independence**

A majority of the directors shall satisfy the independence requirements of the Toronto Stock Exchange and other regulatory authorities. The Board will determine whether a director is an independent director within the meaning of each of Multilateral Instrument 52-110 and the listing standards of the New York Stock Exchange as the same are amended or replaced from time to time.

The Board will review the independence of all directors on an annual basis and its determinations will be disclosed in the management information circular and the proxy statement relating to the annual meeting of the Company. To facilitate this review, directors will be asked to provide full information regarding their business and other relationships with the Company, its affiliates and with senior management and their affiliates. Directors have an obligation to inform the Board of any material changes in their circumstances or relationships which may affect the Board's determination as to their independence.

### **(c) Board Size**

The Board considers a range from five (5) to eight (8) members as the optimum size for effective decision making and committee work given the size and scope of the Company's operations.

### **(d) Term**

All directors are elected at the annual meeting of shareholders of the Company for a term of one (1) year. The Board does not favour term limits for directors as a forced retirement may deprive the Company, and its shareholders, of the contributions of members that have been able to develop valuable insights into the Company, its strategy and business operations. Management directors shall offer to resign from the Board upon their resignation, removal or retirement as an officer of the Company.

**(e) Service on other Boards**

The Board believes that the Company can benefit from the experience and insight its non-management members may gain from serving as a director, or in other similar positions for other public companies, government agencies or other entities. In agreeing to assume such roles however, members of the Board must ensure that their commitments do not create inherent conflicts of interest or interfere with their ability to fulfill their duties as members of the Board. The directors must also be mindful of the number of other public company boards and committees on which they serve to ensure that they are able to devote the necessary time to the performance of their duties for the Company.

**(f) Directors Duties and Responsibilities**

Directors must act honestly and in good faith with a view to the best interests of the Company and its shareholders. Directors must exercise the degree of care and diligence that a reasonably prudent person would exercise in comparable circumstances. To fulfill this responsibility, each director is expected to:

- develop and maintain an understanding of the operations of the Company, its financial position, objectives and performance, as well as the Company's performance relative to its principal competitors;
- prepare for each meeting including reviewing meeting materials distributed in advance;
- actively and constructively participate in meetings of the Board and committees of which he or she is a member; and
- engage in continuing education programs for directors as appropriate.

**(g) Directors' Shareholdings**

The Board believes that its members should own a meaningful amount of shares relative to their personal financial situation.

**3. Board Duties and Responsibilities**

In fulfilling its mandate, the Board is, among other things, responsible for the matters set forth below.

**(a) Management Oversight**

The Board is responsible for the supervision of the management of the business and affairs of the Company. The Board, as permitted by applicable law, delegates to senior management the responsibility for the day-to-day operations of the Company.

**(b) Strategic Plan**

The approval and assessment of the Strategic Plan and major prospective decisions proposed by management. In furtherance of this obligation the Board will:

- adopt a Strategic Planning Process and review and approve on an ongoing basis a Business Plan developed by management, which includes realistic goals and takes into account the opportunities and risks of the Company's business;
- approve business and operational policies within which management will operate in relation to acquisitions and dispositions, capital expenditure, public disclosure, finance and investment, risk management, human resources, internal controls over financial reporting, disclosure controls and management information systems; and
- review and adopt corporate and management performance targets consistent with the Company's Strategic Plan.

**(c) Risk Management and Compliance**

In connection with its supervision of the management of the business and affairs of the Company, the Board will:

- consider whether or not management has a system in place to identify the principle risks facing the Company and its business and that appropriate procedures are in place to monitor and mitigate such risks where appropriate; and
- consider whether or not management has adopted processes to comply with applicable legal, regulatory, corporate securities and other compliance matters.

**(d) Financial Reporting and Management**

In connection with financial reporting and management matters, the Board will:

- review the report of the Audit Committee, which has primary carriage of such matters;
- approve the Company's annual and interim financial statements and related management's discussion and analysis;
- review and oversee the integrity of the Company's audit, accounting and financial reporting practices;

- review the integrity of the Company's internal controls over financial reporting, disclosure controls and procedures, and management information systems;
- approve annual operating and capital budgets; and
- review operating and financial performance results relative to established strategies, projections, plans, budgets and objectives.

**(e) Disclosure**

The Board will take appropriate action to ensure that appropriate policies and procedures are established regarding public disclosure communications and insider trading. The Board will ensure that such policy establishes (i) consistent guidelines for determining what information is material, (ii) how it is to be disclosed, (iii) a prohibition on selective disclosure, and (iv) a process for making all material disclosures on a widely disseminated basis. The Board will also establish policies aimed at:

- monitoring internal controls relating to news releases and other public disclosures made by or on behalf of the Company to ensure that they are in accordance with applicable disclosure policies, and comply with legal and regulatory requirements;
- informing all directors, officers and other employees of the Company about their obligation to preserve the confidentiality of undisclosed material information about the Company; and
- informing all directors, officers and other employees about prohibitions about illegal insider trading and tipping under applicable law and stock exchange rules.

**(f) Corporate Governance**

The Board will, with the advice of the Nominating and Corporate Governance Committee, or, where applicable, its other committees:

- review and update corporate governance standards from time to time;
- establish committees and approve their respective charters;
- establish appropriate processes for the regular evaluation of the effectiveness of the Board and its committees, individual directors and, through the Compensation Committee, the Chief Executive Officer;
- develop clear position descriptions for the Chair of the Board, the Chair of each Board committee and the Chief Executive Officer;

- approve the nomination of directors on the advice of the Nominating and Corporate Governance Committee;
- on the recommendation of the Compensation Committee, review the adequacy and form of directors compensation to confirm that it realistically reflects the responsibilities and risk involved in being a director; and
- provide an opportunity for the independent directors to meet separately at least twice annually and at such other times as is appropriate.

**(g) Other Matters**

Notwithstanding the delegation to management of the authority to manage the business of the Company, the Board must approve the following:

- any material departure from an established strategy or budget or corporate policy approved by the Board;
- the entering into of any agreement or transaction the performance of which is material to the Company;
- any offering of securities by the Company; and
- such other matters as the Board may from time to time determine require its approval.

**ROLE OF MANAGEMENT**

Senior management of the Company is responsible for the day-to-day operations of the Company. Senior management is responsible for developing strategies to be approved by the Board, and is directly responsible for implementing such approved strategies. Management is also responsible for safeguarding and developing the Company's assets with a view to enhancing shareholder value.

The Company's governance policies are designed to create autonomy and effective decision-making of management, and to ensure appropriate oversight by the Board and its committees. Senior management, through the Chief Executive Officer, reports to and is accountable to the Board. The Board's approval of the business plan provides a mandate for management to conduct the affairs of the Company. Material deviations from the plan must be reported to and considered by the Board.

Management is responsible for developing a strategic plan and an annual business plan, including an annual operating and capital budget, for review and approval by the Board. The Board, in consultation with the Compensation Committee, is responsible for implementing a succession plan for the Chief Executive Officer and establishing objectives against which the Chief Executive Officer's performance is benchmarked.

## **BOARD COMMITTEES**

### **1. General**

The Board carries out its responsibilities directly and through the Audit Committee, the Nominating and Corporate Governance Committee, the Compensation Committee, the Investment Committee, and such other committees as it may establish from time to time.

### **2. Composition**

All Board committees other than the Investment Committee will be composed solely of Independent Directors who are selected by the Board on the recommendation of the Nominating and Corporate Governance Committee. A majority of the members of the Investment Committee shall be Independent Directors. Members of the Audit Committee must be Independent Directors and meet the additional independence requirements prescribed by applicable securities laws. Each member of the Audit Committee will also be financially literate within the meaning of National Instrument 52-110. At least one member of the Audit Committee shall be an “audit committee financial expert” as defined in the rules and regulations of the U.S. Securities and Exchange Commission.

### **3. Committee Chairs**

Board committees will each be chaired by an Independent Director who is selected by the Board on the recommendation of the Nominating and Corporate Governance Committee. The chair of each Board committee will:

- in consultation with the committee members, as appropriate, determine the date, time and location of meetings of the committee;
- confirm that the committee’s activities are consistent with, and fulfill, the duties and responsibilities set forth in its charter;
- confirm that the duties and responsibilities of the committee, as set forth in its charter, are well understood by the committee members and executed as effectively as possible;
- convene meetings of the committee as often as necessary to carry out its responsibilities effectively;
- in consultation with the Chief Executive Officer or the other committee members, as appropriate, review meeting agendas to ensure that issues are brought before the committee to enable the committee to carry out its responsibilities;
- chair all meetings of the committee;
- communicate with appropriate members of senior management in fulfilling the duties and responsibilities set forth in the committee’s charter;

- with the assistance of management, ensure that agenda items for all committee meetings are ready for presentation and that adequate information is distributed to committee members in advance of such meetings in order that committee members may properly inform themselves on matters to be acted upon;
- ensure that minutes are kept of all committee meetings and sign minutes once approved by the committee; and
- report to the Board at its next meeting following any decision or recommendation arising from any meeting of the committee or the signing of a written resolution evidencing a decision or recommendation of the committee, including reporting on the considerations that led to such decision or recommendation.

#### **4. Committee Charters**

Each committee has a charter which sets forth its duties and responsibilities, qualifications for membership, procedures for committee member appointment and removal, and reporting to the Board. On an annual basis, each committee's charter is reviewed by both the committee itself and the Nominating and Corporate Governance Committee, acting in its role of overseeing corporate governance activities.

#### **5. Board and Committee Meetings**

##### **(a) Scheduling**

Board meetings are scheduled in advance at appropriate intervals throughout the year. Board meetings shall be held not less than quarterly, and more often as is necessary. In addition to regularly scheduled Board meetings, additional Board meetings may be called upon proper notice at any time to address specific needs of the Company. The Board may also take action from time to time by unanimous written consent. A Board meeting may be called by the Chief Executive Officer or any director.

Each committee meets as often as it determines is necessary to fulfill its responsibilities. The Audit Committee meets not less than quarterly. A meeting of any committee may be called by the committee chair, the Chief Executive Officer or any committee member.

##### **(b) Agenda**

The Chair establishes the agenda for each Board meeting and Committee chairs establish the agenda for each committee meeting.

##### **(c) Meetings of Independent Directors**

To provide open discussion among the Independent Directors, Independent Directors meet separately at least twice annually without management present and at such other times as is deemed appropriate.

**(d) Distribution of Information**

Information that is important to the Board's understanding of the business and its agenda is distributed to directors in advance of Board meetings. Sensitive subject matters may be discussed at a meeting without written materials being distributed in advance of or at the meeting.

**(e) Preparation, Attendance and Participation**

Each director is expected to be diligent in attending meetings of the Board, any committee of which he or she is a member and the annual meeting of the Shareholders. Meetings of the Board and its committees will usually be held in person but may, where appropriate, be held by telephone or teleconference. A director who is unable to attend a Board or committee meeting in person may participate by telephone or teleconference.

**(f) Procedures**

Procedures for Board meetings are determined by the Chair unless otherwise determined by the by-laws of the Company or a resolution of the Board.

Procedures for committee meetings are determined by the chair of the committee unless otherwise determined by the by-laws of the Company, a resolution of the committee or the Board, or the committee charter.

**6. Director Compensation**

The Compensation Committee has the responsibility for recommending to the Board compensation for service on the Board and on Board committees. In discharging this duty, the Compensation Committee will ensure that the structure of the compensation is simple, transparent and easy for shareholders to understand.

**7. Director Orientation and Continuing Education**

The Nominating and Corporate Governance Committee is responsible for confirming that procedures are in place and resources are made available to provide new directors with a proper orientation to both the Company and their duties and responsibilities as directors and to provide other directors with appropriate continuing education opportunities.

In accordance with NI 58-101 and NP 58-201, new directors are provided with details of the Company's organizational structure, the structure of the Board and its committees, compliance requirements for directors, corporate policies and by-laws. They also meet with a number of directors and senior management personnel of the Company and its material subsidiaries to learn of the functions and activities of the Company.

In accordance with NI 58-101 and NP 58-201, the Company has a process to provide an orientation and education program for new recruits to the Board.

## **8. Board Access to Management, Outside Counsel and Advisors**

The Board has complete access to members of senior management and the Company's outside counsel and advisors. It is the obligation of each director to use good judgment to ensure such contact is not distracting to the business and operations of the Company and that, except as may be inappropriate, the Chief Executive Officer is advised of all such retainers. The Board and its committees may invite any member of senior management, employee, outside advisor or other person to attend any of their meetings.

The Board and any of its committees may retain an outside advisor at the expense of the Company at any time and have the authority to determine the advisor's fees and other retention terms. Individual directors may retain an outside advisor at the expense of the Company with the approval of the Board.

## **9. Performance Assessment of the Board and its Committees**

The Nominating and Corporate Governance Committee will regularly review the effectiveness of the Board and its committees in fulfilling their duties and responsibilities. In addition, the Nominating and Corporate Governance Committee will evaluate individual directors to assess their suitability for nomination for re-election.

## **10. Code of Business Conduct and Ethics**

The Board has adopted a Code of Business Conduct and Ethics (the "**Code**"). The purpose of the Code is to ensure that the Company maintains a high level of trust and integrity and meets high ethical standards. Copies of this Code is available on the Company's website at [www.kingsway-financial.com](http://www.kingsway-financial.com).

The Board monitors compliance with its Code and satisfies itself regarding compliance with its Code by requiring that executives and directors annually certify compliance with the Code.

To ensure that directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest, we require disclosure of all related party transactions and agreements and ask that directors recuse themselves when a conflict arises.

**11. Feedback**

The Board welcomes input and comments from shareholders of the Company. Input or comments for the Board or its committees should be directed to the Chair.

**Adopted by the Board on March 17, 2017.**