



## 4th Quarter & Fiscal Year 2014 Highlights

### Summary

As of December 31, 2014:

- Fourth quarter 2014 net income of \$3.8 million, or \$0.19 per diluted share, compared to net income of \$3.4 million, or \$0.18 per diluted share, reported for fourth quarter 2013.
- Net income of \$13.4 million, or \$0.69 per diluted share, for fiscal 2014 as compared to net income of \$8.2 million, or \$0.43 per diluted share, for fiscal 2013.
- Total revenues were \$88.0 million for the fourth quarter of 2014 as compared to \$88.4 million for the fourth quarter of 2013.
- Fiscal 2014 total revenues were \$337.4 million as compared to \$389.4 million reported for fiscal 2013.



### 4th Quarter

December 31, 2014

	2014	2013	% +/-
	(\$ in thousands, unaudited)		
Gross premiums written	109,973	108,749	1%
Net premiums written	83,703	64,435	30%
Net premiums earned	83,447	83,757	0%
Investment income, net of expenses	3,244	3,013	8%
Net realized gains	256	817	(69%)
Total revenues	88,004	88,375	0%
Net income <sup>(1)</sup>	3,767	3,428	10%
Net income per share - basic	\$ 0.20	\$ 0.18	11%
Net income per share - diluted	\$ 0.19	\$ 0.18	6%
Book value per share	\$ 13.11	\$ 12.36	6%
Cash flow from operations	\$ 11,974	\$14,818	(19%)

### Fiscal Year

December 31, 2014

	2014	2013	% +/-
	(\$ in thousands)		
Gross premiums written	473,218	460,027	3%
Net premiums written	324,352	360,765	(10%)
Net premiums earned	321,217	360,541	(11%)
Investment income, net of expenses	12,383	12,884	(4%)
Net realized gains	134	10,540	(99%)
Total revenues	337,366	389,428	(13%)
Net income (1)	13,429	8,245	63%
Net income per share - basic	\$ 0.70	0.43	63%
Net income per share - diluted	\$ 0.69	0.43	60%
Book value per share	\$ 13.11	\$ 12.36	6%
Cash flow from operations	\$ 33,684	\$68,338	(51%)

(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 Naveen Anand, President and CEO

"I am pleased to report a solid finish to our 2014 fiscal year with improved quarterly underwriting results evidenced by our combined ratio of 95.9% for the fourth quarter and 95.9% for fiscal 2014 as compared to 96.6% for the fourth quarter the prior year and 101.7% for fiscal 2013. The results for fiscal 2014 show marked improvement in each of our reporting segments driven by underwriting actions taken across most lines of business and continued push for rate increases in our key segments.

Hallmark is well positioned with a good platform, talented employees and a strong balance sheet to profitably grow into a consistently high-performing specialty insurance group."

## From Mark Schwarz, Executive Chairman

"Book value per share was \$13.11 at the end of fiscal 2014, an increase of 6% from the end of fiscal 2013. Total cash and investments have increased 6% during fiscal 2014 to \$650.1 million, or \$33.83 per share, due predominately to cash flow from operations of \$33.7 million. Hallmark's cash balances totaled \$142.9 million as of December 31, 2014."

## Fiscal Year 2014 Commentary

Hallmark reported net income of \$13.4 million for fiscal 2014 as compared to net income of \$8.2 million for fiscal 2013. On a diluted basis per share, the Company reported net income of \$0.69 per share for fiscal 2014, as compared to net income of \$0.43 per share for fiscal 2013.

Hallmark's consolidated net loss ratio was 65.4% for fiscal 2014, as compared to 72.5% for fiscal 2013. Hallmark's net expense ratio was 30.5% for fiscal 2014 as compared to 29.2% for fiscal 2013. Hallmark's net combined ratio was 95.9% for fiscal 2014 as compared to 101.7% for fiscal 2013.

During fiscal 2014, Hallmark's total revenues were \$337.4 million, representing an approximately 13% decrease over the \$389.4 million in total revenues for fiscal 2013. The decrease in revenue was primarily attributable to lower net earned premiums in the Personal Segment due to a new quota share reinsurance contract entered into during the fourth quarter of 2013 on the non-standard automobile risk produced in certain states. Further contributing to the decrease in revenue were significant realized gains recognized in Hallmark's investment portfolio for the year ended December 31, 2013, lower net investment income and adverse profit share commission revenue adjustments in the Standard Commercial Segment for the year ended December 31, 2014.

The decrease in revenue for the year ended December 31, 2014 was offset by decreased loss and LAE of \$51.3 million as compared to the same period of 2013. During the fiscal year ended December 31, 2014, the Company recorded \$5.2 million of favorable prior year loss development. During the fiscal year ended December 31, 2013, the Company recorded \$10.0 million of unfavorable prior year loss development. The decrease in loss and LAE occurred despite a \$4.8 million increase in net catastrophe losses to \$15.0 million during the year ended December 31, 2014 from \$10.2 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 the Personal Segment, partially offset by \$3.0 million of costs related to higher salary and related expenses due mostly to increased incentive compensation accruals compared to the prior period, \$0.7 million of CEO transition costs and \$0.2 million of costs related to a previously announced public debt offering.

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.