



Kingsway Reports Fourth Quarter and Year-End Results

Toronto, Ontario (March 22, 2013) – (TSX: KFS, NYSE: KFS) Kingsway Financial Services Inc. ("Kingsway" or the "Company") today announced its financial results for the fourth quarter and year ended December 31, 2012. All amounts are in U.S. dollars unless indicated otherwise.

The Company reported a net loss of \$13.0 million, or a loss of \$0.99 per diluted share, for the fourth quarter and a net loss of \$53.3 million, or a loss of \$4.05 per diluted share, for the year. The book value has decreased from \$8.90 per share at December 31, 2011 to \$4.97 per share at December 31, 2012. The Company also carries a valuation allowance, in the amount of \$20.20 per share at December 31, 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 fourth quarter of 2012:

Operational results

- Net operating loss of \$5.7 million was recorded in the Insurance Underwriting segment for the fourth quarter (\$29.5 million year to date).
- Net operating income of \$0.6 million was recorded in the Insurance Services segment for the fourth quarter (\$3.5 million year to date).
- Net investment income and realized gains of \$0.5 million were recorded for the fourth quarter (\$4.3 million year to date).
- Other-than-temporary impairment loss of \$2.2 million was recorded for the fourth quarter (\$2.7 million year to date).
- Net loss of \$6.2 million not allocated to any segment was recorded in the fourth quarter (\$28.9 million year to date). This includes gain on change in fair value of debt of \$0.7 million (loss of \$9.2 million year to date); equity in net income of investee of \$1.1 million (loss of \$1.0 million year to date); and interest expense of \$1.2 million (\$4.5 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 fourth quarter and year ended December 31, 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 automobile property and casualty insurance business operations. Specific to Insurance Underwriting, during the fourth quarter of 2012, the Company began taking steps to place all of Kingsway Amigo Insurance Company, one of the Company's property and casualty insurance subsidiaries, into voluntary run-off. On November 19, 2012, the Florida Office of Insurance Regulation ("OIR") approved Amigo's plan to withdraw from the business of offering commercial lines insurance in Florida. On January 30, 2013, the OIR approved Amigo's plan to withdraw from the business of offering personal lines insurance in Florida. Kingsway has commenced discussions with the OIR to outline plans for Amigo's run-off. Any comprehensive run-off plan would be subject to OIR approval.

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)

| | Years ended December 31, | |
|--|--------------------------|--------------------|
| | 2012 | 2011 |
| Revenue: | | |
| Net premiums earned | \$ 114,937 | \$ 156,382 |
| Service fee and commission income | 35,491 | 31,607 |
| Net investment income | 3,179 | 4,083 |
| Net realized gains | 1,084 | 1,095 |
| Other-than-temporary impairment loss | (2,703) | — |
| (Loss) gain on change in fair value of debt | (9,234) | 25,876 |
| Other income | 7,617 | 9,504 |
| Total revenues | 150,371 | 228,547 |
| Expenses: | | |
| Loss and loss adjustment expenses | 100,184 | 143,145 |
| Commissions and premium taxes | 15,422 | 24,305 |
| General and administrative expenses | 73,931 | 77,936 |
| Restructuring expense | 1,980 | — |
| Interest expense | 7,638 | 7,478 |
| Amortization of intangible assets | 959 | 73 |
| Goodwill impairment | — | 2,830 |
| Total expenses | 200,114 | 255,767 |
| Loss before gain on buy-back of debt, equity in net (loss) income of investee and income tax expense (benefit) | (49,743) | (27,220) |
| Gain on buy-back of debt | 500 | 556 |
| Equity in net (loss) income of investee | (1,018) | 417 |
| Loss from continuing operations before income tax expense (benefit) | (50,261) | (26,247) |
| Income tax expense (benefit) | 3,017 | (169) |
| Loss from continuing operations | (53,278) | (26,078) |
| Loss on disposal of discontinued operations, net of taxes | — | (1,293) |
| Net loss | \$ (53,278) | \$ (27,371) |
| Less: net loss attributable to noncontrolling interests in consolidated subsidiaries | (1,195) | (7,233) |
| Net loss attributable to common shareholders | \$ (52,083) | \$ (20,138) |
| Loss per share - continuing operations: | | |
| Basic: | \$ (4.05) | \$ (1.99) |
| Diluted: | \$ (4.05) | \$ (1.99) |
| Loss per share – net loss: | | |
| Basic: | \$ (4.05) | \$ (2.09) |
| Diluted: | \$ (4.05) | \$ (2.09) |
| Weighted average shares outstanding (in '000s): | | |
| Basic: | 13,149 | 13,086 |
| Diluted: | 13,149 | 13,086 |

Loss from Continuing Operations and Diluted Loss Per Share

In the fourth quarter of 2012, the Company reported a loss from continuing operations of \$13.0 million (\$0.99 per diluted share) compared to \$10.6 million (\$0.81 per diluted share) in the fourth quarter of 2011. For the year ended December 31, 2012, the Company reported a loss from continuing operations of \$53.3 million (\$4.05 per diluted share) compared to \$26.1 million (\$1.99 per diluted share) for the same period in 2011. The loss from continuing operations for the three months and year ended December 31, 2012 is attributable to operating losses in Insurance Underwriting, corporate general expenses, interest expense and, specific to the year ended December 31, 2012, loss on the change in fair value of debt. The loss from continuing operations for the three months and year ended December 31, 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.

Loss on Disposal of Discontinued Operations

For the fourth quarter and year ended December 31, 2012, the Company reported no loss on disposal of discontinued operations, compared to a loss of zero and \$1.3 million for the fourth quarter and year ended December 31, 2011, respectively.

Net Loss and Loss Per Share – Net Loss

In the fourth quarter of 2012, the Company reported a net loss of \$13.0 million (\$0.99 per diluted share) compared to \$10.6 million (\$0.81 per diluted share) in the fourth quarter of 2011. For the year ended December 31, 2012, the Company reported a net loss of \$53.3 million (\$4.05 per diluted share) compared to \$27.4 million (\$2.09 per diluted share) for the year ended December 31, 2011.

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

| | December 31, 2012 | December 31, 2011 |
|--|-------------------|-------------------|
| ASSETS | | |
| Investments: | | |
| Fixed maturities, at fair value (amortized cost of \$77,858 and \$91,344, respectively) | \$ 79,534 | \$ 93,651 |
| Equity investments, at fair value (cost of \$2,305 and \$2,689, respectively) | 3,548 | 2,960 |
| Limited liability investments | 2,333 | 97 |
| Other investments, at cost which approximates fair value | 2,000 | 488 |
| Short-term investments, at cost which approximates fair value | 585 | 20,334 |
| Total investments | 88,000 | 117,530 |
| Cash and cash equivalents | 80,813 | 85,486 |
| Investment in investee | 41,733 | 48,592 |
| Accrued investment income | 2,263 | 1,999 |
| Premiums receivable, net of allowance for doubtful accounts of \$4,040 and \$3,653, respectively | 35,598 | 28,732 |
| Service fee receivable | 15,173 | 12,947 |
| Other receivables, net of allowance for doubtful accounts of \$1,002 and \$806, respectively | 4,750 | 6,322 |
| Reinsurance recoverable | 8,557 | 697 |
| Prepaid reinsurance premiums | 7,316 | 2,024 |
| Deferred acquisition costs, net | 14,102 | 8,116 |
| Income taxes recoverable | — | 8,134 |
| Property and equipment, net of accumulated depreciation of \$22,887 and \$27,736, respectively | 2,709 | 13,040 |
| Goodwill | 8,421 | 510 |
| Intangible assets, net of amortization of \$19,263 and \$18,304, respectively | 50,583 | 39,121 |
| Other assets | 4,045 | 831 |
| Asset held for sale | 8,737 | — |
| TOTAL ASSETS | \$ 372,800 | \$ 374,081 |
| LIABILITIES AND EQUITY | | |
| LIABILITIES | | |
| Unpaid loss and loss adjustment expenses: | | |
| Property and casualty | \$ 103,116 | \$ 120,258 |
| Vehicle service agreements | 3,448 | — |
| Total unpaid loss and loss adjustment expenses | 106,564 | 120,258 |
| Unearned premiums | 45,047 | 39,423 |
| Reinsurance payable | 4,956 | 1,913 |
| LROC preferred units | 13,655 | 8,845 |
| Senior unsecured debentures | 23,730 | 28,337 |
| Subordinated debt | 23,774 | 16,432 |
| Deferred income tax liability | 3,054 | 2,653 |
| Notes payable | — | 2,418 |
| Deferred service fees | 48,987 | 11,128 |
| Income taxes payable | 2,879 | — |
| Accrued expenses and other liabilities | 34,740 | 26,269 |
| TOTAL LIABILITIES | \$ 307,386 | \$ 257,676 |
| EQUITY | | |
| Common stock, no par value; unlimited number authorized; 13,148,971 and 13,086,471 issued and outstanding at December 31, 2012 and December 31, 2011, respectively | \$ 296,621 | \$ 296,489 |
| Additional paid-in capital | 15,757 | 15,403 |
| Accumulated deficit | (262,069) | (201,208) |
| Accumulated other comprehensive income | 14,762 | 12,749 |
| Shareholders' equity attributable to common shareholders | 65,071 | 123,433 |
| Noncontrolling interests in consolidated subsidiaries | 343 | (7,028) |
| TOTAL EQUITY | 65,414 | 116,405 |
| TOTAL LIABILITIES AND EQUITY | \$ 372,800 | \$ 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, please refer to the section entitled “Risk Factors” in the Company’s 2012 Annual Report. 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 2012 Annual Report.

Additional Information

Additional information about Kingsway, including a copy of its 2012 Annual Report, 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.