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3rd Quarter 2015 Highlights

Summary

As of September 30, 2015:

- Third quarter 2015 net income of \$6.7 million, or \$0.35 per diluted share, compared to net income of \$3.5 million, or \$0.18 per diluted share, reported for third quarter 2014.
- Year to date net income of \$18.4 million, or \$0.95 per diluted share, compared to net income of \$9.7 million, or \$0.50 per diluted share, for the same period the prior year.
- Third quarter 2015 total revenues of \$93.7 million as compared to \$81.4 million for the third quarter of 2014.
- Year to date 2015 total revenues of \$282.3 million as compared to \$249.4 million reported for the same period the prior year.

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



3rd Quarter September 30, 2015	2015	2014	% +/-
	(\$ in thousands, unaudited)		
Gross premiums written	132,141	122,723	8%
Net premiums written	89,924	84,025	7%
Net premiums earned	88,406	77,147	15%
Investment income, net of expenses	3,495	2,912	20%
Net realized losses	(335)	(23)	nm
Total revenues	93,684	81,417	15%
Net income	6,698	3,463	93%
Net income per share - basic	\$ 0.35	\$ 0.18	94%
Net income per share - diluted	\$ 0.35	\$ 0.18	94%
Book value per share	\$ 13.62	\$ 12.96	5%
Cash flow from operations	\$ 10,223	\$ 2,129	380%

Year to Date September 30, 2015	2015	2014	% +/-
	(\$ in thousands, unaudited)		
Gross premiums written	390,708	363,245	8%
Net premiums written	274,603	240,649	14%
Net premiums earned	263,578	237,770	11%
Investment income, net of expenses	10,051	9,139	10%
Net realized gains (losses)	3,688	(122)	nm
Total revenues	282,331	249,362	13%
Net income	18,417	9,662	91%
Net income per share - basic	\$ 0.96	\$ 0.50	92%
Net income per share - diluted	\$ 0.95	\$ 0.50	90%
Book value per share	\$ 13.62	\$ 12.96	5%
Cash flow from operations	\$ 43,101	\$ 21,710	99%

From Naveen Anand, President and CEO

“We’re building momentum and are effectively executing on our specialty lines focused underwriting and product strategies. The results for this quarter and year to date reflect the significant work that has taken place across our entire organization to position Hallmark for sustained success. We continue to push for and achieve higher rates in all of our segments, however the rate increase trend continues to weaken. I expect we will see further improvement in our Personal Lines business in the near term as we continue to improve underwriting in the current accident year and cull less performing sectors in this portfolio”.

From Mark Schwarz, Executive Chairman

“Book value per share was \$13.62 as of September 30, 2015, an increase of 5% over the same date of the prior year. Total cash and investments have increased 6% year over year to \$679.0 million, or \$35.47 per share. Cash flow from operations was \$43.1 million for the year-to-date and our cash balances (including restricted cash) totaled \$111.6 million as of September 30, 2015.

Third Quarter 2015 Commentary

Hallmark reported net income of \$6.7 million and \$18.4 million for the three and nine months ended September 30, 2015 as compared to net income of \$3.5 million and \$9.7 million for the same periods the prior year. On a diluted basis per share, the Company reported net income of \$0.35 per share and \$0.95 per share for the three and nine months ended September 30, 2015, as compared to net income of \$0.18 per share and \$0.50 per share for the same periods the prior year.

Hallmark’s consolidated net loss ratio was 63.3% and 65.2% for the three and nine months ended September 30, 2015, as compared to 65.5% and 65.5% for the same periods the prior year. Hallmark’s net expense ratio was 27.7% and 28.2% for the three and nine months ended September 30, 2015 as compared to 30.7% and 30.4% for the same periods the prior year. Hallmark’s net combined ratio was 91.0% and 93.4% for the three and nine months ended September 30, 2015 as compared to 96.2% and 95.9% for the same periods the prior year.

During the three and nine months ended September 30, 2015, Hallmark’s total revenues were \$93.7 million and \$282.3 million, representing an increase of 15% and 13%, respectively, from the \$81.4 million and \$249.4 million in total revenues for the same periods of 2014. This increase in revenue was primarily attributable to higher net earned premiums, higher realized gains recognized on the investment portfolio during the nine months ended September 30, 2015, lower adverse profit share commission revenue adjustments in the Standard Commercial Segment and higher net investment income. The increased net earned premiums were primarily attributable to increased retained premium under a renewed quota share reinsurance agreement effective October 1, 2014 in the Personal Segment and increased premium production in both the Personal Segment and the MGA Commercial Products operating unit.

The increase in revenue for the three and nine months ended September 30, 2015 was partially offset by increased loss and loss adjustment expenses of \$5.5 million and \$16.0 million, respectively, as compared to the same periods in 2014. The increase in loss and LAE was primarily the result of an increase in retained losses in the Personal Segment under the renewed quota share reinsurance agreement and higher current accident year loss trends in the Specialty Commercial Segment. During the nine months ended September 30, 2015 and 2014, the Company recorded favorable prior year net loss reserve development of \$4.6 million and \$5.4 million, respectively. Also partially offsetting the increased revenue was increased other operating expenses due mostly to higher production related expenses in the Personal Segment due to the impact of the change in terms of the renewed quota share reinsurance agreement and increased salary and related expenses in the Specialty Commercial and Corporate Segments.

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.