



## 3rd Quarter 2013 Highlights

### Summary

As of September 30, 2013:

- Third quarter 2013 net income of \$6.3 million, or \$0.32 per diluted share, compared to net income of \$3.4 million, or \$0.18 per diluted share, reported for third quarter 2012.
- Year to date net income of \$4.8 million, or \$0.25 per diluted share, compared to net income of \$1.7 million, or \$0.09 per diluted share, for the same period the prior year.
- Third quarter 2013 total revenues of \$108.6 million as compared to \$85.6 million for the third quarter of 2012.
- Year to date 2013 total revenues of \$301.1 million, up 19% from the \$253.2 million reported for the same period the prior year.

Hallmark Financial Services, Inc. - Price Change (%)



3rd Quarter September 30, 2013	2013	2012	% +/-
	(\$ in thousands, unaudited)		
Gross premiums written	123,664	99,448	24%
Net premiums written	102,889	85,005	21%
Net premiums earned	97,452	80,481	21%
Investment income, net of expenses	2,965	3,795	(22%)
Net realized gains	6,950	982	608%
Total revenues	108,613	85,620	27%
Net income <sup>(1)</sup>	6,274	3,413	84%
Net income per share - basic	\$ 0.33	\$ 0.18	83%
Net income per share - diluted	\$ 0.32	\$ 0.18	78%
Book value per share	\$ 11.94	\$ 11.37	5%
Cash flow from operations	\$ 29,487	\$ 10,965	169%

Year to Date September 30, 2013	2013	2012	% +/-
	(\$ in thousands, unaudited)		
Gross premiums written	351,278	297,658	18%
Net premiums written	296,330	255,104	16%
Net premiums earned	276,784	235,938	17%
Investment income, net of expenses	9,871	11,573	(15%)
Net realized gains	9,723	1,854	424%
Total revenues	301,053	253,177	19%
Net income <sup>(1)</sup>	4,817	1,741	177%
Net income per share - basic	\$ 0.25	\$ 0.09	178%
Net income per share - diluted	\$ 0.25	\$ 0.09	178%
Book value per share	\$ 11.94	\$ 11.37	5%
Cash flow from operations	\$ 53,520	\$ 28,187	90%

(1) Net income for each period is net income attributable to Hallmark Financial Services, Inc. as reported in the consolidated statements of operations as determined in accordance with U.S. generally accepted accounting principles (GAAP).

## From Mark Morrison, President and CEO

“Operating results for the third quarter reflect our ongoing strategy of growing existing lines of business where we can do so profitably and contracting in those where we have experienced unacceptable underwriting performance. Our year-to-date gross written premium growth of 18% is driven largely by near double-digit rate increases in our Specialty and Standard commercial segments coupled with increased insured exposures on renewal policies as a result of improving economic conditions. Our quarterly combined ratio of 98.8% reflects an improvement in current accident year underwriting profitability. While we are not yet satisfied with our overall underwriting profitability, we are confident the underwriting and pricing actions we have taken will continue to improve operating margins going forward and help us to achieve our targeted financial goals.”

## From Mark Schwarz, Executive Chairman

“Book value per share was \$11.94 at the end of the quarter, an increase of 5% over prior year and an increase of 4% over prior year end. Cash flow from operations was \$29.5 million in the third quarter, up from \$11.0 million in the third quarter of 2012. Total cash and investments have increased 12% during the year to \$603.0 million, or \$31.30 per share. Hallmark’s cash balances totaled \$160.4 million as of September 30, 2013.”

## Third Quarter 2013 Commentary

During the three and nine months ended September 30, 2013, total revenues were \$108.6 million and \$301.1 million, representing a 27% and 19% increase, respectively, from the \$85.6 million and \$253.2 million in total revenues for the same period of 2012. The growth in revenue was primarily attributable to increased premium production and resulting earned premium driven largely from the Specialty Commercial Segment and the Standard Commercial Segment. Further contributing to the increase in revenue were higher net realized gains on the investment portfolio and a lower adverse profit share commission revenue adjustment in the Standard Commercial Segment. These increases in revenue were partially offset by lower net investment income and lower year to date earned premium in the Personal Segment due mostly to the impact of discontinued products and a reduction of premium written in underperforming states.

As a result, Hallmark reported net income of \$6.3 million and \$4.8 million for the three and nine months ended September 30, 2013 as compared to net income of \$3.4 million and \$1.7 million for the same periods during 2012. On a diluted basis per share, Hallmark reported net income of \$0.32 per share for the three months ended September 30, 2013, as compared to \$0.18 per share for the same period in 2012. On a diluted basis per share, net income per share was \$0.25 for the nine months ended September 30, 2013 as compared to \$0.09 for the same period during 2012.

Hallmark’s consolidated net loss ratio was 69.9% and 74.0% for the three and nine months ended September 30, 2013 as compared to 65.7% and 71.6% for the same periods in 2012. The net loss ratios were impacted by \$0.5 million and \$8.0 million of unfavorable prior year loss reserve development for the three and nine months ended September 30, 2013 as compared to \$2.2 million and \$3.6 million of favorable prior year loss reserve development for the same periods of 2012. Also impacting the current quarter’s gross and net loss ratios was \$2.3 million of additional loss development, or 2.4% net loss ratio points, on catastrophe weather events that occurred in the first half of 2013. Hallmark’s net expense ratio was 28.9% and 29.2% for the three and nine months ended September 30, 2013 as compared to 30.1% and 30.4% for the same periods in 2012. Hallmark’s net combined ratio was 98.8% and 103.2% for the three and nine months ended September 30, 2013 as compared to 95.8% and 102.0% for the same periods in 2012.

Forward-looking statements in this release are made pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that actual results may differ substantially from such forward-looking statements. Forward-looking statements involve risks and uncertainties including, but not limited to, continued acceptance of the Company’s products and services in the marketplace, competitive factors, interest rate trends, general economic conditions, the availability of financing, underwriting loss experience and other risks detailed from time to time in the Company’s filings with the Securities and Exchange Commission.