



Kingsway Reports Second Quarter Results

Toronto, Ontario (August 8, 2013) - (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, 2013. All amounts are in U.S. dollars unless indicated otherwise.

The Company reported a second quarter net loss of \$9.7 million (\$27.0 million year to date), or a loss of \$0.74 (\$2.05 year to date) per diluted share. The book value has decreased from \$4.97 per share at December 31, 2012 to \$3.11 per share at June 30, 2013. The Company also carries a valuation allowance, in the amount of \$21.00 per share at June 30, 2013, against the deferred tax asset, primarily related to its loss carryforwards.

The following are the highlights of the second quarter of 2013:

Operational results

- Net operating loss of \$5.4 million was recorded in the Insurance Underwriting segment for the second quarter (\$9.7 million year to date).
- Net operating loss of \$0.1 million was recorded in the Insurance Services segment for the second quarter (income of \$1.3 million year to date).
- Net investment income of \$0.8 million was recorded for the second quarter (\$1.4 million year to date).
- Net realized gains of \$0.0 million for the second quarter (net realized losses of \$1.4 million year to date, inclusive of the \$1.7 million loss recorded on the Company's sale of Atlas Financial Holdings Inc. ("Atlas") common stock recorded in the first quarter of 2013).
- Net loss of \$5.0 million not allocated to any segment was recorded in the second quarter (\$18.6 million year to date). This includes gain on change in fair value of debt of \$2.3 million (loss of \$6.6 million year to date); other-than-temporary impairment loss of \$1.8 million (\$1.8 million year to date); impairment of asset held for sale of \$1.4 million (\$1.4 million year to date); and interest expense of \$1.2 million related to the Company's subordinated debt and currently being deferred (\$2.3 million year to date). None of these four items impacted the Company's cash flows during the second quarter and six months ended June 30, 2013.

On July 8, 2013, the Company announced that it had entered into a non-binding letter of intent with Atlas to sell its holdings of Atlas preferred stock for 90% of liquidation value, or \$16.2 million. On August 1, 2013, the Company announced that the transaction had closed. Under the terms of the transaction, Atlas paid the Company at closing \$7.5 million in cash, plus approximately \$0.8 million from cash raised by Atlas from the exercise of certain outstanding Atlas warrants. If any amount of the purchase price remains unpaid as of January 3, 2014, such unpaid amount will be repayable not later than April 30, 2014 pursuant to one or more promissory notes entered into by Atlas.

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)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenue:				
Net premiums earned	\$ 28,297	\$ 30,985	\$ 56,365	\$ 60,252
Service fee and commission income	12,052	8,138	25,176	17,667
Net investment income	816	797	1,396	1,623
Net realized gains (losses)	32	(23)	(1,377)	250
Other-than-temporary impairment loss	(1,800)	(488)	(1,800)	(488)
Gain (loss) on change in fair value of debt	2,338	(2,418)	(6,613)	(6,749)
Other income	2,174	2,744	4,392	3,827
Total revenues	43,909	39,735	77,539	76,382
Expenses:				
Loss and loss adjustment expenses	24,615	23,616	46,446	45,391
Commissions and premium taxes	5,171	4,747	11,883	9,166
General and administrative expenses	20,289	17,154	40,048	35,955
Restructuring expense	147	—	927	—
Interest expense	1,927	1,916	3,760	3,765
Amortization of intangible assets	508	—	1,066	—
Impairment of asset held for sale	1,446	—	1,446	—
Total expenses	54,103	47,433	105,576	94,277
Loss before loss on buy-back of debt, equity in net income (loss) of investee and income tax (benefit) expense	(10,194)	(7,698)	(28,037)	(17,895)
Loss on buy-back of debt	—	—	(24)	—
Equity in net income (loss) of investee	—	97	255	(2,169)
Loss before income tax (benefit) expense	(10,194)	(7,601)	(27,806)	(20,064)
Income tax (benefit) expense	(525)	116	(801)	175
Net loss	(9,669)	(7,717)	(27,005)	(20,239)
Less: net income (loss) attributable to noncontrolling interests in consolidated subsidiaries	617	(1,700)	712	(3,214)
Net loss attributable to common shareholders	\$ (10,286)	\$ (6,017)	\$ (27,717)	\$ (17,025)
Loss per share – net loss:				
Basic:	\$ (0.74)	\$ (0.59)	\$ (2.05)	\$ (1.54)
Diluted:	(0.74)	(0.59)	(2.05)	(1.54)
Weighted average shares outstanding (in '000s):				
Basic:	13,149	13,149	13,149	13,117
Diluted:	13,149	13,149	13,149	13,117

Net Loss and Diluted Loss Per Share

In the second quarter of 2013, we incurred a net loss of \$9.7 million (\$0.74 per diluted share) compared to \$7.7 million (\$0.59 per diluted share) in the second quarter of 2012. For the six months ended June 30, 2013, we incurred a net loss of \$27.0 million (\$2.05 per diluted share) compared to \$20.2 million (\$1.54 per diluted share) for the six months ended June 30, 2012. The net loss for the three and six months ended June 30, 2013 is attributable to operating losses in Insurance Underwriting, corporate general expenses, interest expense, other-than-temporary impairment loss, impairment of asset held for sale and change in fair value of debt. The net loss for the three and six months ended June 30, 2012 is due to operating losses in Insurance Underwriting, corporate general expenses, interest expense, loss on the change in fair value of debt and equity in net loss of investee.

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

	June 30, 2013	December 31, 2012
	(unaudited)	
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost of \$71,254 and \$77,858, respectively)	\$ 72,256	\$ 79,534
Equity investments, at fair value (cost of \$27,775 and \$2,305, respectively)	31,110	3,548
Limited liability investments	2,268	2,333
Other investments, at cost which approximates fair value	3,031	2,000
Short-term investments, at cost which approximates fair value	586	585
Total investments	109,251	88,000
Cash and cash equivalents	71,351	80,813
Investment in investee	—	41,733
Accrued investment income	635	2,263
Premiums receivable, net of allowance for doubtful accounts of \$3,977 and \$4,040, respectively	34,864	35,598
Service fee receivable	19,313	15,173
Other receivables, net of allowance for doubtful accounts of \$1,002 and \$1,002, respectively	4,852	4,750
Reinsurance recoverable	15,133	8,557
Prepaid reinsurance premiums	11,835	7,316
Deferred acquisition costs, net	11,797	14,102
Property and equipment, net of accumulated depreciation of \$23,707 and \$22,887, respectively	2,159	2,709
Goodwill	9,484	8,421
Intangible assets, net of amortization of \$20,329 and \$19,263, respectively	50,569	50,583
Other assets	4,542	4,045
Asset held for sale	7,291	8,737
TOTAL ASSETS	\$ 353,076	\$ 372,800
LIABILITIES AND EQUITY		
LIABILITIES		
Unpaid loss and loss adjustment expenses:		
Property and casualty	\$ 96,703	\$ 103,116
Vehicle service agreements	3,140	3,448
Total unpaid loss and loss adjustment expenses	99,843	106,564
Unearned premiums	47,308	45,047
Reinsurance payable	7,620	4,956
LROC preferred units	14,204	13,655
Senior unsecured debentures	26,356	23,730
Subordinated debt	26,674	23,774
Deferred income tax liability	3,602	3,054
Deferred service fees	49,198	48,987
Income taxes payable	2,821	2,879
Accrued expenses and other liabilities	34,533	34,740
TOTAL LIABILITIES	\$ 312,159	\$ 307,386
EQUITY		
Common stock, no par value; unlimited number authorized; 13,148,971 issued and outstanding at June 30, 2013 and December 31, 2012	\$ 296,621	\$ 296,621
Additional paid-in capital	15,824	15,757
Accumulated deficit	(289,784)	(262,069)
Accumulated other comprehensive income	16,862	14,762
Shareholders' equity attributable to common shareholders	39,523	65,071
Noncontrolling interests in consolidated subsidiaries	1,394	343
TOTAL EQUITY	40,917	65,414
TOTAL LIABILITIES AND EQUITY	\$ 353,076	\$ 372,800

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 the proposed rights offering. For information identifying 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 2012 Annual Report on Form 10-K and its Quarterly Report on Form 10-Q for the quarter ended June 30, 2013. 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, 2013.

Additional Information

Additional information about Kingsway, including a copy of its 2012 Annual Report and its Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, 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.