



Kingsway Reports Second Quarter Results

Toronto, Ontario (August 13, 2012) – (TSX: KFS, NYSE: KFS) Kingsway Financial Services Inc. ("Kingsway" or the "Company") today announced its financial results for the second quarter and six months ended June 30, 2012. All amounts are in U.S. dollars unless indicated otherwise.

The Company reported a second quarter net loss of \$7.7 million (\$20.2 million year to date), or a loss of \$0.59 (\$1.54 year to date) per diluted share. The book value has decreased from \$8.90 per share at December 31, 2011 to \$7.35 per share at June 30, 2012. The Company also carries a valuation allowance, in the amount of \$20.43 per share at June 30, 2012, against the deferred tax asset, primarily related to its loss carryforwards. All per share amounts have been adjusted for all periods to reflect the share consolidation implemented as of July 3, 2012.

The following are the highlights of the second quarter of 2012:

Operational results

- Net operating loss of \$3.9 million was recorded in the Insurance Underwriting segment for the second quarter (\$7.1 million year to date).
- Net operating income of \$0.9 million was recorded in the Insurance Services segment for the second quarter (\$2.6 million year to date).
- Net investment income and realized gains of \$0.8 million were recorded for the second quarter (\$1.9 million year to date).
- Other-than-temporary impairment loss of \$0.5 million was recorded for the second quarter (\$0.5 million year to date).
- Net loss of \$5.0 million not allocated to any segment was recorded in the second quarter (\$17.1 million year to date). This includes loss on change in fair value of debt of \$2.4 million (\$6.7 million year to date); equity in net income of investees of \$0.1 million (loss of \$2.2 million year to date); and interest expense of \$1.1 million (\$2.2 million year to date) related to the Company's subordinated debt and currently being deferred. None of these three items impacted the Company's cash flows during the second quarter and six months ended June 30, 2012.

On July 3, 2012, the Company announced that the board of directors of the Company authorized the implementation of a share consolidation at a ratio of one post-consolidation share for every four pre-consolidation shares. The share consolidation, which was approved by the stockholders at the Company's Annual and Special Meeting held on May 31, 2012, was effective as of July 3, 2012. The consolidation had the effect of reducing the number of common shares of the Company issued and outstanding from 52,595,828 shares pre-consolidation to 13,148,971 shares post-consolidation. The issued and outstanding shares reported in the consolidated balance sheets and the loss per share computations reported in the consolidated statements of operations have been restated for all periods presented to reflect the impact of the share consolidation.

Dividend

The Board of Directors declared no dividend for the second quarter of 2012.

About the Company

Kingsway is a holding company functioning as a merchant bank with a focus on long-term value-creation. The Company owns or controls stakes in several insurance industry assets and utilizes its subsidiaries, 1347 Advisors LLC and 1347 Capital LLC, to pursue opportunities acting as an advisor, an investor and a financier. The common shares of Kingsway are listed on the Toronto Stock Exchange and the New York Stock Exchange under the trading symbol "KFS."

Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Revenue:				
Net premiums earned	\$ 30,985	\$ 42,575	\$ 60,252	\$ 88,211
Service fee and commission income	8,138	7,806	17,667	16,778
Net investment income	802	1,152	1,632	2,229
Net realized (losses) gains	(23)	(3)	250	(2)
Other-than-temporary impairment loss	(488)	—	(488)	—
(Loss) gain on change in fair value of debt	(2,418)	11,237	(6,749)	8,632
Other income	2,744	1,311	3,827	3,222
Total revenues	39,740	64,078	76,391	119,070
Expenses:				
Loss and loss adjustment expenses	23,616	37,014	45,391	78,591
Commissions and premiums taxes	4,747	6,908	9,166	14,286
General and administrative expenses	17,154	22,810	35,955	44,381
Interest expense	1,916	1,833	3,765	3,736
Amortization of other intangible assets	—	18	—	36
Total expenses	47,433	68,583	94,277	141,030
Loss before gain on buy-back of debt, equity in net income (loss) of investees and income tax expense (benefit)	(7,693)	(4,505)	(17,886)	(21,960)
Gain on buy-back of debt	—	553	—	553
Equity in net income (loss) of investees	92	(529)	(2,178)	(529)
Loss from continuing operations before income tax expense (benefit)	(7,601)	(4,481)	(20,064)	(21,936)
Income tax expense (benefit)	116	267	175	(141)
Loss from continuing operations	(7,717)	(4,748)	(20,239)	(21,795)
Loss on disposal of discontinued operations, net of taxes	—	—	—	(1,293)
Net loss	(7,717)	(4,748)	(20,239)	(23,088)
Less: net loss attributable to noncontrolling interests in consolidated subsidiaries	(1,700)	(2,190)	(3,214)	(2,724)
Net loss attributable to common shareholders	\$ (6,017)	\$ (2,558)	\$ (17,025)	\$ (20,364)
Loss per share - continuing operations:				
Basic:	\$ (0.59)	\$ (0.36)	\$ (1.54)	\$ (1.67)
Diluted:	(0.59)	(0.36)	(1.54)	(1.67)
Loss per share – net loss:				
Basic:	\$ (0.59)	\$ (0.36)	\$ (1.54)	\$ (1.77)
Diluted:	(0.59)	(0.36)	(1.54)	(1.77)
Weighted average shares outstanding (in '000s):				
Basic:	13,149	13,086	13,117	13,055
Diluted:	13,149	13,086	13,117	13,055

Loss from Continuing Operations and Loss Per Share – Continuing Operations

In the second quarter of 2012, the Company reported a loss from continuing operations of \$7.7 million (\$20.2 million year to date) compared to a loss from continuing operations of \$4.7 million in the second quarter of last year (\$21.8 million prior year to date). Diluted loss per share was \$0.59 for the quarter (\$1.54 year to date) compared to diluted loss per share of \$0.36 for the second quarter of 2011 (\$1.67 prior year to date). The current quarter and year to date loss is primarily due to operating losses generated in our Insurance Underwriting segment, corporate general expenses, interest expense, loss on change in fair value of debt, and equity in net income (loss) of investees.

Loss on Disposal of Discontinued Operations

For the second quarter and six months ended June 30, 2012, the Company reported no loss on disposal of discontinued operations, compared to a loss of zero and \$1.3 million for the three and six months ended June 30, 2011, respectively.

Net Loss and Loss Per Share – Net Loss

In the second quarter of 2012, the Company reported net loss of \$7.7 million (\$20.2 million year to date) compared to net loss of \$4.7 million in the second quarter of 2011 (\$23.1 million prior year to date). Diluted loss per share was \$0.59 for the quarter (\$1.54 year to date) compared to diluted loss per share of \$0.36 for the second quarter of 2011 (\$1.77 prior year to date).

Consolidated Balance Sheets
(in thousands, except per share data)

	June 30, 2012	December 31, 2011
	(unaudited)	
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost of \$101,091 and \$91,344, respectively)	\$ 102,963	\$ 93,651
Equity investments, at fair value (cost of \$2,689 and \$2,689, respectively)	3,225	2,960
Other investments, at cost which approximates fair value	—	488
Short-term investments, at cost which approximates fair value	335	20,334
Total investments	106,523	117,433
Investment in investees	47,904	48,689
Cash and cash equivalents	63,101	85,486
Accrued investment income	2,652	1,999
Premiums receivable, net of allowance for doubtful accounts of \$3,779 and \$3,653, respectively	27,608	28,732
Service fee receivable	18,752	12,947
Other receivables, net of allowance for doubtful accounts of \$806 and \$806, respectively	5,789	6,322
Reinsurance recoverable	5,685	697
Prepaid reinsurance premiums	3,188	2,024
Deferred policy acquisition costs, net	7,634	8,116
Income taxes recoverable	7,132	8,134
Property and equipment, net of accumulated depreciation of \$28,799 and \$27,736	12,479	13,040
Goodwill	510	510
Intangible assets	39,121	39,121
Other assets	1,831	831
TOTAL ASSETS	\$ 349,909	\$ 374,081
LIABILITIES AND EQUITY		
LIABILITIES		
Unpaid loss and loss adjustment expenses	\$ 99,650	\$ 120,258
Unearned premiums	41,906	39,423
Reinsurance payable	4,376	1,913
LROC preferred units	11,778	8,845
Senior unsecured debentures	27,947	28,337
Subordinated debt	20,603	16,432
Deferred income tax liability	2,653	2,653
Notes payable	2,418	2,418
Deferred revenue	13,545	11,128
Accrued expenses and other liabilities	28,437	26,269
TOTAL LIABILITIES	253,313	257,676
EQUITY		
Common stock, no par value; unlimited number authorized; 13,148,971 and 13,086,471 issued and outstanding at June 30, 2012 and December 31, 2011, respectively	\$ 296,621	\$ 296,489
Additional paid-in capital	15,504	15,403
Accumulated deficit	(218,230)	(201,208)
Accumulated other comprehensive income	13,047	12,749
Shareholders' equity attributable to common shareholders	106,942	123,433
Noncontrolling interests in consolidated subsidiaries	(10,346)	(7,028)
TOTAL EQUITY	96,596	116,405
TOTAL LIABILITIES AND EQUITY	\$ 349,909	\$ 374,081

Forward Looking Statements

This press release includes “forward looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that are not historical facts, and involve risks and uncertainties that could cause actual results to differ materially from those expected and projected. Such forward looking statements relate to future events or future performance, but reflect Kingsway management’s current beliefs, based on information currently available. A number of factors could cause actual events, performance or results to differ materially from the events, performance and results discussed in the forward looking statements. 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 Annual Report on Form 10-K for the year ended December 31, 2011 (“2011 Annual Report”) and its Quarterly Report on Form 10-Q for the quarter ended June 30, 2012. The Company’s 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. Except as expressly required by applicable securities law, 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.

Non-U.S. GAAP Financial Measures

This press release contains certain non-U.S. GAAP financial measures. Please refer to the section entitled “Non-U.S. GAAP Financial Measures” in the Management’s Discussion and Analysis section of the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.

Additional Information

Additional information about Kingsway, including a copy of its Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, can be accessed on the Canadian Securities Administrators’ website at www.sedar.com, 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.