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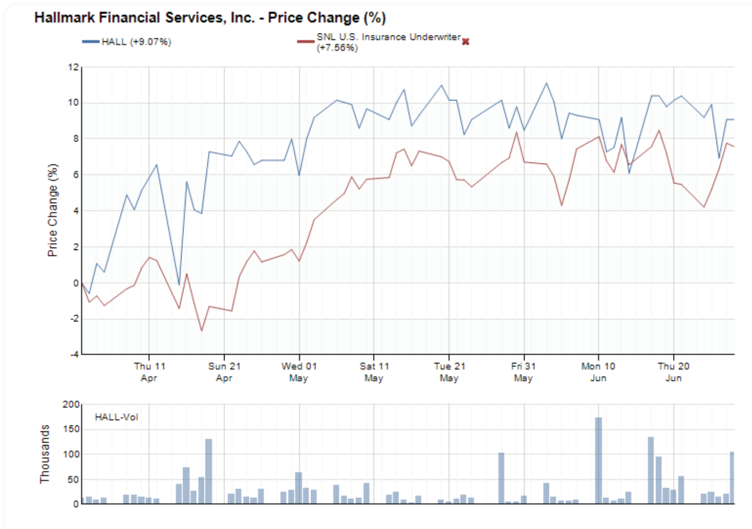
HALLMARK FINANCIAL SERVICES, INC.

2nd Quarter 2013 Highlights

Summary

As of June 30, 2013:

- Second quarter 2013 net loss of $3.2 million, or $0.16 per share, compared to a net loss of $1.8 million, or $0.10 per share reported for second quarter 2012.
- Year to date net loss of $1.5 million, or $0.08 per share, compared to a net loss of $1.7 million, or $0.09 per share for the same period the prior year.
- Second quarter 2013 total revenues of $99.3 million as compared to $84.6 million for the second quarter of 2012.
- Year to date 2013 total revenues of $192.4 million, up 15% from the $167.6 million reported for the same period the prior year.



2nd Quarter

June 30, 2013

	2013	2012	% +/-
	($ in thousands, unaudited)		
Gross premiums written	119,467	100,815	19%
Net premiums written	99,545	85,137	17%
Net premiums earned	92,844	78,249	19%
Investment income, net of expenses	3,278	3,932	(17%)
Net realized gains	1,597	991	61%
Total revenues	99,299	84,571	17%
Net loss (1)	(3,151)	(1,843)	71%
Net loss per share - basic	$ (0.16)	$ (0.10)	60%
Net loss per share - diluted	$ (0.16)	$ (0.10)	60%
Book value per share	$ 11.68	$ 11.08	5%
Cash flow from operations	$ 18,208	$12,409	47%

Year to Date

June 30, 2013

	2013	2012	% +/-
	($ in thousands, unaudited)		
Gross premiums written	227,614	198,210	15%
Net premiums written	193,441	170,099	14%
Net premiums earned	179,332	155,457	15%
Investment income, net of expenses	6,906	7,778	(11%)
Net realized gains	2,773	872	218%
Total revenues	192,440	167,557	15%
Net loss (1)	(1,457)	(1,672)	(13%)
Net loss per share - basic	$ (0.08)	$ (0.09)	(11%)
Net loss per share - diluted	$ (0.08)	$ (0.09)	(11%)
Book value per share	$ 11.68	$ 11.08	5%
Cash flow from operations	$ 24,033	$17,222	40%

(1) Net loss for each period is net loss 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 Mark Morrison, President and CEO

"The results for the quarter were adversely impacted by severe wind and hail storms that occurred in May throughout Texas and Oklahoma. Total catastrophe losses were $5.5 million for the quarter, or $0.18 per share. However, absent these catastrophe losses, we continue to see year-over-year accident year improvement in underwriting profitability in our Specialty Commercial and Personal Segments."

From Mark Schwarz, Executive Chairman

"Book value per share was $11.68 at the end of the quarter, an increase of 5% over prior year and an increase of 2% over prior year end. Cash flow from operations was $18.2 million in the second quarter, up from $12.4 million the second quarter 2012. Total cash and investments increased 3% during the second quarter 2013 to $576.7 million, or $29.94 per share. Hallmark continues to carry significant cash of $139.4 million as of June 30, 2013, which we seek to opportunistically deploy in ways that will generate a higher return for shareholders in the future."

Second Quarter 2013 Commentary

During the three and six months ended June 30, 2013, total revenues were $99.3 million and $192.4 million, representing a 17% and 15% increase, respectively, from the $84.6 million and $167.6 million in total revenues for the same periods of 2012. This increase in revenue was primarily attributable to increased production in the Specialty Commercial Segment and the Standard Commercial Segment. Further contributing to this increase in revenue were higher net realized gains. These increases in revenue were partially offset by lower net investment income and lower finance charges and earned premium in the Personal Lines business unit due mostly to the impact of a reduction of premium written in underperforming states and products exited.

The increase in revenue for the three and six months ended June 30, 2013 was accompanied by increased loss and loss adjustment expenses ("LAE") of $13.8 million and $20.8 million, respectively, as compared to the same periods in 2012. During the three months ended June 30, 2013 and 2012 Hallmark recorded $5.4 million and $1.6 million unfavorable prior year loss development. During the six months ended June 30, 2013 Hallmark recorded $7.4 million of unfavorable prior year loss development. During the six months ended June 30, 2012 Hallmark recorded $1.4 million of favorable prior year loss development. The increase in loss and LAE occured despite a $4.2 million decrease in catastrophe losses to $6.2 million for the six months ended June 30, 2013 from $10.4 million reported for 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 a $3.2 million and $1.5 million net loss for the three and six months ended June 30, 2013 as compared to a $1.8 million and $1.7 million net loss for the same periods during 2012. On a diluted basis per share, Hallmark reported a net loss of $0.16 per share for the three months ended June 30, 2013, as compared to net loss of $0.10 per share for the same period in 2012. On a diluted basis per share, net loss per share was $0.08 for the six months ended June 30, 2013 as compared to net loss per share of $0.09 for the same period during 2012.

Hallmark's consolidated net loss ratio was 80.8% and 76.3% for the three and six months ended June 30, 2013 as compared to 78.2% and 74.6% for the same periods in 2012. Hallmark's net expense ratio was 28.6% and 29.4% for the three and six months ended June 30, 2013 as compared to 30.5% and 30.5% for the same periods in 2012. Hallmark's net combined ratio was 109.4% and 105.7% for the three and six months ended June 30, 2013 as compared to 108.7% and 105.1% for the same periods in 2012.