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HALLMARK
FINANCIAL SERVICES, INC.

1st Quarter 2017 Highlights

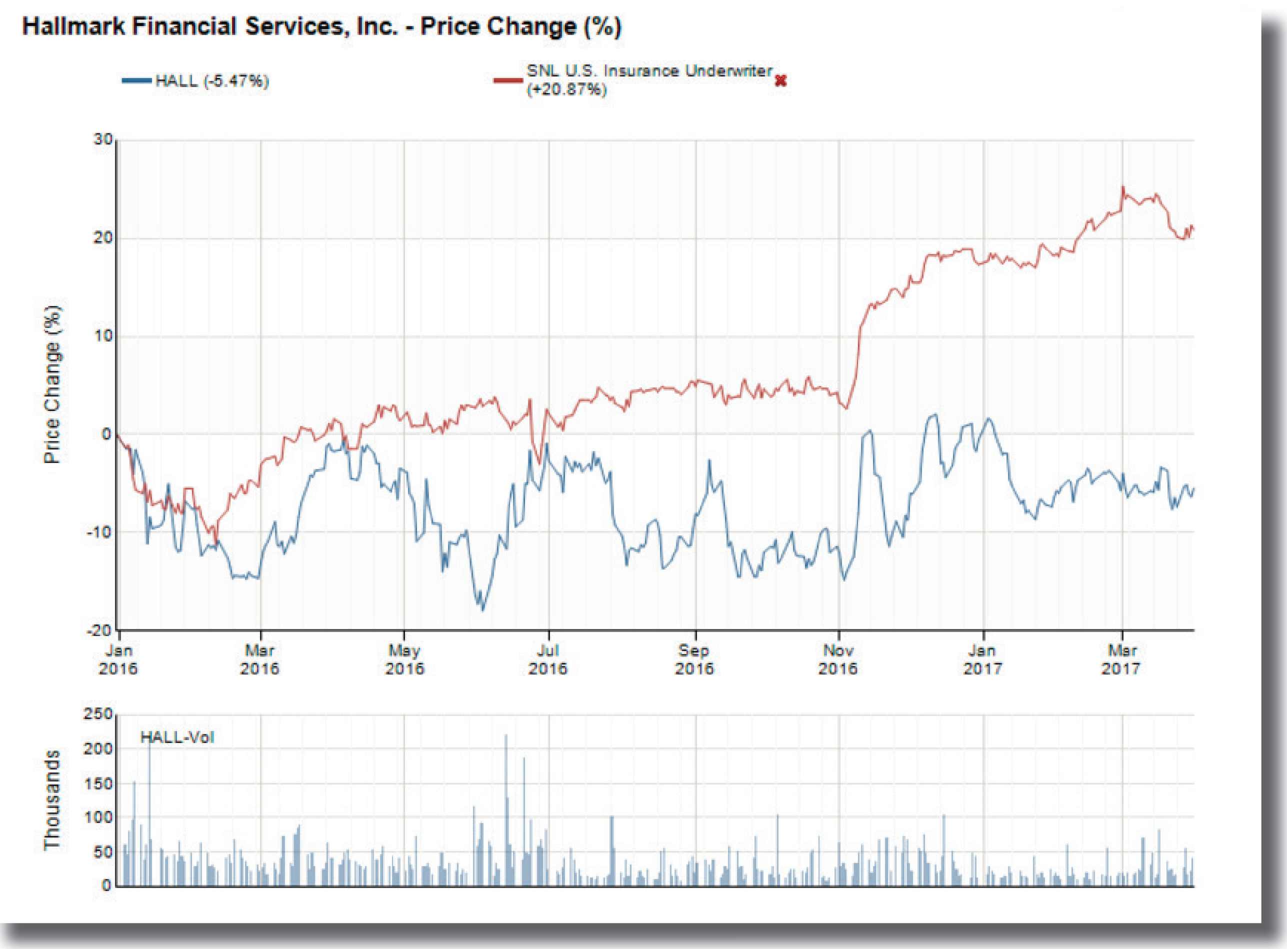
Summary

As of March 31, 2017:

- First quarter 2017 net income was $4.0 million, or $0.21 per diluted share, compared to net income of $4.1 million, or $0.21 per diluted share reported for the first quarter 2016.
- Total revenues were $96.9 million for the first quarter of 2017 as compared to $90 million for the first quarter of 2016.
- First quarter 2017 gross premiums written were up 5% compared to prior year.
- First quarter 2017 favorable prior year reserve development of $0.5 million.
- First quarter 2017 net combined ratio of 98.6%.

1st Quarter March 31, 2017	2017	2016	% +/-
	($ in thousands, unaudited)		
Gross premiums written	135,112	128,447	5%
Net premiums written	88,519	87,626	1%
Net premiums earned	89,223	84,327	6%
Investment income, net of expenses	4,479	3,879	15%
Gain (loss) on investments [1]	2,060	74	2,684%
Other-than-temporary impairments	-	(301)	(100%)
Total revenues	96,948	90,028	8%
Net income	3,986	4,074	(2%)
Net income per share - basic	$ 0.21	$ 0.21	0%
Net income per share - diluted	$ 0.21	$ 0.21	0%
Book value per share	$ 14.60	$ 14.00	4%
Cash flow from operations	8,839	(1,311)	NM

[1] includes change in unrealized gain (loss) on other investment recognized in earnings



From Naveen Anand, President and CEO

"The first quarter of fiscal 2017 continued to see elevated losses from our automobile lines of business. However, we are seeing improvement in our personal auto loss experience for the current accident year compared to prior year as our actions to address increased severity and frequency trends in this portfolio are beginning to have the expected impact. In the quarter, our Personal Segment did see some adverse loss reserve development from prior accident years which included a large settlement of a homeowners claim, a line that we exited beginning in late 2014.

Our Specialty Commercial Segment grew premium production by 9% and reported a profitable 92.9% combined ratio for the quarter despite elevated commercial auto losses compared to the first quarter of the prior year. During a quarter which the industry saw significant severe convective storm losses, our Standard Commercial Segment experienced insignificant catastrophe losses as a result of our exposure reductions over the last two years and good fortune. However, during the first quarter of 2017, this segment experienced a $0.9 million hit to pre-tax income from the runoff of our occupational accident and workers' compensation lines of business as compared to a $0.3 million adverse impact during the same period the prior year. These runoff lines adversely impacted our Standard Commercial Segment's combined ratio by 6.2% and our consolidated combined ratio by 1.1% for the first quarter."

From Mark Schwarz, Executive Chairman

"We reported book value per share of $14.60 as of March 31, 2017, which is an increase of 2% during the first quarter. Our total cash and investments increased by $7.7 million during the first three months of 2017 to $748.8 million, or $40.33 per share. Our balance sheet remains liquid with a very short duration in our investment portfolio and cash balances (including restricted cash) of $85.8 million as of March 31, 2017 are ready to be deployed as we see opportunity."

First Quarter 2017 Commentary

Hallmark reported net income of $4.0 million for the three months ended March 31, 2017 as compared to net income of $4.1 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 both March 31, 2017 and 2016.

Hallmark's consolidated net loss ratio was 69.3% for the three months ended March 31, 2017, as compared to 65.7% for the same period the prior year. Hallmark's net expense ratio was 29.3% for the three months ended March 31, 2017 as compared to 29.6% for the same period the prior year. Hallmark's net combined ratio was 98.6% for the three months ended March 31, 2017 as compared to 95.3% for the same period the prior year. Hallmark's reported net combined ratio includes a 1.1% adverse impact for the three months ended March 31, 2017, as compared to a 0.5% adverse impact for the same period the prior year, from the workers' compensation and occupational accident lines of business no longer written by the Standard Commercial Segment. Similarly, these discontinued lines of business accounted for 6.2% of the 101.6% net combined ratio of the Standard Commercial Segment for the first quarter of 2017 and 2.4% of the 100.7% net combined ratio of the Standard Commercial Segment for the first quarter of 2016.

During the three months ended March 31, 2017, Hallmark's total revenues were $96.9 million, representing an increase of 8% from the $90.0 million in total revenues for the same period of 2016. During the three months ended March 31, 2017, Hallmark's income before tax was $5.8 million, representing a decrease of $0.2 million from the $6.0 million reported during the same period the prior year.

The increase in revenue for the three months ended March 31, 2017 was primarily attributable to net realized gains on the Company's investment portfolio during the current quarter as compared to net realized losses during the same period the prior year. Also contributing to the increase in revenue were higher net premiums earned and higher net investment income, partially offset by lower finance charge revenue and lower commission and fee revenue. The higher net premiums earned were due mostly to increased premium production in the Specialty Commercial Segment.

The decrease in income before tax for the three months ended March 31, 2017 was due primarily to increased losses and loss adjustment expenses ("LAE") of $6.4 million and higher operating expenses of $0.6 million, partially offset by the increase in revenue discussed above. The increase in loss and LAE was primarily the result of higher current accident year loss trends in the Specialty Commercial Segment driven by commercial auto lines of business, as well as the increased earned premium discussed above.

During the three months ended March 31, 2017, Hallmark's cash flow provided by operations was $8.8 million compared to cash flow used by operations of $1.3 million during the same period the prior year. The increase in operating cash flow was primarily due to decreased paid losses (including timing of reinsurance claim settlements), increased net collected premiums, higher collected net investment income and lower income taxes paid partially offset by higher paid operating expenses and lower collected finance charges.