



3rd Quarter 2014 Highlights

Summary

As of September 30, 2014:

- Third quarter 2014 net income of \$3.5 million, or \$0.18 per diluted share, compared to net income of \$6.3 million, or \$0.32 per diluted share, reported for third quarter 2013.
- Year to date net income of \$9.7 million, or \$0.50 per diluted share, compared to net income of \$4.8 million, or \$0.25 per diluted share, for the same period the prior year.
- Third quarter 2014 total revenues of \$81.4 million as compared to \$108.6 million for the third quarter of 2013.
- Year to date 2014 total revenues of \$249.4 million as compared to \$301.1 million reported for the same period the prior year.

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



3rd Quarter

September 30, 2014

	2014	2013	% +/-
	(\$ in thousands, unaudited)		
Gross premiums written	122,723	123,664	(1%)
Net premiums written	84,025	102,889	(18%)
Net premiums earned	77,147	97,452	(21%)
Investment income, net of expenses	2,912	2,965	(2%)
Net realized (losses) gains	(23)	6,950	NM
Total revenues	81,417	108,613	(25%)
Net income	3,463	6,274	(45%)
Net income per share - basic	\$ 0.18	\$ 0.33	(45%)
Net income per share - diluted	\$ 0.18	\$ 0.32	(44%)
Book value per share	\$ 12.96	\$ 11.94	9%
Cash flow from operations	\$ 2,129	\$29,487	(93%)

Year to Date

September 30, 2014

	2014	2013	% +/-
	(\$ in thousands, unaudited)		
Gross premiums written	363,245	351,278	3%
Net premiums written	240,649	296,330	(19%)
Net premiums earned	237,770	276,784	(14%)
Investment income, net of expenses	9,139	9,871	(7%)
Net realized (losses) gains	(122)	9,723	NM
Total revenues	249,362	301,053	(17%)
Net income	9,662	4,817	101%
Net income per share - basic	\$ 0.50	\$ 0.25	100%
Net income per share - diluted	\$ 0.50	\$ 0.25	100%
Book value per share	\$ 12.96	\$ 11.94	9%
Cash flow from operations	\$ 21,710	\$53,520	(59%)

From Naveen Anand, President and CEO

"I am pleased to report overall continued improving profitable underwriting results as evidenced by our third quarter combined ratio of 96.2% as compared to 97.4% for the second quarter this year and 98.8% for the third quarter the prior year," said Naveen Anand, President and Chief Executive Officer. "These results are reflective of solid performance across each of our reporting segments driven by continued favorable rate trends and underwriting actions taken across most lines of business."

Mr. Anand continued, "I am excited for the future prospects of the Company as Hallmark is well positioned with a solid platform to continue to grow into a best-in-class specialty insurance group."

From Mark Schwarz, Executive Chairman

"Book value per share was \$12.96 at the end of the quarter, an increase of 9% since a year ago. Total cash and investments have increased 4% during the first nine months of 2014 to \$642.8 million, or \$33.61 per share, due in part to cash flow from operations of \$21.7 million. Hallmark's cash balances totaled \$176.9 million as of September 30, 2014."

Third Quarter 2014 Commentary

During the three and nine months ended September 30, 2014, Hallmark's total revenues were \$81.4 million and \$249.4 million, representing a decrease of 25% and 17%, respectively, from the \$108.6 million and \$301.1 million in total revenues for the same periods of 2013. This decrease in revenue was primarily attributable to lower net earned premiums in the Personal Segment due to a quota share reinsurance contract entered into during the fourth quarter of 2013 on non-standard automobile risks produced in certain states. Further contributing to the decrease in revenue were significant net realized gains recognized in the Company's investment portfolio for the three and nine months ended September 30, 2013, lower net investment income for the three and nine months ended September 30, 2014, and adverse profit share commission revenue adjustments in the Standard Commercial Segment for the nine months ended September 30, 2014.

The decrease in revenue for the three and nine months ended September 30, 2014 was offset by decreased loss and loss adjustment expenses ("LAE") of \$17.6 million and \$49.2 million, respectively, as compared to the same periods in 2013. During the three months ended September 30, 2014 and 2013, the Company recorded unfavorable prior year net loss reserve development of \$1.5 million and \$0.5 million, respectively. During the nine months ended September 30, 2014, the Company recorded \$5.4 million of favorable prior year loss reserve development compared to \$8.0 million of unfavorable prior year loss reserve development during the nine months ended September 30, 2013. The decrease in loss and LAE occurred despite a \$5.4 million increase in net catastrophe losses to \$13.9 million during the nine months ended September 30, 2014 from \$8.5 million reported for the same period of 2013. Other operating expenses also decreased due mostly to decreased production related expenses in the Specialty Commercial Segment and Personal Segment, partially offset by \$0.7 million of one-time CEO transition costs and \$0.2 million of costs related to a previously announced public debt offering.

Hallmark reported net income of \$3.5 million and \$9.7 million for the three and nine months ended September 30, 2014 as compared to net income of \$6.3 million and \$4.8 million for the three and nine months ended September 30, 2013. On a diluted basis per share, the Company reported net income of \$0.18 per share for the three months ended September 30, 2014, as compared to net income of \$0.32 per share for the same period in 2013. On a diluted basis per share, net income per share was \$0.50 for the nine months ended September 30, 2014 as compared to net income per share of \$0.25 for the same period during 2013.

Hallmark's consolidated net loss ratio was 65.5% for both the three and nine months ended September 30, 2014, as compared to 69.9% and 74.0% for the same periods in 2013. Hallmark's net expense ratio was 30.7% and 30.4% for the three and nine months ended September 30, 2014 as compared to 28.9% and 29.2% for the same periods in 2013. Hallmark's net combined ratio was 96.2% and 95.9% for the three and nine months ended September 30, 2014 as compared to 98.8% and 103.2% for the same periods in 2013.

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.