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HALLMARK FINANCIAL SERVICES, INC.

1st Quarter 2013 Highlights

Summary

As of March 31, 2013:

- First quarter 2013 net income was $1.7 million, or $0.09 per share, compared to net income of $0.2 million, or $0.01 per share reported for the first quarter 2012.
- Total revenues were $93.1 million for the first quarter 2013 as compared to $83.0 million for the first quarter of 2012.

1st Quarter

March 31, 2013 — *($ in thousands, unaudited)*

	2013	2012	% +/-
Gross premiums written	108,147	97,395	11%
Net premiums written	93,896	84,962	11%
Net premiums earned	86,488	77,208	12%
Investment income, net of expenses	3,628	3,846	(6%)
Net realized gains (losses)	1,176	(119)	(1,088%)
Total revenues	93,141	82,986	12%
Net income (1)	1,694	171	891%
Net income per share - basic	$ 0.09	$ 0.01	800%
Net income per share - diluted	$ 0.09	$ 0.01	800%
Book value per share	$ 11.80	$ 11.28	5%
Cash flow from operations	$ 5,825	$ 4,813	21%

(1) Net income is net income attributable to Hallmark Financial Services, Inc. as reported in the consolidated statements of operations as determined in accordance with GAAP.

From Mark Morrison, President and CEO

“The results for the quarter continue to reflect year-over-year accident year improvement in underwriting profitability due to the actions taken over the past year, including a continuation of meaningful rate increases across most of our business units and exiting unprofitable states and product lines in our Personal Segment. Across all operations the 2013 first quarter accident year net loss ratio was 69.1% as compared to 74.9% in the first quarter of 2012.

For Hallmark, the greatest opportunity to improve underwriting margins will be through continued organic growth within our current books of business. This is reflected in the year-over-year increase in revenue that continues to be driven primarily by growth from the operating units that comprise our Specialty Commercial Segment. Achieved rate increases since the start of 2012 and improving economic conditions in our core states have resulted in growth in insured exposure units on renewal policies. We expect these trends to continue throughout 2013 as we continue to push for price increases in most of our lines of business.

Effective this quarter, we have consolidated our excess & umbrella and general aviation operations, along with our medical professional liability line of business under the newly created Hallmark Select business unit. Jim Damonte, the President of our previous Excess & Umbrella business unit has been named the President of this new business unit. The primary objective in forming this new business unit is to maximize synergies across existing commercial specialty lines and to establish a platform that allows Hallmark to continue to expand into additional products in a more effective and efficient manner.”

From Mark Schwarz, Executive Chairman

“Book value per share was $11.80 at the end of the quarter, an increase of 5% over prior year. Cash flow from operations was $5.8 million in the first quarter, up from $4.8 million the first quarter 2012. Total cash and investments increased 4% during the first quarter 2013 to $561.3 million, or $29.14 per share. Hallmark continues to carry significant cash of $100.8 million as of March 31, 2013, which we seek to opportunistically deploy in ways that will generate a higher return for shareholders in the future.”

First Quarter 2013 Commentary

During the three months ended March 31, 2013, total revenues were $93.1 million, representing a 12% increase from the $83.0 million in total revenues for the same period of 2012. This increase in revenue was primarily attributable to increased earned premium due to increased production in the Specialty Commercial Segment and the Standard Commercial Segment. Further contributing to the increase in revenue were net realized gains on the Company’s investment portfolio during the first quarter of 2013 as compared to net realized losses reported during the first quarter of 2012. The increase in revenue was partially offset by lower earned premium in the Personal Segment due mostly to the impact of a reduction of premium written in underperforming states and products exited.

The increase in revenue for the three months ended March 31, 2013, was accompanied by increased loss and loss adjustment expenses (“LAE”) of $6.9 million as compared to the same period during 2012 due primarily to increased premium volume, as well as $2.0 million of unfavorable prior year loss reserve development for the three months ended March 31, 2013 as compared to favorable prior year loss reserve development of $3.0 million for the same period of 2012. This increase in loss and LAE was partially offset by favorable current accident year loss trends in the E&S Commercial business unit. Further offsetting the increase in loss and LAE was a $3.9 million decrease in weather related losses to $0.8 million for the three months ended March 31, 2013 from $4.7 million reported during the same period of 2012. Other operating expenses also increased due mostly to increased production related expenses in the E&S Commercial business unit.

As a result, Hallmark reported net income of $1.7 million for the three months ended March 31, 2013, which was a $1.5 million improvement from the $0.2 million net income reported for the first quarter of 2012. On a diluted basis per share, net income was $0.09 per share for the three months ended March 31, 2013, as compared to net income of $0.01 per share for the same period in 2012.

Hallmark’s consolidated net loss ratio was 71.4% and 71.0% for the three months ended March 31, 2013 and 2012, respectively. Hallmark’s net expense ratio was 30.2% and 31.4% for the three months ended March 31, 2013 and 2012, respectively. Hallmark’s net combined ratio was 101.6% and 102.4% for the three months ended March 31, 2013 and 2012, respectively.