HALLMARK
FINANCIAL SERVICES, INC.

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1st Quarter 2016 Highlights

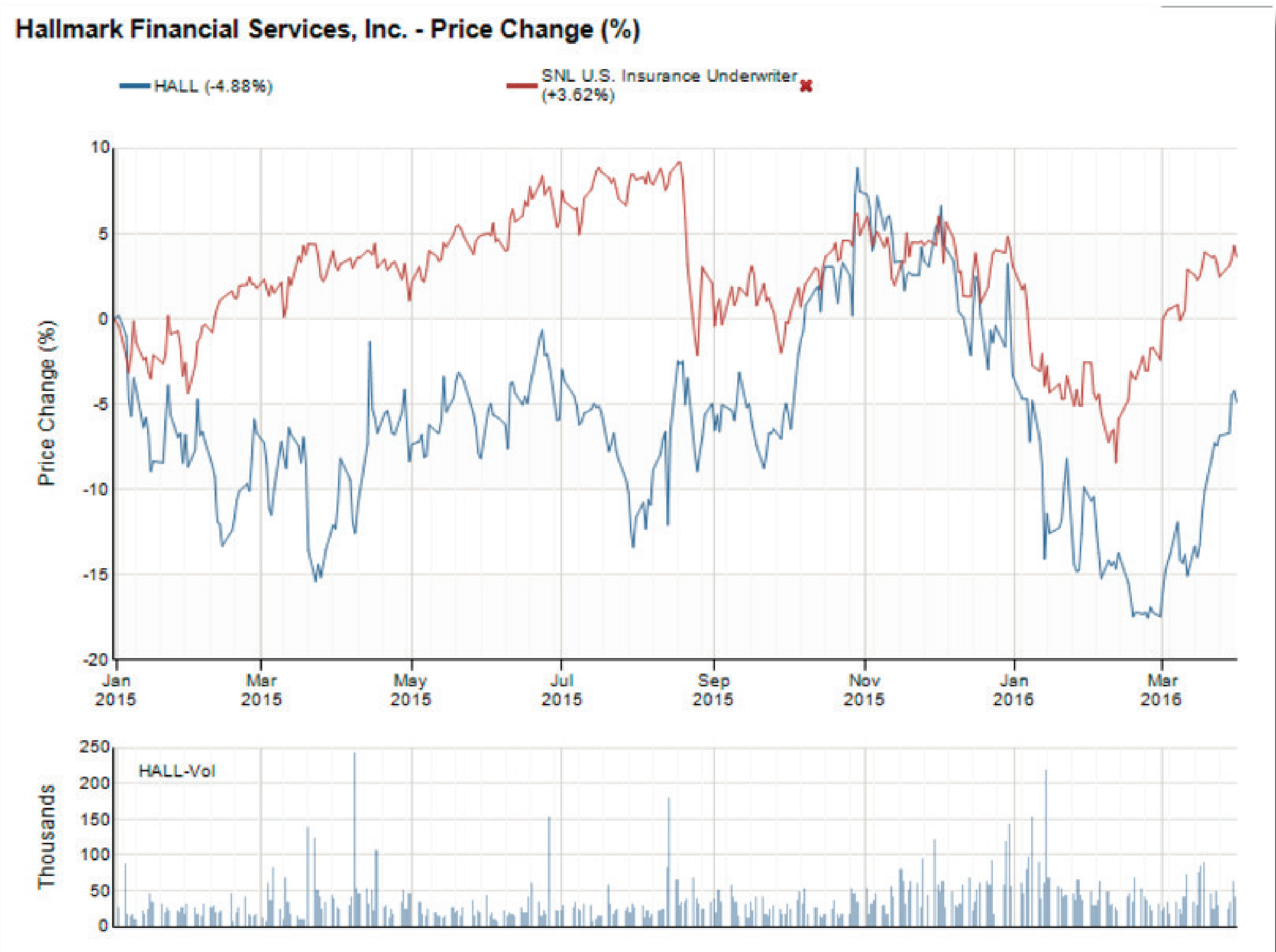
Summary

As of March 31, 2016:

- First quarter 2016 net income was $4.1 million, or $0.21 per diluted share, compared to net income of $5.3 million, or $0.28 per diluted share reported for the first quarter 2015.
- Total revenues were $90 million for the first quarter of 2016 as compared to $91.5 million for the first quarter of 2015.
- First quarter 2016 net combined ratio of 95.3% and 94.7% excluding catastrophe losses.
- First quarter 2016 gross premiums written were up 3% compared to prior year.
- First quarter 2016 ending book value per share of $14.00, up 3% compared to prior year.

1st Quarter

March 31, 2016	2016	2015	% +/-
	($ in thousands, unaudited)		
Gross premiums written	128,447	125,059	3%
Net premiums written	87,626	90,374	(3%)
Net premiums earned	84,327	86,696	(3%)
Investment income, net of expenses	3,879	2,845	36%
Net realized gains (losses)	(227)	584	NM
Total revenues	90,028	91,450	(2%)
Net income	4,074	5,343	(24%)
Net income per share - basic	$ 0.21	$ 0.28	(25%)
Net income per share - diluted	$ 0.21	$ 0.28	(25%)
Book value per share	$ 14.00	$ 13.62	3%
Cash flow from operations	$ (1,311)	$ 3,709	(135%)



From Naveen Anand, President and CEO

"We had a strong quarter in our Specialty Commercial Segment which now represents nearly 70% of total written premium. Gross premiums written increased in this segment by 7% and produced a stellar 87.8% combined ratio. We continue to invest in this segment with new operating units as well as developing and launching new products. Our Standard Commercial Segment gross premiums written were down primarily resulting from our exit of the workers compensation business last year, with the combined ratio adversely impacted by an occupational accident program that is in run-off.

In the Personal Segment, we are still facing headwinds driven by deterioration in the non-standard automobile business. We continue to see increased frequency and severity in most states, particularly in Texas, driven by increased miles driven, distracted driving and increasing costs to repair damages. This is impacting the third party property damage and physical damage lines of business. The adverse loss development in the quarter was primarily related to the 2015 accident year. In response to this industry wide issue, we continue to raise rates across most of our customer categories and are aggressively culling poor performing risks and agencies."

From Mark Schwarz, Executive Chairman

"Hallmark reported the highest book value per share in the company's history at $14.00 as of March 31, 2016, an increase of 3% over March 31, 2015. Total cash and investments increased $8.5 million in the first quarter of 2016 to $710.3 million, an increase of 2% per share to $37.42 per share. Our cash balances (including restricted cash) totaled $96.2 million as of March 31, 2016."

First Quarter 2016 Commentary

Hallmark reported net income of $4.1 million for the three months ended March 31, 2016 as compared to net income of $5.3 million for the same period the prior year. On a diluted basis per share, the Company reported net income of $0.21 per share for the three months ended March 31, 2016, as compared to net income of $0.28 per share for the same period the prior year.

Hallmark's consolidated net loss ratio was 65.7% for the three months ended March 31, 2016, as compared to 64.7% for the same period the prior year. Hallmark's net expense ratio was 29.6% for the three months ended March 31, 2016 as compared to 28.5% for the same period the prior year. Hallmark's net combined ratio was 95.3% for the three months ended March 31, 2016 as compared to 93.2% for the same period the prior year.

During the three months ended March 31, 2016, Hallmark's total revenues were $90.0 million, representing a decrease of 2%, from the $91.5 million in total revenues for the same period of 2015. This decrease in revenue was primarily attributable to lower net premiums earned and realized losses recognized on the investment portfolio during the three months ended March 31, 2016, partially offset by higher net investment income and favorable profit share commission revenue adjustment in the Standard Commercial Segment. The decreased net earned premiums were due primarily to lower premiums written in the Workers Compensation operating unit due to a renewal rights agreement entered into during the second quarter of 2015 and subsequently amended during the third quarter of 2015 to cede 100% of the unearned premium effective July 1, 2015, as well as the impact on net premiums earned of lower net premiums written in our Specialty Commercial Segment during the fourth quarter of 2015, partially offset by increased retained premium under a renewed quota share reinsurance agreement effective October 1, 2014 in our Personal Segment.

The decrease in revenue for the three months ended March 31, 2016 was partially offset by lower loss and loss adjustment expenses of $0.7 million as compared to the same period in 2015. The decrease in loss and LAE was primarily the result of favorable prior year loss reserve development of $1.7 million for the three months ended March 31, 2016 as compared to $1.1 million of favorable prior year development for the same period of 2015, partially offset by higher current accident year loss trends in the Personal Segment. Other operating expenses increased due mostly to increased salary and related expenses, partially offset by lower production related expenses, in the Specialty Commercial Segment.

During the three months ended March 31, 2016, Hallmark's cash flow used in operations was $1.3 million compared to cash flow provided by operations of $3.7 million during the same period the prior year. The decrease in operating cash flow was primarily due to increased paid losses, including timing of reinsurance claim settlements, partially offset by lower net paid operating expenses and increased net collected premiums.