



## **Kingsway Reports First Quarter Results**

Toronto, Ontario (May 10, 2013) – (TSX: KFS, NYSE: KFS) Kingsway Financial Services Inc. ("Kingsway" or the "Company") today announced its financial results for the first quarter ended March 31, 2013. All amounts are in U.S. dollars unless indicated otherwise.

The Company reported a net loss of \$17.3 million, or a loss of \$1.32 per diluted share, for the first quarter. The book value has decreased from \$4.97 per share at December 31, 2012 to \$3.63 per share at March 31, 2013. The Company also carries a valuation allowance, in the amount of \$20.75 per share at March 31, 2013, against the deferred tax asset, primarily related to its loss carryforwards.

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

### **Operational results**

- Net operating loss of \$4.5 million was recorded in the Insurance Underwriting segment for the first quarter.
- Net operating income of \$1.3 million was recorded in the Insurance Services segment for the first quarter.
- Net investment income of \$0.6 million was recorded for the first quarter.
- Net realized losses of \$1.4 million, inclusive of the \$1.7 million loss recorded on the Company's sale of Atlas Financial Holdings Inc. ("Atlas") common stock as more fully described below, were recorded for the first quarter.
- Net loss of \$13.3 million not allocated to any segment was recorded in the first quarter. This includes loss on change in fair value of debt of \$9.0 million; equity in net income of investee of \$0.3 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 ended March 31, 2013.

On February 12, 2013, the Company executed an underwriting agreement to sell 2,625,000 shares of Atlas common stock. The shares were being offered as part of Atlas' United States initial public offering at a price per share of \$5.85. The Company received net proceeds of \$13.6 million and recognized a loss of \$1.7 million, resulting from commissions and other expenses incurred as part of the sale, during the first quarter.

### **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 March 31,	
	2013	2012
<b>Revenue:</b>		
Net premiums earned	\$ 28,068	\$ 29,267
Service fee and commission income	13,124	9,529
Net investment income	580	826
Net realized (losses) gains	(1,409)	273
Loss on change in fair value of debt	(8,951)	(4,331)
Other income	2,218	1,083
<b>Total revenues</b>	<b>33,630</b>	<b>36,647</b>
<b>Expenses:</b>		
Loss and loss adjustment expenses	21,831	21,775
Commissions and premium taxes	6,712	4,419
General and administrative expenses	19,759	18,801
Restructuring expense	780	—
Interest expense	1,833	1,849
Amortization of intangible assets	558	—
<b>Total expenses</b>	<b>51,473</b>	<b>46,844</b>
Loss before loss on buy-back of debt, equity in net income (loss) of investee and income tax (benefit) expense	(17,843)	(10,197)
Loss on buy-back of debt	(24)	—
Equity in net income (loss) of investee	255	(2,266)
Loss before income tax (benefit) expense	(17,612)	(12,463)
Income tax (benefit) expense	(276)	59
<b>Net loss</b>	<b>(17,336)</b>	<b>(12,522)</b>
Less: net income (loss) attributable to noncontrolling interests in consolidated subsidiaries	95	(1,514)
<b>Net loss attributable to common shareholders</b>	<b>\$ (17,431)</b>	<b>\$ (11,008)</b>
<b>Loss per share – net loss:</b>		
Basic:	\$ (1.32)	\$ (0.96)
Diluted:	(1.32)	(0.96)
<b>Weighted average shares outstanding (in '000s):</b>		
Basic:	13,149	13,102
Diluted:	13,149	13,102

**Net Loss and Diluted Loss Per Share**

In the first quarter of 2013, the Company reported a net loss of \$17.3 million (\$1.32 per diluted share) compared to \$12.5 million (\$0.96 per diluted share) in the first quarter of 2012. The net loss for the three months ended March 31, 2013 is attributable to operating losses in Insurance Underwriting, corporate general expenses, interest expense and loss on the change in fair value of debt. The net loss for the three months ended March 31, 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)

	March 31, 2013	December 31, 2012
	(unaudited)	
<b>ASSETS</b>		
Investments:		
Fixed maturities, at fair value (amortized cost of \$69,626 and \$77,858, respectively)	\$ 71,010	\$ 79,534
Equity investments, at fair value (cost of \$2,024 and \$2,305, respectively)	3,304	3,548
Limited liability investments	1,476	2,333
Other investments, at cost which approximates fair value	2,000	2,000
Short-term investments, at cost which approximates fair value	586	585
Total investments	78,376	88,000
Cash and cash equivalents	90,821	80,813
Investment in investee	26,526	41,733
Accrued investment income	1,356	2,263
Premiums receivable, net of allowance for doubtful accounts of \$3,880 and \$4,040, respectively	39,968	35,598
Service fee receivable	16,889	15,173
Other receivables, net of allowance for doubtful accounts of \$1,002 and \$1,002, respectively	4,435	4,750
Reinsurance recoverable	14,665	8,557
Prepaid reinsurance premiums	10,238	7,316
Deferred acquisition costs, net	12,685	14,102
Property and equipment, net of accumulated depreciation of \$23,332 and \$22,887, respectively	2,448	2,709
Goodwill	9,105	8,421
Intangible assets, net of amortization of \$19,821 and \$19,263, respectively	50,025	50,583
Other assets	3,974	4,045
Asset held for sale	8,737	8,737
<b>TOTAL ASSETS</b>	<b>\$ 370,248</b>	<b>\$ 372,800</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Unpaid loss and loss adjustment expenses:		
Property and casualty	\$ 97,923	\$ 103,116
Vehicle service agreements	3,281	3,448
Total unpaid loss and loss adjustment expenses	101,204	106,564
Unearned premiums	52,116	45,047
Reinsurance payable	10,637	4,956
LROC preferred units	14,903	13,655
Senior unsecured debentures	25,888	23,730
Subordinated debt	28,781	23,774
Deferred income tax liability	3,322	3,054
Deferred service fees	48,813	48,987
Income taxes payable	2,827	2,879
Accrued expenses and other liabilities	34,038	34,740
<b>TOTAL LIABILITIES</b>	<b>\$ 322,529</b>	<b>\$ 307,386</b>
<b>EQUITY</b>		
Common stock, no par value; unlimited number authorized; 13,148,971 issued and outstanding at March 31, 2013 and December 31, 2012	\$ 296,621	\$ 296,621
Additional paid-in capital	15,757	15,757
Accumulated deficit	(279,501)	(262,069)
Accumulated other comprehensive income	14,433	14,762
Shareholders' equity attributable to common shareholders	47,310	65,071
Noncontrolling interests in consolidated subsidiaries	409	343
<b>TOTAL EQUITY</b>	<b>47,719</b>	<b>65,414</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 370,248</b>	<b>\$ 372,800</b>

## **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, 2012 (“2012 Annual Report”) and its Quarterly Report on Form 10-Q for the quarter ended March 31, 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 March 31, 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 March 31, 2013, 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).