

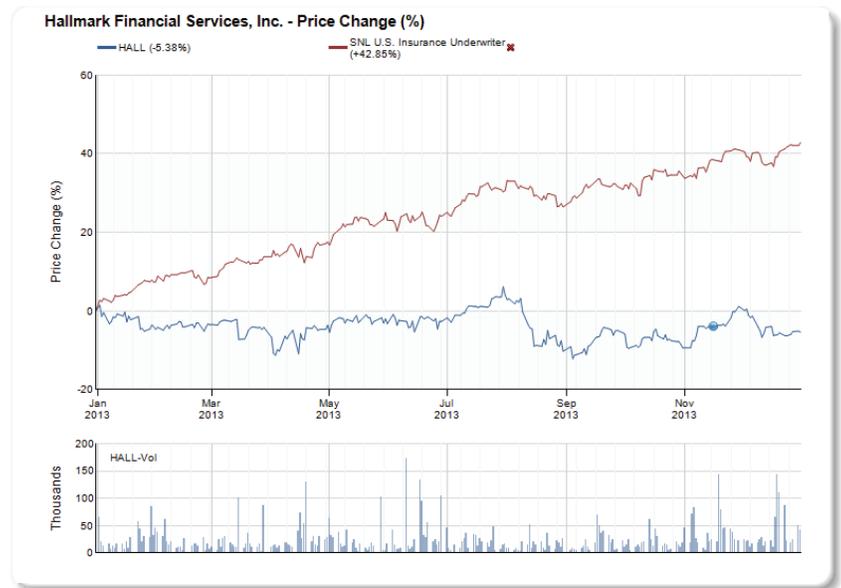


4th Quarter & Fiscal Year 2013 Highlights

Summary

As of December 31, 2013:

- Fourth quarter 2013 net income was \$3.4 million, or \$0.18 per share, compared to net income of \$1.8 million, or \$0.09 per share reported for fourth quarter 2012.
- Net income was \$8.2 million, or \$0.43 per share, for fiscal 2013 as compared to a net income of \$3.5 million, or \$0.18 per share reported for fiscal 2012.
- Total revenues were \$88.4 million for the fourth quarter 2013 as compared to \$88.6 million for the fourth quarter of 2012.
- Fiscal 2013 total revenues were \$389.4 million, up 14% from the \$341.8 million reported for fiscal 2012.



4th Quarter

December 31, 2013

	2013	2012	% +/-
	(\$ in thousands, unaudited)		
Gross premiums written	108,749	92,184	18%
Net premiums written	64,435	77,385	(17%)
Net premiums earned	83,757	83,498	0%
Investment income, net of expenses	3,013	3,720	(19%)
Net realized gains	817	89	818%
Total revenues	88,375	88,623	0%
Net income (1)	3,428	1,783	92%
Net income per share - basic	\$ 0.18	\$ 0.09	100%
Net income per share - diluted	\$ 0.18	\$ 0.09	100%
Book value per share	\$ 12.36	\$ 11.45	8%
Cash flow from operations	\$ 14,818	\$ 5,495	170%

Fiscal Year

December 31, 2013

	2013	2012	% +/-
	(\$ in thousands)		
Gross premiums written	460,027	389,842	18%
Net premiums written	360,765	332,489	9%
Net premiums earned	360,541	319,436	13%
Investment income, net of expenses	12,884	15,293	(16%)
Net realized gains	10,540	1,943	442%
Total revenues	389,428	341,800	14%
Net income (1)	8,245	3,524	134%
Net income per share - basic	\$ 0.43	0.18	139%
Net income per share - diluted	\$ 0.43	0.18	139%
Book value per share	\$ 12.36	\$ 11.45	8%
Cash flow from operations	\$ 68,338	\$ 33,682	103%

(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 Mark Morrison, President and CEO

“Our strategy of growing existing profitable lines of business and contracting lines of business where we have experienced unacceptable underwriting performance has resulted in continued improvement in our operating results, as evidenced by our fourth quarter combined ratio of 96.6%. Our fiscal 2013 gross written premium growth of 18% was driven largely by near double-digit rate increases in our Specialty Commercial and Standard Commercial segments coupled with increased insured exposures on renewal policies as a result of improving economic conditions.

Our quarterly underwriting results reflect an improvement in current accident year underwriting profitability. While we are still not yet satisfied with our overall underwriting profitability, we remain confident the underwriting and pricing actions we have taken will continue to improve operating margins going forward and help us to achieve our financial goals.”

From Mark Schwarz, Executive Chairman and Director

“Book value per share was \$12.36 at the end of the quarter, an increase of 8% over prior year end. Cash flow from operations was \$14.8 million in the fourth quarter, up from \$5.5 million in the fourth quarter of 2012. Total cash and investments have increased 14% during fiscal 2013 to \$615.2 million, or \$31.94 per share. Hallmark’s cash balances totaled \$153.9 million as of December 31, 2013.”

Fiscal Year 2013 Commentary

During fiscal 2013, total revenues were \$389.4 million, representing an approximately 14% increase over the \$341.8 million in total revenues for fiscal 2012. The growth in revenue was primarily attributable to increased premium production and resulting earned premium driven largely from the Specialty Commercial Segment and the Standard Commercial Segment. Further contributing to the increase in revenue were higher net realized gains on the investment portfolio and a lower adverse profit share commission revenue adjustment in the Standard Commercial Segment. These increases in revenue were partially offset by lower net investment income and lower year to date earned premium in the Personal Segment due mostly to the impact of discontinued products and a reduction of premium written in underperforming states.

The increase in revenue for fiscal 2013 was accompanied by increased loss and LAE of \$34.9 million as compared to the same period of 2012. During fiscal 2013, the Company recorded \$10.0 million of unfavorable prior year loss development. During fiscal 2012, the Company recorded \$3.7 million of favorable prior year loss development. The increase in loss and LAE occurred despite a \$1.5 million decrease in catastrophe losses to \$10.2 million during fiscal 2013 from \$11.7 million reported during fiscal 2012. Other operating expenses also increased due mostly to increased production related expenses in the E&S Commercial business unit.

Hallmark reported net income of \$8.2 million for fiscal 2013, as compared to net income of \$3.5 million for fiscal 2012. On a diluted per share basis, net income attributable to Hallmark was \$0.43 per share for fiscal 2013 as compared to net income of \$0.18 per share for fiscal 2012.

Hallmark’s consolidated net loss ratio was 67.3% and 72.5% for the three and twelve months ended December 31, 2013 as compared to 68.9% and 70.9% for the same periods in 2012. The net loss ratios were impacted by \$2.0 million and \$10.0 million of unfavorable prior year loss reserve development for the three and twelve months ended December 31, 2013 as compared to \$0.1 million and \$3.7 million of favorable prior year loss reserve development for the same periods of 2012. Hallmark’s net expense ratio was 29.3% and 29.2% for the three and twelve months ended December 31, 2013 as compared to 30.2% and 30.8% for the same periods in 2012. Hallmark’s net combined ratio was 96.6% and 101.7% for the three and twelve months ended December 31, 2013 as compared to 99.1% and 101.7% for the same periods in 2012.

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.