



KINGSWAY ANNOUNCES THIRD QUARTER 2014 RESULTS

Toronto, Ontario (November 5, 2014) - (TSX: KFS, NYSE: KFS) Kingsway Financial Services Inc. (“Kingsway” or the “Company”) today announced its operating results for the third quarter and nine months ended September 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, “For the third straight quarter, your company has reported positive adjusted operating income despite the third quarter traditionally being our weakest. This result indicates momentum in our progress towards building long-term value.

Mr. Swets continued, “We also completed the redemption of our Series A Warrants, raising approximately \$14.8 million in capital for the company. This represents our third successful capital raise since September of 2013, totaling \$33.2 million of net new capital that will provide flexibility in continuing the momentum established.”

Operating Results

The Company reported net loss of \$6.1 million for the third quarter of 2014 (\$12.6 million year to date), compared to net income of \$1.6 million for the prior-year period (net loss of \$25.4 million prior year to date). The Company also reported adjusted operating income, a non-U.S. GAAP measure defined below, of \$1.5 million for the third quarter of 2014 (\$11.1 million year to date), compared to adjusted operating loss of \$4.3 million for the prior-year period (\$9.2 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.

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

- The Insurance Underwriting segment recorded operating loss of \$0.5 million for the third quarter of 2014 (income of \$0.1 million year to date), compared to operating loss of \$4.7 million in the prior-year period (loss of \$12.3 million prior year to date).
- The Insurance Services segment recorded operating income of \$1.2 million for the third quarter of 2014 (\$4.3 million year to date), compared to operating loss of \$0.3 million in the prior-year period (income of \$2.1 million prior year to date).
- Net investment income of \$0.5 million was recorded in the third quarter of 2014 (\$1.3 million year to date), compared to \$0.4 million in the prior-year period (\$1.8 million prior year to date).
- Net realized gains of \$0.3 million were recorded in the third quarter of 2014 (\$5.4 million year to date), compared to net realized gains of \$0.3 million in the prior-year period (net realized losses of \$1.1 million prior year to date).
- Net loss of \$7.6 million not allocated to any segment was recorded in the third quarter of 2014 (\$23.7 million year to date), compared to net income of \$5.9 million in the prior-year period (net loss of \$15.9 million prior year to date). The 2014 result includes loss on change in fair value of debt of \$3.0 million (\$10.2 million year to date), compared to gain on change in fair value of debt of \$3.8 million in the prior-year period (loss of \$2.8 million prior year to date). The 2013 results includes net gain of \$7.2 million recorded for the third quarter and year to date related to liquidations of subsidiaries.

- Book value has increased to \$2.35 per share at September 30, 2014 from \$2.25 per share at December 31, 2013. The Company also carries a valuation allowance, in the amount of \$14.69 per share at September 30, 2014, against the deferred tax asset, primarily related to its loss carryforwards.

For a detailed discussion of Kingsway's earnings for the third quarter and nine months ended September 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 November 5, 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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenues:				
Net premiums earned	\$ 28,418	\$ 26,041	\$ 89,093	\$ 82,406
Service fee and commission income	14,102	12,156	42,752	37,332
Net investment income	542	409	1,296	1,805
Net realized gains (losses)	329	321	5,459	(1,056)
Other-than-temporary impairment loss	—	—	—	(1,800)
Other income	2,142	2,723	6,680	7,115
Total revenues	45,533	41,650	145,280	125,802
Expenses:				
Loss and loss adjustment expenses	22,361	21,343	65,216	67,789
Commissions and premium taxes	5,738	6,683	17,823	18,566
Cost of services sold	1,544	951	3,337	1,097
General and administrative expenses	16,510	19,030	52,659	58,622
Restructuring expense	5	223	(29)	1,150
Interest expense	1,417	1,808	4,214	5,568
Amortization of intangible assets	397	508	1,220	1,574
Contingent consideration expense	267	155	801	465
Impairment of asset held for sale	—	—	1,180	1,446
Total expenses	48,239	50,701	146,421	156,277
Loss from continuing operations before (loss) gain on change in fair value of debt, loss on disposal of subsidiary, loss on buy-back of debt, equity in net (loss) income of investee and income tax expense (benefit)	(2,706)	(9,051)	(1,141)	(30,475)
(Loss) gain on change in fair value of debt	(2,963)	3,801	(10,199)	(2,812)
Loss on disposal of subsidiary	—	—	(1,242)	—
Loss on buy-back of debt	—	—	—	(24)
Equity in net (loss) income of investee	(83)	—	(83)	255
Loss from continuing operations before income tax expense (benefit)	(5,752)	(5,250)	(12,665)	(33,056)
Income tax expense (benefit)	343	403	(90)	(398)
Loss from continuing operations	(6,095)	(5,653)	(12,575)	(32,658)
Gain on liquidation of subsidiaries, net of taxes	—	7,227	—	7,227
Net (loss) income	(6,095)	1,574	(12,575)	(25,431)
Less: net income (loss) attributable to noncontrolling interests in consolidated subsidiaries	778	(305)	873	407
Less: dividends on preferred stock	83	—	218	—
Net (loss) income attributable to common shareholders	\$ (6,956)	\$ 1,879	\$ (13,666)	\$ (25,838)
Loss per share - continuing operations:				
Basic:	\$ (0.41)	\$ (0.39)	\$ (0.82)	\$ (2.48)
Diluted:	\$ (0.41)	\$ (0.39)	\$ (0.82)	\$ (2.48)
(Loss) earnings per share – net (loss) income attributable to common shareholders:				
Basic:	\$ (0.41)	\$ 0.14	\$ (0.82)	\$ (1.94)
Diluted:	\$ (0.41)	\$ 0.14	\$ (0.82)	\$ (1.94)
Weighted average shares outstanding (in '000s):				
Basic:	16,993	13,684	16,620	13,329
Diluted:	16,993	13,684	16,620	13,329

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

	September 30, 2014	December 31, 2013
	(unaudited)	
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost of \$48,355 and \$53,455, respectively)	\$ 48,648	\$ 54,151
Equity investments, at fair value (cost of \$12,344 and \$3,554, respectively)	14,932	7,137
Limited liability investments	6,997	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	72,978	69,195
Cash and cash equivalents	87,273	98,589
Investment in investee	2,222	—
Accrued investment income	884	614
Premiums receivable, net of allowance for doubtful accounts of \$2,173 and \$2,123, respectively	30,600	32,035
Service fee receivable, net of allowance for doubtful accounts of \$247 and \$0, respectively	22,243	19,012
Other receivables, net of allowance for doubtful accounts of \$1,061 and \$1,062, respectively	5,273	4,097
Reinsurance recoverable	4,003	10,335
Prepaid reinsurance premiums	55	6,816
Deferred acquisition costs, net	12,463	12,392
Property and equipment, net of accumulated depreciation of \$16,399 and \$15,848, respectively	1,261	1,662
Goodwill	10,588	10,588
Intangible assets, net of accumulated amortization of \$19,803 and \$18,583, respectively	47,698	48,918
Other assets	3,672	4,039
Asset held for sale	5,167	6,347
Total Assets	\$ 306,380	\$ 324,639
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid loss and loss adjustment expenses:		
Property and casualty	\$ 68,156	\$ 84,534
Vehicle service agreements	2,975	3,128
Total unpaid loss and loss adjustment expenses	71,131	87,662
Unearned premiums	38,396	48,577
Reinsurance payable	49	1,033
LROC preferred units, at fair value	14,106	14,854
Senior unsecured debentures, at fair value	—	14,356
Subordinated debt, at fair value	39,418	28,471
Deferred income tax liability	5,076	4,173
Deferred service fees	50,477	48,788
Income taxes payable	80	2,984
Accrued expenses and other liabilities	41,329	36,821
Total Liabilities	\$ 260,062	\$ 287,719
Shareholders' Equity:		
Class A preferred stock, no par value; unlimited number authorized; 262,876 and zero issued and outstanding at September 30, 2014 and December 31, 2013, respectively	\$ 6,330	\$ —
Common stock, no par value; unlimited number authorized; 19,709,706 and 16,429,761 issued and outstanding at September 30, 2014 and December 31, 2013, respectively	—	—
Additional paid-in capital	340,595	324,803
Accumulated deficit	(312,596)	(298,930)
Accumulated other comprehensive income	8,300	9,601
Shareholders' equity attributable to common shareholders	42,629	35,474
Noncontrolling interests in consolidated subsidiaries	3,689	1,446
Total Shareholders' Equity	46,318	36,920
Total Liabilities and Shareholders' Equity	\$ 306,380	\$ 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 September 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 and its passive investment portfolio. Adjusted operating income (loss) is comprised of operating income (loss) attributable to Kingsway's segments as well as net investment income, net realized gains (losses) and equity in net (loss) income of investee. A reconciliation of operating income (loss) and adjusted operating income (loss) to net (loss) income for the three and nine months ended September 30, 2014 and 2013 is presented below:

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Operating income (loss)	\$ 761	\$ (5,049)	\$ 4,412	\$ (10,179)
Net investment income	542	409	1,296	1,805
Net realized gains (losses)	329	321	5,459	(1,056)
Equity in net (loss) income of investee	(83)	—	(83)	255
Adjusted operating income (loss)	1,549	(4,319)	11,084	(9,175)
Other-than-temporary impairment loss	—	—	—	(1,800)
Other income and expenses not allocated to segments, net	(2,257)	(2,261)	(4,893)	(10,192)
Interest expense	(1,417)	(1,808)	(4,214)	(5,568)
Amortization of intangible assets	(397)	(508)	(1,220)	(1,574)
Contingent consideration expense	(267)	(155)	(801)	(465)
Impairment of asset held for sale	—	—	(1,180)	(1,446)
(Loss) gain on change in fair value of debt	(2,963)	3,801	(10,199)	(2,812)
Loss on disposal of subsidiary	—	—	(1,242)	—
Loss on buy-back of debt	—	—	—	(24)
Loss from continuing operations before income tax (expense) benefit	(5,752)	(5,250)	(12,665)	(33,056)
Income tax (expense) benefit	(343)	(403)	90	398
Loss from continuing operations	(6,095)	(5,653)	(12,575)	(32,658)
Gain on liquidation of subsidiaries, net of taxes	—	7,227	—	7,227
Net (loss) income	\$ (6,095)	\$ 1,574	\$ (12,575)	\$ (25,431)

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 September 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 September 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.