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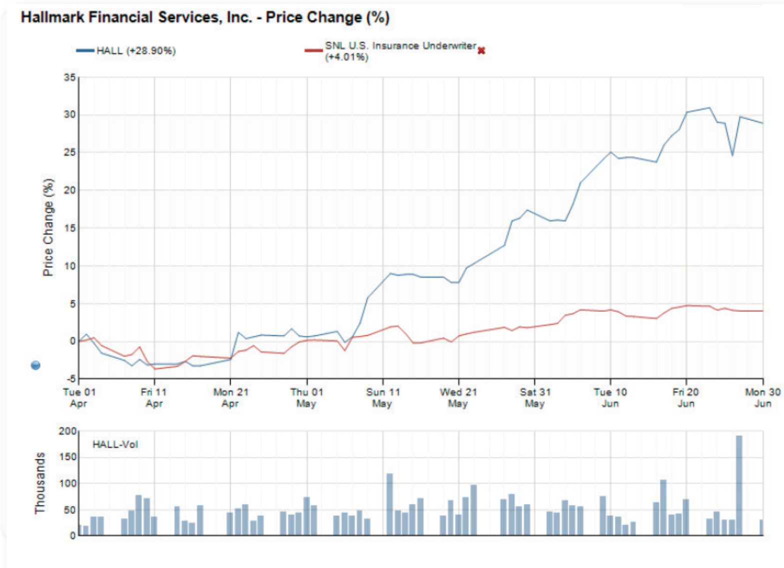
HALLMARK
FINANCIAL SERVICES, INC.

2nd Quarter 2014 Highlights

Summary

As of June 30, 2014:

- Second quarter 2014 net income of $1.7 million, or $0.09 per diluted share, compared to net loss of $3.2 million, or $0.16 per diluted share, reported for second quarter 2013.
- Year to date net income of $6.2 million, or $0.32 per diluted share, compared to net loss of $1.5 million, or $0.08 per diluted share, for the same period the prior year.
- Second quarter 2014 total revenues of $80.8 million as compared to $99.3 million for the second quarter of 2013.
- Year to date 2014 total revenues of $167.9 million as compared to $192.4 million reported for the same period the prior year.



2nd Quarter

June 30, 2014

	2014	2013	% +/-
	($ in thousands, unaudited)		
Gross premiums written	124,440	119,467	4%
Net premiums written	73,703	99,545	(26%)
Net premiums earned	78,046	92,844	(16%)
Investment income, net of expenses	2,986	3,278	(9%)
Net realized (losses) gains	(284)	1,597	NM
Total revenues	80,836	99,299	(19%)
Net income (loss)	1,651	(3,151)	NM
Net income (loss) per share - basic	$ 0.09	$ (0.16)	NM
Net income (loss) per share - diluted	$ 0.09	$ (0.16)	NM
Book value per share	$ 12.78	$ 11.68	9%
Cash flow from operations	$ 14,474	$18,208	(21%)

Year to Date

June 30, 2014

	2014	2013	% +/-
	($ in thousands, unaudited)		
Gross premiums written	240,522	227,614	6%
Net premiums written	156,624	193,441	(19%)
Net premiums earned	160,623	179,332	(10%)
Investment income, net of expenses	6,227	6,906	(10%)
Net realized (losses) gains	(99)	2,773	NM
Total revenues	167,945	192,440	(13%)
Net income (loss)	6,199	(1,457)	NM
Net income (loss) per share - basic	$ 0.32	$ (0.08)	NM
Net income (loss) per share - diluted	$ 0.32	$ (0.08)	NM
Book value per share	$ 12.78	$ 11.68	9%
Cash flow from operations	$ 19,581	$24,033	(19%)

From Mark Morrison, President and CEO

"I am pleased to report our fourth consecutive quarter of profitable underwriting results as evidenced by our reported quarterly combined ratio of 97.4%. We achieved these results despite the worst quarter for catastrophe losses in our history. A high frequency of severe convective storms resulted in over $13 million in net incurred losses that added 17% to our combined ratio for the quarter. On a pre-catastrophe loss basis, the quarter marked the best operating results in Hallmark's history.

Apart from the unprecedented level of catastrophe losses, underlying trends during the quarter continued to reflect the positive momentum in our businesses. Our Specialty Commercial Segment, which now accounts for approximately two-thirds of our total premium volume, continues to generate profitable premium growth and outstanding results. The Specialty Commercial Segment reported a combined ratio of 88.9% and pre-tax income of $9.5 million for the current quarter, and has generated a combined ratio of 90.5% and pre-tax income of $34.7 million over a trailing four quarter period. Additionally, the corrective actions taken in our Personal Segment over that past couple of years have clearly made a positive impact and this business once again contributed to our profitable underwriting results for the quarter on both a gross and net basis. Our Standard Commercial Segment also continues to produce acceptable results before catastrophe losses. Despite reducing large property risks and implementing aggressive rate increases in catastrophe prone areas, this business once again incurred heavy catastrophe losses during the quarter of $12.5 million, net of reinsurance. We will continue to take steps to reduce our exposure to catastrophic events by further refining our property pricing, underwriting criteria and utilization of catastrophe reinsurance coverage."

From Mark Schwarz, Executive Chairman

"Book value per share was $12.78 at the end of the quarter, an increase of 9% since a year ago. Total cash and investments have increased 6% during the first half of 2014 to $651.5 million, or $33.95 per share, due in part to cash flow from operations of $19.6 million. Hallmark's cash balances totaled $171.8 million as of June 30, 2014."

Second Quarter 2014 Commentary

During the three and six months ended June 30, 2014, Hallmark's total revenues were $80.8 million and $167.9 million, representing a decrease of 19% and 13%, respectively, from the $99.3 million and $192.4 million in total revenues for the same periods of 2013. This decrease in revenue was primarily attributable to lower net earned premiums in the Personal Segment due to a quota share reinsurance contract entered into during the fourth quarter of 2013 on non-standard automobile risks produced in certain states. Further contributing to the decrease in revenue were net realized losses recognized during the three and six months ended June 30, 2014 as compared to net realized gains recognized during the same periods of 2013, lower net investment income and an increase in adverse profit share commission revenue adjustments in the Standard Commercial Segment for the three and six months ended June 30, 2014 as compared to the same periods of 2013.

The decrease in revenue for the three and six months ended June 30, 2014 was offset by decreased loss and loss adjustment expenses ("LAE") of $22.6 million and $31.5 million, respectively, as compared to the same periods in 2013. During the three months ended June 30, 2014, the Company recorded $5.6 million of favorable prior year loss development. During the three months ended June 30, 2013, the Company recorded $5.4 million unfavorable prior year loss development. During the six months ended June 30, 2014, the Company recorded $6.8 million of favorable prior year loss development. During the six months ended June 30, 2013, the Company recorded $7.4 million of unfavorable prior year loss development. The decrease in loss and LAE occurred despite a $7.8 million increase in net catastrophe losses to $13.3 million during the three months ended June 30, 2014 from $5.5 million reported for the same period of 2013. Other operating expenses also decreased due mostly to decreased production related expenses in the Personal Segment, partially offset by higher salary and related expenses due primarily to changes in incentive compensation accruals.

Hallmark reported net income of $1.7 million and $6.2 million for the three and six months ended June 30, 2014 as compared to a net loss of $3.2 million and $1.5 million for the three and six months ended June 30, 2013. On a diluted basis per share, the Company reported net income of $0.09 per share for the three months ended June 30, 2014, as compared to net loss of $0.16 per share for the same period in 2013. On a diluted basis per share, net income per share was $0.32 for the six months ended June 30, 2014 as compared to net loss per share of $0.08 for the same period during 2013.

Hallmark's consolidated net loss ratio was 67.3% and 65.5% for the three and six months ended June 30, 2014, as compared to 80.8% and 76.3% for the same periods in 2013. Hallmark's net expense ratio was 30.1% and 30.2% for the three and six months ended June 30, 2014 as compared to 28.6% and 29.4% for the same periods in 2013. Hallmark's net combined ratio was 97.4% and 95.7% for the three and six months ended June 30, 2014 as compared to 109.4% and 105.7% for the same periods in 2013.

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.