



## Kingsway Reports Third Quarter Results

Toronto, Ontario (November 7, 2013) - (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, 2013. All amounts are in U.S. dollars unless indicated otherwise.

The Company reported third quarter net income of \$1.6 million (loss of \$25.4 million year to date), or earnings of \$0.12 (loss of \$1.91 year to date) per diluted share. The book value has decreased from \$4.97 per share at December 31, 2012 to \$2.99 per share at September 30, 2013. The Company also carries a valuation allowance, in the amount of \$16.87 per share at September 30, 2013, against the deferred tax asset, primarily related to its loss carryforwards.

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

### Operational results

- Net operating loss of \$4.9 million was recorded in the Insurance Underwriting segment for the third quarter (\$14.6 million year to date).
- Net operating loss of \$0.9 million was recorded in the Insurance Services segment for the third quarter (income of \$0.4 million year to date).
- Net investment income of \$0.5 million was recorded for the third quarter (\$1.9 million year to date).
- Net realized gains of \$0.3 million (net realized losses of \$1.1 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 \$0.6 million not allocated to any segment was recorded in the third quarter (loss of \$19.2 million year to date). This includes gain on change in fair value of debt of \$3.8 million (loss of \$2.8 million year to date); interest expense of \$1.1 million related to the Company's subordinated debt and currently being deferred (\$3.4 million year to date); other-than-temporary impairment loss of zero (\$1.8 million year to date); and impairment of asset held for sale of zero (\$1.4 million year to date). None of these four items impacted the Company's cash flows during the third quarter and nine months ended September 30, 2013.
- Net gain of \$7.2 million was recorded for the third quarter and year to date related to liquidations of subsidiaries, as further discussed below.

### Subsequent Events

- Approval of Business Plan by NYSE

The Company received a notice on October 8, 2013 from the New York Stock Exchange ("NYSE") indicating that the Company's business plan was accepted. As the Company previously announced in a press release dated June 11, 2013, it had received notice that it was not in compliance with certain NYSE standards for continued listing of its common shares. Specifically, the Company is below the continued listing criteria relating to its average total market capitalization over a recent 30 consecutive trading day period as well as its reported shareholders' equity. Under the NYSE's continued listing criteria, a NYSE-listed company must maintain average market capitalization of not less than \$50 million over a 30 consecutive trading day period or reported shareholders' equity of not less than \$50 million.

To maintain its NYSE listing, the Company was afforded the opportunity to submit a business plan and did so on September 5, 2013. The Company will be subject to periodic review by the NYSE for compliance with goals and initiatives outlined in the plan.

The notice from the NYSE does not impact the Company's listing on the Toronto Stock Exchange ("TSX,") and its common shares will continue to be listed and traded on the TSX, subject to compliance with TSX continued listing standards.

- Partial Early Redemption of Notes

On October 15, 2013, the Company completed a partial, early redemption of its outstanding 7.5% senior unsecured debentures due February 1, 2014 (the "Notes"). The Company used the proceeds from its recent rights offering to partially redeem the Notes which are the obligations of the Company's subsidiary, Kingsway America Inc., and of which the Company is a guarantor. The partial early redemption was completed in the amount of \$12.0 million at

par plus accrued interest of \$0.2 million, resulting in an aggregate principal amount of \$14.4 million of Notes to remain outstanding.

### **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 September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
<b>Revenue:</b>				
Net premiums earned	\$ 26,041	\$ 26,501	\$ 82,406	\$ 86,753
Service fee and commission income	12,156	7,648	37,332	25,315
Net investment income	528	777	1,924	2,400
Net realized gains (losses)	321	1,109	(1,056)	1,359
Other-than-temporary impairment loss	—	—	(1,800)	(488)
Gain (loss) on change in fair value of debt	3,801	(3,177)	(2,812)	(9,926)
Other income	2,604	1,940	6,996	5,767
<b>Total revenues</b>	<b>45,451</b>	<b>34,798</b>	<b>122,990</b>	<b>111,180</b>
<b>Expenses:</b>				
Loss and loss adjustment expenses	21,343	33,348	67,789	78,739
Commissions and premium taxes	6,683	2,458	18,566	11,624
General and administrative expenses	20,136	16,819	60,184	52,774
Restructuring expense	223	1,972	1,150	1,972
Interest expense	1,808	1,887	5,568	5,652
Amortization of intangible assets	508	—	1,574	—
Impairment of asset held for sale	—	—	1,446	—
<b>Total expenses</b>	<b>50,701</b>	<b>56,484</b>	<b>156,277</b>	<b>150,761</b>
Loss from continuing operations before (loss) gain on buy-back of debt, equity in net income (loss) of investee and income tax expense (benefit)	(5,250)	(21,686)	(33,287)	(39,581)
(Loss) gain on buy-back of debt	—	500	(24)	500
Equity in net income (loss) of investee	—	98	255	(2,071)
Loss from continuing operations before income tax expense (benefit)	(5,250)	(21,088)	(33,056)	(41,152)
Income tax expense (benefit)	403	(1,054)	(398)	(879)
Loss from continuing operations	(5,653)	(20,034)	(32,658)	(40,273)
Gain on liquidation of subsidiaries, net of taxes	7,227	—	7,227	—
Net income (loss)	1,574	(20,034)	(25,431)	(40,273)
Less: net (loss) income attributable to noncontrolling interests in consolidated subsidiaries	(305)	(1,165)	407	(1,888)
Net income (loss) attributable to common shareholders	\$ 1,879	\$ (18,869)	\$ (25,838)	\$ (38,385)
<b>Loss per share - continuing operations:</b>				
Basic:	\$ (0.41)	\$ (1.52)	\$ (2.45)	\$ (3.07)
Diluted:	(0.41)	(1.52)	(2.45)	(3.07)
<b>Earnings (loss) per share – net income (loss):</b>				
Basic:	\$ 0.12	\$ (1.52)	\$ (1.91)	\$ (3.07)
Diluted:	0.12	(1.52)	(1.91)	(3.07)
<b>Weighted average shares outstanding (in '000s):</b>				
Basic:	13,684	13,149	13,329	13,133
Diluted:	13,684	13,149	13,329	13,133

### **Loss from Continuing Operations and Diluted Loss Per Share - Continuing Operations**

In the third quarter of 2013, the Company reported a loss from continuing operations of \$5.6 million (\$32.6 million year to date) compared to \$20.0 million (\$40.3 million prior year to date) in the third quarter of 2012. Diluted loss from continuing operations per share was \$0.41 (\$2.45 year to date) compared to diluted loss from continuing operations per share of \$1.52 (\$3.07 prior year to date). The loss from continuing operations for the quarter ended September 30, 2013 is attributable to operating losses in Insurance Underwriting and Insurance Services, corporate general expenses, and interest expense, offset by a gain on the change in fair value of debt. The loss from continuing operations for the nine months ended September 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 loss from continuing operations for the quarter and the nine months ended September 30, 2012 is due to operating losses in Insurance Underwriting, corporate general expenses, interest expense and loss on change in fair value of debt.

### **Gain on Liquidation of Subsidiaries**

In the third quarter of 2013, the Company reported a net gain of \$7.2 million (\$7.2 million year to date) from the liquidation of the Company's subsidiaries, Kingsway Reinsurance (Bermuda) Ltd. ("KRL") and Kingsway 2007 General Partnership ("2007 GP"). The net gain reported in the statement of operations is the result of the removal of the foreign exchange gain previously recorded in the accumulated other comprehensive income component of shareholders' equity. The liquidations had zero net impact on the Company's consolidated shareholders' equity at September 30, 2013.

### **Net Income (Loss) and Diluted Income (Loss) Per Share – Net Income (Loss)**

In the third quarter of 2013, the Company reported net income of \$1.6 million (\$25.4 million year to date) compared to net loss of \$20.0 million (\$40.3 million prior year to date) in the third quarter of 2012. Diluted earnings per share were \$0.12 (loss of \$1.91 year to date) compared to diluted loss per share of \$1.52 (\$3.07 prior year to date).

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

	September 30, 2013	December 31, 2012
	(unaudited)	
<b>ASSETS</b>		
Investments:		
Fixed maturities, at fair value (amortized cost of \$64,362 and \$77,858, respectively)	\$ 65,275	\$ 79,534
Equity investments, at fair value (cost of \$11,520 and \$2,305, respectively)	16,523	3,548
Limited liability investments	2,579	2,333
Other investments, at cost which approximates fair value	3,107	2,000
Short-term investments, at cost which approximates fair value	586	585
Total investments	88,070	88,000
Cash and cash equivalents	86,037	80,813
Investment in investee	—	41,733
Accrued investment income	708	2,263
Premiums receivable, net of allowance for doubtful accounts of \$4,054 and \$4,040, respectively	33,536	35,598
Service fee receivable	17,227	15,173
Other receivables, net of allowance for doubtful accounts of \$1,002 and \$1,002, respectively	12,668	4,750
Reinsurance recoverable	15,308	8,557
Prepaid reinsurance premiums	8,260	7,316
Deferred acquisition costs, net	10,691	14,102
Property and equipment, net of accumulated depreciation of \$24,100 and \$22,887, respectively	1,952	2,709
Goodwill	9,484	8,421
Intangible assets, net of amortization of \$20,837 and \$19,263, respectively	50,061	50,583
Other assets	4,073	4,045
Asset held for sale	7,291	8,737
<b>TOTAL ASSETS</b>	<b>\$ 345,366</b>	<b>\$ 372,800</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Unpaid loss and loss adjustment expenses:		
Property and casualty	\$ 89,986	\$ 103,116
Vehicle service agreements	2,882	3,448
Total unpaid loss and loss adjustment expenses	92,868	106,564
Unearned premiums	47,846	45,047
Reinsurance payable	4,235	4,956
LROC preferred units	14,286	13,655
Senior unsecured debentures	26,356	23,730
Subordinated debt	22,790	23,774
Deferred income tax liability	3,882	3,054
Deferred service fees	49,242	48,987
Income taxes payable	2,944	2,879
Accrued expenses and other liabilities	31,829	34,740
<b>TOTAL LIABILITIES</b>	<b>\$ 296,278</b>	<b>\$ 307,386</b>
<b>EQUITY</b>		
Common stock, no par value; unlimited number authorized; 16,429,761 and 13,148,971 issued and outstanding at September 30, 2013 and December 31, 2012, respectively	\$ 308,734	\$ 296,621
Additional paid-in capital	15,955	15,757
Accumulated deficit	(287,906)	(262,069)
Accumulated other comprehensive income	11,222	14,762
Shareholders' equity attributable to common shareholders	48,005	65,071
Noncontrolling interests in consolidated subsidiaries	1,083	343
<b>TOTAL EQUITY</b>	<b>49,088</b>	<b>65,414</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 345,366</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. 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 September 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 September 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 September 30, 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).