



KINGSWAY ANNOUNCES SECOND QUARTER 2014 RESULTS

Toronto, Ontario (August 8, 2014) - (TSX: KFS, NYSE: KFS) Kingsway Financial Services Inc. (“Kingsway” or the “Company”) today announced its operating results for the second quarter and six months ended June 30, 2014. All amounts are in U.S. dollars unless indicated otherwise.

Management Comments

Larry G. Swets, Jr., the Company’s President and Chief Executive Officer, stated, “We are pleased to report another quarterly result which we believe demonstrates evidence that Kingsway has turned the corner as we discussed in our shareholder letter. Our Insurance Underwriting segment again reported an underwriting profit, and our adjusted operating income continues to build a foundation for further value creation. Specifically, we reported a \$5.0 million realized gain during the quarter in our portfolio of passive securities.

Mr. Swets continued, “Also consistent with our merchant banking strategy, during the quarter we completed our previously announced initial public offering of 1347 Capital Corp., a special purpose acquisition company formed to enter into a business combination with another business. This transaction is another example of how we intend to find ways to create value for our shareholders.”

Operating Results

The Company reported net loss of \$5.5 million for the second quarter of 2014 (\$6.5 million year to date), compared to net loss of \$9.7 million for the prior-year period (\$27.0 million prior year to date). The Company also reported adjusted operating income, a non-U.S. GAAP measure defined below, of \$7.1 million for the second quarter of 2014 (\$9.8 million year to date), compared to adjusted operating loss of \$3.2 million for the prior-year period (\$3.4 million prior year to date). The Company looks at adjusted operating income (loss) as a way of assessing the profitability and progress of the subsidiaries in its Insurance Underwriting and Insurance Services segments as well as the performance of its portfolio of passive securities in its Insurance Underwriting segment.

Following are highlights of Kingsway’s second quarter of 2014:

- The Insurance Underwriting segment recorded operating income of \$0.3 million for the second quarter of 2014 (\$0.6 million year to date), compared to operating loss of \$4.5 million in the prior-year period (\$7.6 million prior year to date).
- The Insurance Services segment recorded operating income of \$1.2 million for the second quarter of 2014 (\$3.1 million year to date), compared to operating income of \$0.5 million in the prior-year period (\$2.4 million prior year to date).
- Net investment income of \$0.3 million was recorded in the second quarter of 2014 (\$0.8 million year to date), compared to \$0.8 million in the prior-year period (\$1.4 million prior year to date).
- Net realized gains of \$5.1 million were recorded in the second quarter of 2014 (\$5.1 million year to date), compared to net realized gains of \$0.0 million in the prior-year period (net realized losses of \$1.4 million prior year to date).
- Net loss of \$12.4 million not allocated to any segment was recorded in the second quarter of 2014 (\$16.1 million year to date), compared to net loss of \$6.5 million in the prior-year period (\$21.8 million prior year to date). The 2014 result includes loss on change in fair value of debt of \$7.8

million (\$7.2 million year to date), compared to gain on change in fair value of debt of \$2.3 million in the prior-year period (loss of \$6.6 million prior year to date).

- Book value has increased to \$2.32 per share at June 30, 2014 from \$2.25 per share at December 31, 2013. The Company also carries a valuation allowance, in the amount of \$17.43 per share at June 30, 2014, against the deferred tax asset, primarily related to its loss carryforwards.

For a detailed discussion of Kingsway's earnings for the second quarter and six months ended June 30, 2014, as well as other important information, please refer to the Company's Quarterly Report on Form 10-Q filed with the U.S. Securities and Exchange Commission on August 8, 2014. Kingsway's Annual Letter to Shareholders may be accessed at the Company's website or directly at <http://bit.ly/kfs2013>.

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)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Revenues:				
Net premiums earned	\$ 28,755	\$ 28,297	\$ 60,675	\$ 56,365
Service fee and commission income	13,926	12,052	28,650	25,176
Net investment income	341	816	754	1,396
Net realized gains (losses)	5,091	32	5,130	(1,377)
Other-than-temporary impairment loss	—	(1,800)	—	(1,800)
Other income	2,467	2,174	4,538	4,392
Total revenues	50,580	41,571	99,747	84,152
Expenses:				
Loss and loss adjustment expenses	21,794	24,615	42,855	46,446
Commissions and premium taxes	5,532	5,171	12,085	11,883
Cost of services sold	937	146	1,793	146
General and administrative expenses	17,625	19,988	36,149	39,592
Restructuring expense	(54)	147	(34)	927
Interest expense	1,364	1,927	2,797	3,760
Amortization of intangible assets	409	508	823	1,066
Contingent consideration expense	267	155	534	310
Impairment of asset held for sale	1,180	1,446	1,180	1,446
Total expenses	49,054	54,103	98,182	105,576
Income (loss) before (loss) gain on change in fair value of debt, loss on disposal of subsidiary, loss on buy-back of debt, equity in net income of investee and income tax benefit	1,526	(12,532)	1,565	(21,424)
(Loss) gain on change in fair value of debt	(7,799)	2,338	(7,236)	(6,613)
Loss on disposal of subsidiary	—	—	(1,242)	—
Loss on buy-back of debt	—	—	—	(24)
Equity in net income of investee	—	—	—	255
Loss before income tax benefit	(6,273)	(10,194)	(6,913)	(27,806)
Income tax benefit	(799)	(525)	(433)	(801)
Net loss	(5,474)	(9,669)	(6,480)	(27,005)
Less: net (loss) income attributable to noncontrolling interests in consolidated subsidiaries	(558)	617	95	712
Less: dividends on preferred stock	82	—	135	—
Net loss attributable to common shareholders	\$ (4,998)	\$ (10,286)	\$ (6,710)	\$ (27,717)
Loss per share – net loss attributable to common shareholders:				
Basic:	\$ (0.30)	\$ (0.78)	\$ (0.41)	\$ (2.11)
Diluted:	(0.30)	(0.78)	(0.41)	(2.11)
Weighted average shares outstanding (in '000s):				
Basic:	16,430	13,149	16,430	13,149
Diluted:	16,430	13,149	16,430	13,149

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

	June 30, 2014	December 31, 2013
	(unaudited)	
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost of \$51,196 and \$53,455, respectively)	\$ 51,784	\$ 54,151
Equity investments, at fair value (cost of \$12,356 and \$3,554, respectively)	16,707	7,137
Limited liability investments	6,935	4,406
Other investments, at cost which approximates fair value	2,000	3,000
Short-term investments, at cost which approximates fair value	401	501
Total investments	77,827	69,195
Cash and cash equivalents	67,520	98,589
Accrued investment income	980	614
Premiums receivable, net of allowance for doubtful accounts of \$1,889 and \$2,123, respectively	30,044	32,035
Service fee receivable, net of allowance for doubtful accounts of \$245 and \$0, respectively	23,489	19,012
Other receivables, net of allowance for doubtful accounts of \$1,061 and \$1,062, respectively	9,450	4,097
Reinsurance recoverable	5,852	10,335
Prepaid reinsurance premiums	102	6,816
Deferred acquisition costs, net	12,625	12,392
Property and equipment, net of accumulated depreciation of \$16,160 and \$15,848, respectively	1,421	1,662
Goodwill	10,588	10,588
Intangible assets, net of accumulated amortization of \$19,406 and \$18,583, respectively	48,095	48,918
Other assets	3,909	4,039
Asset held for sale	5,167	6,347
Total Assets	\$ 297,069	\$ 324,639
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid loss and loss adjustment expenses:		
Property and casualty	\$ 72,658	\$ 84,534
Vehicle service agreements	3,052	3,128
Total unpaid loss and loss adjustment expenses	75,710	87,662
Unearned premiums	38,176	48,577
Reinsurance payable	96	1,033
LROC preferred units, at fair value	14,806	14,854
Senior unsecured debentures, at fair value	—	14,356
Subordinated debt, at fair value	35,754	28,471
Deferred income tax liability	4,738	4,173
Deferred service fees	50,277	48,788
Income taxes payable	246	2,984
Accrued expenses and other liabilities	39,143	36,821
Total Liabilities	\$ 258,946	\$ 287,719
Shareholders' Equity:		
Class A preferred stock, no par value; unlimited number authorized; 262,876 and zero issued and outstanding at June 30, 2014 and December 31, 2013, respectively	\$ 6,343	\$ —
Common stock, no par value; unlimited number authorized; 16,429,761 and 16,429,761 issued and outstanding at June 30, 2014 and December 31, 2013, respectively	—	—
Additional paid-in capital	325,631	324,803
Accumulated deficit	(305,636)	(298,930)
Accumulated other comprehensive income	10,366	9,601
Shareholders' equity attributable to common shareholders	36,704	35,474
Noncontrolling interests in consolidated subsidiaries	1,419	1,446
Total Shareholders' Equity	38,123	36,920
Total Liabilities and Shareholders' Equity	\$ 297,069	\$ 324,639

Non-U.S. GAAP Financial Measures

Operating Income (Loss)

Operating income (loss) represents one measure of the pretax profitability of Kingsway's segments and is derived by subtracting direct segment expenses from direct segment revenues. 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, 2014 for a detailed description of this non-U.S. GAAP measure.

Adjusted Operating Income (Loss)

Adjusted operating income (loss) represents another measure used by the Company to assess the profitability of the Company's segments. Adjusted operating income (loss) is computed by adding to operating income (loss) the net investment income, net realized gains and depreciation attributable to Kingsway's segments. A reconciliation of operating income (loss) and adjusted operating income (loss) to net loss for the three and six months ended June 30, 2014 and 2013 is presented below:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Segment operating income (loss)	1,480	(4,001)	3,651	(5,130)
Net investment income of segments	272	429	535	709
Net realized gains of segments	5,063	32	5,102	341
Depreciation of segments	256	366	511	722
Adjusted operating income (loss)	7,071	(3,174)	9,799	(3,358)
Net investment income not included in adjusted operating income (loss)	69	387	219	687
Net realized gains (losses) not included in adjusted operating income (loss)	28	—	28	(1,718)
Other-than-temporary impairment loss	—	(1,800)	—	(1,800)
Other income and expenses not allocated to segments, net	(1,962)	(3,476)	(1,808)	(7,864)
Depreciation of segments	(256)	(366)	(511)	(722)
Stock based compensation expense, net of forfeitures	(204)	(67)	(828)	(67)
Interest expense	(1,364)	(1,927)	(2,797)	(3,760)
Amortization of intangible assets	(409)	(508)	(823)	(1,066)
Contingent consideration expense	(267)	(155)	(534)	(310)
Impairment of asset held for sale	(1,180)	(1,446)	(1,180)	(1,446)
(Loss) gain on change in fair value of debt	(7,799)	2,338	(7,236)	(6,613)
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Equity in net income of investee	—	—	—	255
Loss before income tax benefit	(6,273)	(10,194)	(6,913)	(27,806)
Income tax benefit	799	525	433	801
Net loss	(5,474)	(9,669)	(6,480)	(27,005)

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 2013 Annual Report on Form 10-K and its Quarterly Report on Form 10-Q for the quarter ended June 30, 2014. 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.

Additional Information

Additional information about Kingsway, including a copy of its 2013 Annual Report and its Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, 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.