



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.