



Kingsway Reports Third Quarter Results

Toronto, Ontario (November 9, 2012) – (TSX: KFS, NYSE: KFS) Kingsway Financial Services Inc. ("Kingsway" or the "Company") today announced its financial results for the third quarter and nine months ended September 30, 2012. All amounts are in U.S. dollars unless indicated otherwise.

The Company reported a third quarter net loss of \$20.0 million (\$40.3 million year to date), or a loss of \$1.52 (\$3.07 year to date) per diluted share. The book value has decreased from \$8.90 per share at December 31, 2011 to \$5.88 per share at September 30, 2012. The Company also carries a valuation allowance, in the amount of \$20.48 per share at September 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, whereby every four of the Company's common shares that were issued and outstanding were automatically combined into one issued and outstanding common share, without any change in the par value of such shares.

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

Operational results

- Net operating loss of \$16.8 million was recorded in the Insurance Underwriting segment for the third quarter (\$23.8 million year to date). This third quarter 2012 result reflects \$13.4 million of charges, including \$11.4 million added to the Company's provision for unpaid loss and loss adjustment expenses; \$1.3 million for abandoned leases; and \$0.7 million of the total \$2.0 million estimated for severance expense, described in the Company's September 17, 2012 press release.
- Net operating income of \$0.4 million was recorded in the Insurance Services segment for the third quarter (\$2.9 million year to date).
- Net investment income and realized gains of \$1.9 million were recorded for the third quarter (\$3.8 million year to date).
- The Company recorded no other-than-temporary impairment loss for the third quarter (\$0.5 million year to date).
- Net loss of \$5.5 million not allocated to any segment was recorded in the third quarter (\$22.7 million year to date). This includes loss on change in fair value of debt of \$3.2 million (\$9.9 million year to date); equity in net income of investee of \$0.1 million (loss of \$2.1 million year to date); and interest expense of \$1.1 million (\$3.3 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 third quarter and nine months ended September 30, 2012.

On September 17, 2012, the Company announced that it was restructuring its Insurance Underwriting and Insurance Services segments. As part of the restructuring, the Company intends to streamline its non-standard property and casualty insurance business operations. Specific to Insurance Underwriting, during the third quarter the Company began taking actions to significantly reduce the amount of commercial lines business written at Kingsway Amigo Insurance Company ("Amigo") and to update Amigo's personal lines product offering. As part of the restructuring, the Company will reduce staffing levels to be consistent with decreased premium volume at its Amigo business.

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 September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Revenue:				
Net premiums earned	\$ 26,501	\$ 36,614	\$ 86,753	\$ 124,825
Service fee and commission income	7,648	7,687	25,315	24,465
Net investment income	782	999	2,414	3,228
Net realized gains	1,109	104	1,359	102
Other-than-temporary impairment loss	—	—	(488)	—
(Loss) gain on change in fair value of debt	(3,177)	17,189	(9,926)	25,821
Other income	1,940	5,587	5,767	8,809
Total revenues	34,803	68,180	111,194	187,250
Expenses:				
Loss and loss adjustment expenses	33,348	34,304	78,739	112,895
Commissions and premiums taxes	2,458	5,421	11,624	19,707
General and administrative expenses	16,819	17,986	52,774	62,367
Restructuring expense	1,972	—	1,972	—
Interest expense	1,887	1,874	5,652	5,610
Amortization of other intangible assets	—	18	—	54
Total expenses	56,484	59,603	150,761	200,633
(Loss) income before gain on buy-back of debt, equity in net income (loss) of investee and income tax (benefit) expense	(21,681)	8,577	(39,567)	(13,383)
Gain on buy-back of debt	500	3	500	556
Equity in net income (loss) of investee	93	145	(2,085)	(384)
(Loss) income from continuing operations before income tax (benefit) expense	(21,088)	8,725	(41,152)	(13,211)
Income tax (benefit) expense	(1,054)	2,433	(879)	2,292
(Loss) income from continuing operations	(20,034)	6,292	(40,273)	(15,503)
Loss on disposal of discontinued operations, net of taxes	—	—	—	(1,293)
Net (loss) income	(20,034)	6,292	(40,273)	(16,796)
Less: net loss attributable to noncontrolling interests in consolidated subsidiaries	(1,165)	(960)	(1,888)	(3,684)
Net (loss) income attributable to common shareholders	\$ (18,869)	\$ 7,252	\$ (38,385)	\$ (13,112)
(Loss) income per share - continuing operations:				
Basic:	\$ (1.52)	\$ 0.48	\$ (3.07)	\$ (1.19)
Diluted:	(1.52)	0.48	(3.07)	(1.19)
(Loss) income per share – net (loss) income:				
Basic:	\$ (1.52)	\$ 0.48	\$ (3.07)	\$ (1.28)
Diluted:	(1.52)	0.48	(3.07)	(1.28)
Weighted average shares outstanding (in '000s):				
Basic:	13,149	13,086	13,133	13,071
Diluted:	13,149	13,086	13,133	13,071

(Loss) Income from Continuing Operations, Net (Loss) Income and Diluted (Loss) Income Per Share

In the third quarter of 2012, we incurred a loss from continuing operations of \$20.0 million (\$1.52 per diluted share) compared to income of \$6.3 million (income of \$0.48 per diluted share) in the third quarter of 2011. For the nine months ended September 30, 2012, we incurred a loss from continuing operations of \$40.3 million (\$3.07 per diluted share) compared to \$15.5 million (\$1.19 per diluted share) for the same period in 2011. The loss from continuing operations for the three and nine months ended September 30, 2012 is attributable to operating losses in Insurance Underwriting, corporate general expenses, interest expense and loss on the change in fair value of debt. The income from continuing operations for the three months ended September 30, 2011 is due to gain on the change in fair value of debt, offset by Insurance Underwriting operating losses, corporate general expenses and interest expense. The loss from continuing operations for the nine months ended September 30, 2011 is due to operating losses in Insurance Underwriting, corporate general expenses and interest expense, offset by gain on the change in fair value of debt.

In the third quarter of 2012, we incurred a net loss of \$20.0 million (\$40.3 million year to date) compared to income of \$6.3 million in the third quarter of 2011 (loss of \$16.8 million prior year to date). The diluted loss per share was \$1.52 for the third quarter of 2012 (\$3.07 year to date) compared to a diluted income per share of \$0.48 for the third quarter of 2011 (loss of \$1.28 prior year to date).

Loss on Disposal of Discontinued Operations

For the third quarter and nine months ended September 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 nine months ended September 30, 2011, respectively.

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

In the third quarter of 2012, the Company reported net loss of \$20.0 million (\$40.3 million year to date) compared to net income of \$6.3 million in the third quarter of 2011 (net loss of \$16.8 million prior year to date). Diluted loss per share was \$1.52 for the quarter (\$3.07 year to date) compared to diluted income per share of \$0.48 for the third quarter of 2011 (diluted loss per share of \$1.28 prior year to date).

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

	September 30, 2012	December 31, 2011
	(unaudited)	
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost of \$88,054 and \$91,344, respectively)	\$ 90,168	\$ 93,651
Equity investments, at fair value (cost of \$2,303 and \$2,689, respectively)	2,350	2,960
Limited liability investments	2,413	97
Other investments, at cost which approximates fair value	—	488
Short-term investments, at cost which approximates fair value	335	20,334
Total investments	95,266	117,530
Investment in investee	47,173	48,592
Cash and cash equivalents	60,871	85,486
Accrued investment income	2,999	1,999
Premiums receivable, net of allowance for doubtful accounts of 3,665 and 3,653, respectively	33,922	28,732
Service fee receivable	15,683	12,947
Other receivables, net of allowance for doubtful accounts of \$806 and \$806, respectively	5,579	6,322
Reinsurance recoverable	10,472	697
Prepaid reinsurance premiums	7,891	2,024
Deferred policy acquisition costs, net	8,039	8,116
Income taxes recoverable	—	8,134
Property and equipment, net of accumulated depreciation of \$19,331 and \$27,736	3,323	13,040
Goodwill	510	510
Intangible assets	39,121	39,121
Other assets	1,923	831
Asset held for sale	8,737	—
TOTAL ASSETS	\$ 341,509	\$ 374,081
LIABILITIES AND EQUITY		
LIABILITIES		
Unpaid loss and loss adjustment expenses	\$ 104,953	\$ 120,258
Unearned premiums	44,070	39,423
Reinsurance payable	9,107	1,913
LROC preferred units	13,987	8,845
Senior unsecured debentures	22,921	28,337
Subordinated debt	24,942	16,432
Deferred income tax liability	2,772	2,653
Notes payable	—	2,418
Deferred revenue	14,031	11,128
Accrued expenses and other liabilities	27,432	26,269
TOTAL LIABILITIES	\$ 264,215	\$ 257,676
EQUITY		
Common stock, no par value; unlimited number authorized; 13,148,971 and 13,086,471 issued and outstanding at September 30, 2012 and December 31, 2011, respectively	\$ 296,621	\$ 296,489
Additional paid-in capital	15,631	15,403
Accumulated deficit	(248,369)	(201,208)
Accumulated other comprehensive income	13,752	12,749
Shareholders' equity attributable to common shareholders	77,635	123,433
Noncontrolling interests in consolidated subsidiaries	(341)	(7,028)
TOTAL EQUITY	77,294	116,405
TOTAL LIABILITIES AND EQUITY	\$ 341,509	\$ 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. Words such as “expects”, “believes”, “anticipates”, “intends”, “estimates”, “seeks” and variations and similar words and expressions are intended to identify such forward-looking statements. 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, including, without limitation, our potential inability to complete current or future acquisitions successfully, our inability to successfully implement our restructuring activities, and our inability to adequately estimate and provide for an appropriate level of reserving at our insurance company subsidiaries. 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 September 30, 2012. 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 September 30, 2012.

Additional Information

Additional information about Kingsway, including a copy of its 2011 Annual Report and its Quarterly Report on Form 10-Q for the quarter ended September 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.