



## **Kingsway Reports First Quarter Results**

Toronto, Ontario (May 14, 2012) – (TSX: KFS, NYSE: KFS) Kingsway Financial Services Inc. ("Kingsway" or the "Company") today announced its financial results for the first quarter ended March 31, 2012. All amounts are in U.S. dollars unless indicated otherwise.

The Company reported a first quarter net loss of \$12.5 million, or a loss of \$0.24 per diluted share. The book value has decreased from \$2.22 per share at December 31, 2011 to \$2.01 per share at March 31, 2012. The Company also carries a valuation allowance, in the amount of \$5.05 per share at March 31, 2012, against the deferred tax asset, primarily related to its loss carryforwards.

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

### **Operational results**

- Net operating loss of \$3.2 million was recorded in the Insurance Underwriting segment for the first quarter.
- Net operating income of \$1.7 million was recorded in the Insurance Services segment for the first quarter.
- Net investment income and realized gains of \$1.1 million were recorded for the first quarter.
- Net loss of \$12.1 million not allocated to any segment was recorded in the first quarter. This includes loss on change in fair value of debt of \$4.3 million; equity in net loss of investees of \$2.3 million; and interest expense of \$1.1 million related to the Company's subordinated debt and currently being deferred. None of these three items impacted the Company's cash flows during the first quarter.

### **Dividend**

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

### **Subsequent Events**

Effective April 2, 2012, the Company and United Insurance Holdings Corp. ("United") mutually agreed to terminate their management services agreement which had been entered into between the Company and United in August of 2011.

During April of 2012, Larry G. Swets, Jr., the Company's President and Chief Executive Officer, adopted an automatic stock purchase plan in accordance with Canadian securities regulations and the guidelines specified under Rule 10b5-1 of the Securities Exchange Act of 1934.

### **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 March 31,	
	2012	2011
<b>Revenue:</b>		
Net premiums earned	\$ 29,267	\$ 45,636
Service fee and commission income	9,529	8,972
Net investment income	830	1,077
Net realized gains	273	1
Loss on change in fair value of debt	(4,331)	(2,605)
Other income	1,083	1,911
<b>Total revenues</b>	<b>36,651</b>	<b>54,992</b>
<b>Expenses:</b>		
Loss and loss adjustment expenses	21,775	41,577
Commissions and premiums taxes	4,419	7,378
General and administrative expenses	18,801	21,571
Interest expense	1,849	1,903
Amortization of other intangible assets	—	18
<b>Total expenses</b>	<b>46,844</b>	<b>72,447</b>
Loss before equity in net loss of investees and income tax expense (benefit)	(10,193)	(17,455)
Equity in net loss of investees	(2,270)	—
Loss from continuing operations before income tax expense (benefit)	(12,463)	(17,455)
Income tax expense (benefit)	59	(408)
Loss from continuing operations	(12,522)	(17,047)
Loss on disposal of discontinued operations, net of taxes	—	(1,293)
<b>Net loss</b>	<b>(12,522)</b>	<b>(18,340)</b>
Less: net loss attributable to noncontrolling interests in consolidated subsidiaries	(1,514)	(534)
Net loss attributable to common shareholders	\$ (11,008)	\$ (17,806)
<b>Loss per share - continuing operations:</b>		
Basic and diluted:	\$ (0.24)	\$ (0.33)
<b>Loss per share – net loss:</b>		
Basic and diluted:	\$ (0.24)	\$ (0.35)
<b>Weighted average shares outstanding (in '000s):</b>		
Basic and diluted:	52,406	52,156

**Loss from Continuing Operations and Loss Per Share – Continuing Operations**

In the first quarter of 2012, the Company reported a loss from continuing operations of \$12.5 million compared to a loss from continuing operations of \$17.0 million in the first quarter of last year. Diluted loss per share was \$0.24 for the quarter compared to diluted loss per share of \$0.33 for the first quarter of 2011. The current quarter's 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 loss of investees.

**Loss on Disposal of Discontinued Operations**

For the first quarter ended March 31, 2012, the Company reported no loss on disposal of discontinued operations, compared to a loss of \$1.3 million in the first quarter of 2011.

**Net Loss and Loss Per Share – Net Loss**

In the first quarter of 2012, the Company reported net loss of \$12.5 million compared to net loss of \$18.3 million in the first quarter of 2011. Diluted loss per share was \$0.24 for the quarter compared to diluted loss per share of \$0.35 for the first quarter of 2011.

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

	March 31, 2012 (unaudited)	December 31, 2011
<b>ASSETS</b>		
Investments:		
Fixed maturities, at fair value (amortized cost of \$103,107 and \$91,344, respectively)	\$ 105,032	\$ 93,651
Equity investments, at fair value (cost of \$2,689 and \$2,689, respectively)	3,264	2,960
Other investments, at cost which approximates fair value	488	488
Short-term investments, at cost which approximates fair value	3,335	20,334
Total investments	112,119	117,433
Investment in investees	46,730	48,689
Cash and cash equivalents	72,646	85,486
Accrued investment income	1,921	1,999
Premiums receivable, net of allowance for doubtful accounts of \$3,671 and \$3,653, respectively	40,016	28,732
Service fee receivable	14,569	12,947
Other receivables, net of allowance for doubtful accounts of \$806 and \$806, respectively	5,883	6,322
Reinsurance recoverable	1,293	697
Prepaid reinsurance premiums	3,650	2,024
Deferred policy acquisition costs, net	8,403	8,116
Income taxes recoverable	7,416	8,134
Property and equipment, net of accumulated depreciation of \$28,628 and \$27,736	12,856	13,040
Goodwill and intangible assets	39,631	39,631
Other assets	372	831
<b>TOTAL ASSETS</b>	<b>\$ 367,505</b>	<b>\$ 374,081</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Unpaid loss and loss adjustment expenses	\$ 106,057	\$ 120,258
Unearned premiums	45,641	39,423
Reinsurance payable	2,443	1,913
LROC preferred units	10,789	8,845
Senior unsecured debentures	27,982	28,337
Subordinated debt	19,174	16,432
Deferred income tax liability	2,653	2,653
Notes payable	2,418	2,418
Deferred revenue	12,331	11,128
Accrued expenses and other liabilities	32,275	26,269
<b>TOTAL LIABILITIES</b>	<b>\$ 261,763</b>	<b>\$ 257,676</b>
<b>EQUITY</b>		
Common stock, no par value; unlimited number authorized; 52,595,828 and 52,345,828 issued and outstanding at March 31, 2012 and December 31, 2011, respectively	\$ 296,621	\$ 296,489
Additional paid-in capital	15,372	15,403
Accumulated deficit	(212,214)	(201,208)
Accumulated other comprehensive income	14,588	12,749
Shareholders' equity attributable to common shareholders	114,367	123,433
Noncontrolling interests in consolidated subsidiaries	(8,625)	(7,028)
<b>TOTAL EQUITY</b>	<b>105,742</b>	<b>116,405</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 367,505</b>	<b>\$ 374,081</b>

### **Forward Looking Statements**

This press release includes “forward looking statements” which are subject to risks and uncertainties. Such forward looking statements relate to future events or 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, including: our high level of indebtedness; our ability to service our debt and comply with debt covenants; our ability to improve our operating performance; our ability to implement our long-term growth strategies and to identify and execute on strategic initiatives; our ability to maintain share price and trading activities at acceptable levels; and our ability to comply with regulatory requirements and the requirements of stock exchanges.

For information identifying additional important factors that could cause actual results to differ materially from those anticipated in the forward looking statements, please refer to the section entitled “Risk Factors” in the Company’s 2011 Annual Report on Form 10-K. 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 news 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 March 31, 2012.

### **Additional Information**

Additional information about Kingsway, including a copy of its Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, can be accessed on the Canadian Securities Administrators’ website at [www.sedar.com](http://www.sedar.com), on the EDGAR section of the U.S. Securities and Exchange Commission’s website at [www.sec.gov](http://www.sec.gov) or through the Company’s website at [www.kingsway-financial.com](http://www.kingsway-financial.com).