777 Main Street, Suite 1000
Fort Worth, Texas 76102
P | 817.348.1600 F | 871.348.1815
www.hallmarkgrp.com

HALLMARK
FINANCIAL SERVICES, INC.

1st Quarter 2014 Highlights

Summary

As of March 31, 2014:

- First quarter 2014 net income was $4.5 million, or $0.23 per diluted share, compared to net income of $1.7 million, or $0.09 per diluted share reported for the first quarter 2013.
- Total revenues were $87.1 million for the first quarter of 2014 as compared to $93.1 million for the first quarter of 2013.

1st Quarter

March 31, 2014

	2014	2013	% +/-
	($ in thousands, unaudited)		
Gross premiums written	116,082	108,147	7%
Net premiums written	82,921	93,896	(12%)
Net premiums earned	82,577	86,488	(5%)
Investment income, net of expenses	3,241	3,628	(11%)
Net realized gains	185	1,176	(84%)
Total revenues	87,109	93,141	(6%)
Net income	4,548	1,694	168%
Net income per share - basic	$ 0.24	$ 0.09	167%
Net income per share - diluted	$ 0.23	$ 0.09	156%
Book value per share	$ 12.54	$ 11.80	6%
Cash flow from operations	$ 5,107	$ 5,825	(12%)

From Mark Morrison, President and CEO

"I am pleased to report that our strategy of growing existing profitable lines of business and contracting lines of business where we have experienced unacceptable underwriting performance continues to bear fruit in our quarterly earnings. Our combined ratio of 94.3% reflects quarterly underwriting results at a level that we have not experienced in four years, and marks the third consecutive quarter of reported underwriting profits. These results are almost entirely driven by the operating performance of our Specialty Commercial Segment which has delivered outstanding underwriting results nearly every quarter over the past three challenging years.

As market conditions for our Specialty Commercial lines of business rapidly improved in recent years, we have reallocated capital to support our growth in these lines, while contracting in our Personal and Standard Commercial lines. As a result of this strategy, our Specialty Commercial Segment, which produced a combined ratio of 88.8% for the first quarter of 2014, has grown over 50% since 2011 and now accounts for nearly three-fourths of our overall net written premium in 2014.

Our quarterly results also reflect an improvement in underwriting profitability for our Personal and Standard Commercial Segments. Subdued weather-related catastrophe events and reduced impact from Personal Segment's discontinued products and states helped to produce a quarterly underwriting profit on a gross basis in each of these segments. While we are still not satisfied with our overall underwriting profitability in these segments, we remain confident the underwriting and pricing actions we have taken will continue to improve operating margins and help us to achieve our financial goals across all lines of business."

From Mark Schwarz, Executive Chairman

"Book value per share was $12.54 at the end of the quarter, an increase of 6% over prior year. Total cash and investments have increased 2% during the quarter to $630.5 million, or $32.73 per share due in part to cash flow from operations of $5.1 million. Hallmark's cash balances totaled $165.0 million as of March 31, 2014."

First Quarter 2014 Commentary

During the three months ended March 31, 2014, total revenues were $87.1 million, representing a 6% decrease from the $93.1 million in total revenues for same period of 2013. The decrease in revenue was primarily attributable to lower net premiums earned in the Personal Segment due to quota share reinsurance contracts entered into during 2013. Further contributing to the decrease in revenue were lower net realized gains on the Company's investment portfolio, lower net investment income and an adverse profit share commission revenue adjustment in the Standard Commercial Segment compared to a favorable profit share commission revenue adjustment for the three months ended March 31, 2013. These decreases in revenue were partially offset by increased premium production and resulting earned premium driven largely from the Specialty Commercial Segment.

The decrease in revenue for the three months ended March 31, 2014 was offset by decreased loss and loss adjustment expenses ("LAE") of $9.0 million as compared to the same period in 2013. During the three months ended March 31, 2014, the Company recorded $1.2 million of favorable prior year loss reserve development as compared to $2.0 million of unfavorable prior year loss reserve development for the same period of 2013. Further contributing to the lower loss and LAE were lower current accident year loss trends in the Specialty Commercial Segment primarily driven by the Hallmark Select business unit. Other operating expenses also decreased due mostly to lower production related expenses in the Personal Segment, partially offset by increased production related expenses in the Specialty Commercial Segment.

Hallmark reported net income of $4.5 million for three months ended March 31, 2014, as compared to net income of $1.7 million for the same period in 2013. On a diluted per share basis, net income was $0.23 per share for the three months ended March 31, 2014 as compared to net income of $0.09 per share for the same period in 2013.

Hallmark's consolidated net loss ratio was 63.9% for the three months ended March 31, 2014 as compared to 71.4% for the same period in 2013. Hallmark's net expense ratio was 30.4% for the three months ended March 31, 2014 as compared to 30.2% for the same period in 2013. Hallmark's net combined ratio was 94.3% for the three months ended March 31, 2014 as compared to 101.6% for the same period in 2013.