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HALLMARK FINANCIAL SERVICES, INC.

1st Quarter 2018 Highlights

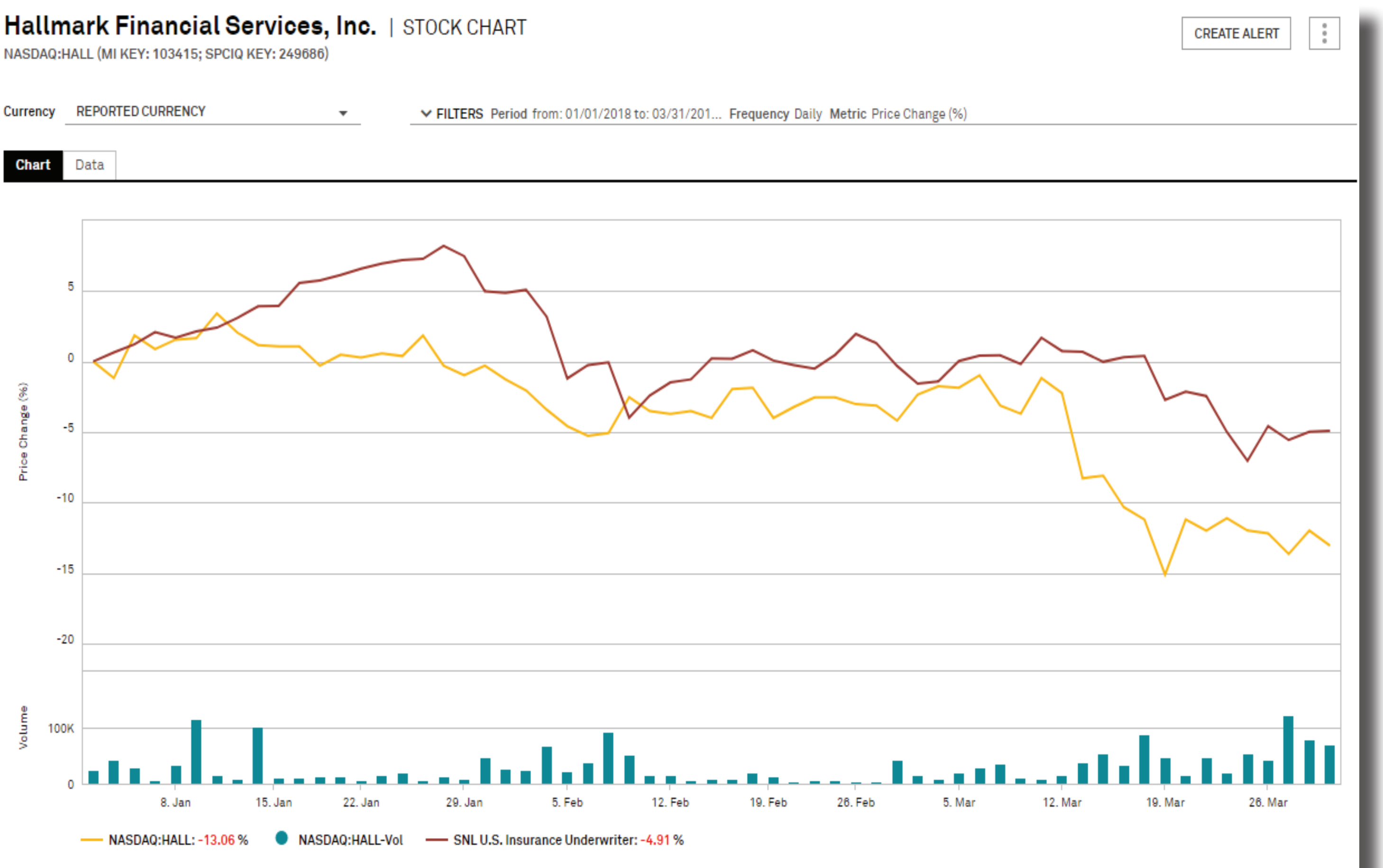
Summary

As of March 31, 2018:

- First quarter 2018 net income was $0.6 million, or $0.04 per diluted share, compared to net income of $4.0 million, or $0.21 per diluted share reported for the first quarter 2017.
- First quarter 2018 operating earnings[1] was $4.5 million, or $0.24 per diluted share, compared to $2.6 million, or $0.14 per diluted share reported for the first quarter 2017.
- First quarter 2018 net combined ratio of 97.4% versus 98.6% for first quarter 2017.
- First quarter favorable prior year reserve development of $0.5 million for both 2018 and 2017.
- First quarter 2018 gross premiums written of $153.5 million were up 14% compared to prior year.
- First quarter 2018 net premiums written of $91.4 million were up 3% compared to prior year.

[1] *See "Non-GAAP Financial Measures" on the last page.*

1st Quarter March 31, 2018	2018	2017	% +/-
	($ in *thousands, unaudited*)		
Gross premiums written	153,505	135,112	14%
Net premiums written	91,433	88,519	3%
Net premiums earned	91,947	89,223	3%
Investment income, net of expenses	4,440	4,479	(1%)
Investment (losses) gains, net	(4,835)	2,060	(335%)
Total revenues	93,341	96,948	(4%)
Net income	647	3,986	(84%)
Operating earnings	4,467	2,647	69%
Net income per share - basic	$ 0.04	$ 0.21	(81%)
Net income per share - diluted	$ 0.04	$ 0.21	(81%)
Operating earnings per share - diluted	$ 0.24	$ 0.14	71%
Book value per share	$ 13.85	$ 14.60	(5%)
Cash flow from operations	(19,215)	8,839	(317%)



From Naveen Anand, President and CEO

"I am pleased to report a strong start to fiscal 2018. Our first quarter underwriting results reflect improvement from the various actions we have undertaken the past couple of years to address the challenges that had emerged in our commercial and personal auto portfolios. We are also seeing results from our efforts to diversify into new specialty product lines and to re-balance the geographic footprint of our book. We reported a net combined ratio of 97.4% for the quarter which is higher than our long-term goal as an organization but improved from the first quarter of last year and in line with our expectations for this quarter. We continue to see strong pricing momentum in many product lines across our portfolio which contributed to the 14% increase in gross premiums written for the quarter. Excluding the impact of investment gains and losses, our operating earnings were $4.5 million, or $0.24 per diluted share, as compared to $2.6 million, or $0.14 per diluted share, for the first quarter of 2017.

A temporary acceleration of paid claims as we improved our claims practices to address the increase in frequency and severity in our commercial auto portfolio resulted in a decrease in operating cash flow this quarter. We expect our paid claims to trend back closer to our historical levels over the next few quarters as we address the large claim inventory from older accident years."

From Mark Schwarz, Executive Chairman

"First quarter book value per share increased slightly to $13.85 compared to $13.82 at December 31, 2017. Net investment income was $4.4 million, a 1% decline compared to the first quarter of 2017. Total cash and investments was $709.8 million, or $39.15 per share, as of March 31, 2018, a decrease of 2% from $40.12 per share as of December 31, 2017.

Due to the adoption of Accounting Standards Update No. 2016-01, we are now required to include the changes in unrealized gains/losses of our equity security investments as a component of investment gains/losses in our earnings statements. Investment gains/losses in the first quarter include a charge of $4.5 million due to changes in the unrealized gains/losses of our investments in equity securities held at March 31, 2018. Also related to the adoption of the new accounting standard, we reclassified net unrealized gains on equity securities of $21.5 million before tax ($17.0 million after tax) from accumulated other comprehensive income to retained earnings.

Based on our historical practice of acquiring securities and holding those securities for long periods, quarterly changes in investment gains and losses, whether realized or unrealized, are not predictable or necessarily meaningful in understanding the operating results of our insurance business. We expect these gains and losses will continue to cause volatility in our periodic earnings."

First Quarter 2018 Commentary

Hallmark reported net income of $0.6 million for the three months ended March 31, 2018, as compared to net income of $4.0 million for the same period the prior year. On a diluted basis per share, the Company reported net income of $0.04 per share for the three months ended March 31, 2018, as compared to net income of $0.21 per share for the same period the prior year.

Hallmark's consolidated net loss ratio was 69.3% for the three months ended March 31, 2018 and 2017. Hallmark's net expense ratio was 28.1% for the three months ended March 31, 2018 as compared to 29.3% for the same period the prior year. Hallmark's net combined ratio was 97.4% for the three months ended March 31, 2018, as compared to 98.6% for the same period the prior year.

During the three months ended March 31, 2018, Hallmark's total revenues were $93.3 million, representing a decrease of 4% from the $96.9 million in total revenues for the same period of 2017. During the three months ended March 31, 2018, Hallmark's income before tax was $0.8 million, as compared to income before tax of $5.8 million reported during the same period the prior year.

The decrease in revenue was primarily due to investment losses of $4.8 million during the first three months of 2018 as compared to investment gains of $2.1 million reported for the first three months of 2017. The investment loss includes $4.5 million in loss attributable to the adoption of Accounting Standards Update No. 2016-01. This decrease in revenue was partially offset by higher net premiums earned in the Specialty Commercial Segment and the Standard Commercial Segment partially offset by lower net premiums earned in the Personal Segment, as well as higher commission and fee revenue for the three months ended March 31, 2018 as compared to the same period during 2017.

The decrease in income before tax for the three months ended March 31, 2018 was due primarily to the decrease in revenue discussed above as well as increased losses and loss adjustment expenses ("LAE") of $1.8 million, partially offset by lower operating expenses of $0.3 million and lower interest expense of $0.1 million. 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 and higher losses in the satellite launch insurance line of business.

Hallmark's effective tax rate was 20.0% for the three months ended March 31, 2018 as compared to 31.7% for the same period in 2017. The decrease in the effective tax rate was due primarily to the lower statutory rate from the enactment of the Tax Cuts and Jobs Act on December 22, 2017.

Non-GAAP Financial Measures

The Company's financial statements are prepared in accordance with United States generally accepted accounting principles ("GAAP"). However, the Company also presents and discusses certain non-GAAP financial measures that it believes are useful to investors as measures of operating performance. Management may also use such non-GAAP financial measures in evaluating the effectiveness of business strategies and for planning and budgeting purposes. However, these non-GAAP financial measures should not be viewed as an alternative or substitute for the results reflected in the Company's GAAP financial statements. In addition, our definitions of these items may not be comparable to the definitions used by other companies.

Operating earnings and operating earnings per share are calculated by excluding net investment gains and losses from GAAP net income. Management believes that operating earnings and operating earnings per share provide useful information to investors about the performance of and underlying trends in the Company's core insurance operations. Net income and net income per share are the GAAP measures that are most directly comparable to operating earnings and operating earnings per share. A reconciliation of operating earnings and operating earnings per share to the most comparable GAAP financial measures is presented below.

Non-GAAP Financial Measures Reconciliation
($ in thousands)

	Income Before Tax	Less Tax Effect	Net After Tax	Weighted Average Shares Diluted	Diluted Per Share
First Quarter 2018:					
Reported GAAP measures	$ 809	$ 162	$ 647	18,293	$ 0.04
Excluded investment losses/gains	4,835	1,015	3,820	18,293	$ 0.20
Operating earnings	$ 5,644	1,177	$ 4,467	18,293	$ 0.24
First Quarter 2017:					
Reported GAAP measures	$ 5,838	$ 1,852	$ 3,986	18,769	$ 0.21
Excluded investment losses/gains	(2,060)	(721)	(1,339)	18,769	$ (0.07)
Operating earnings	$ 3,778	1,131	$ 2,647	18,769	$ 0.14

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.