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HALLMARK
FINANCIAL SERVICES, INC.

2nd Quarter 2016 Highlights

Summary

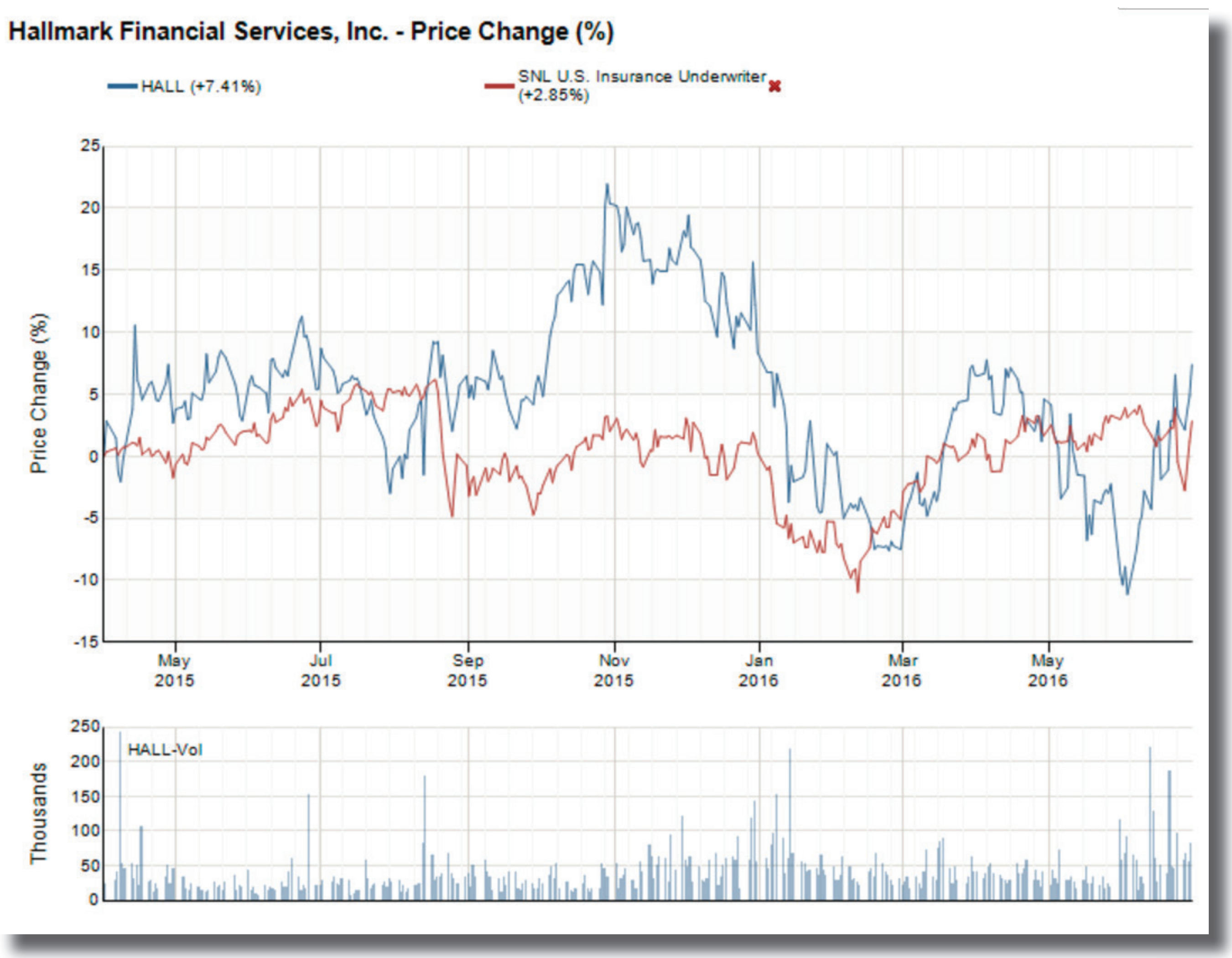
As of June 30, 2016:

- Second quarter net income of $1.1 million, or $0.06 per diluted share.
- Second quarter catastrophe losses of $7.8 million, or $0.27 per diluted share net of tax.
- Second quarter other-than-temporary impairments of $2.6 million, or $0.09 per diluted share net of tax.
- Second quarter net combined ratio of 95.9%, including 8.9% attributable to catastrophe losses.
- Second quarter gross premiums written up 8% compared to prior year.
- Second quarter ending book value per share of $14.25, up 5% compared to June 30, 2015.

2nd Quarter
June 30, 2016

($ in *thousands, unaudited*)

	2016	2015	% +/-
Gross premiums written	144,037	133,508	8%
Net premiums written	95,243	94,305	1%
Net premiums earned	87,698	88,476	(1%)
Investment income, net of expenses	3,994	3,711	8%
Gain on investments	410	4,992	(92%)
Total revenues	91,052	97,197	(6%)
Net income	1,066	6,376	(83%)
Net income per share - basic	$ 0.06	$ 0.33	(82%)
Net income per share - diluted	$ 0.06	$ 0.33	(82%)
Book value per share	$ 14.25	$ 13.63	5%
Cash flow from operations	$ 3,645	$29,169	(88%)



From Naveen Anand, President and CEO

"The second quarter of 2016 was adversely impacted by a combination of higher catastrophe losses from severe convective storms in Texas and the Midwest and other-than-temporary impairments in our investment portfolio. CAT losses were $7.8 million for the second quarter of 2016 compared to $3.7 million for the same period the prior year. Nonetheless we achieved a 95.9% combined ratio despite the 8.9% attributable to CAT losses.

The Specialty Commercial Segment, which has been the focus of our investments in new products and additional underwriters, contributed both revenue growth and profitability to the Company's second quarter results. Our Standard Commercial Segment produced strong results on a year over year basis, despite $6.7 million of CAT losses in the second quarter of 2016 compared to only $2.8 million for the same period the prior year. The Personal Lines Segment still underperformed primarily driven by unfavorable prior year loss development, although current accident year results have improved. Also adversely impacting the second quarter results was a $1.8 million accrual for an arbitration award related to the contingent consideration from a 2011 acquisition."

From Mark Schwarz, Executive Chairman

"Hallmark reported book value per share of $14.25 as of June 30, 2016, an increase of 5% over June 30, 2015. Total cash and investments increased $18.1 million during the first six months of 2016 to $719.9 million, an increase of 5% per share to $38.56 per share. Our cash balances (including restricted cash) totaled $101.2 million as of June 30, 2016."

2nd Quarter 2016 Commentary

Hallmark reported net income of $1.1 million and $5.1 million for the three and six months ended June 30, 2016 as compared to net income of $6.4 million and $11.7 million for the same periods the prior year. On a diluted basis per share, the Company reported net income of $0.06 per share and $0.27 per share for the three and six months ended June 30, 2016, as compared to net income of $0.33 per share and $0.60 per share for the same periods the prior year.

Hallmark's consolidated net loss ratio was 66.7% and 66.2% for the three and six months ended June 30, 2016, as compared to 67.5% and 66.1% for the same periods the prior year. Hallmark's net expense ratio was 29.2% and 29.4% for the three and six months ended June 30, 2016 as compared to 28.6% and 28.4% for the same periods the prior year. Hallmark's net combined ratio was 95.9% and 95.6% for the three and six months ended June 30, 2016 as compared to 96.1% and 94.5% for the same periods the prior year.

During the three and six months ended June 30, 2016, total revenues were $91.1 million and $181.1 million, representing a decrease of 6% and 4%, respectively, from the $97.2 million and $188.6 million in total revenues for the same periods of 2015. This decrease in revenue was primarily attributable to realized losses recognized on the investment portfolio during the three and six months ended June 30, 2016 as compared to realized gains recognized during the prior year periods and lower net premiums earned, partially offset by higher net investment income and higher commission and fee revenue. 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 the Specialty Commercial Segment during the fourth quarter of 2015 impacting year-to-date net earned premium, partially offset by increased retained premium under a renewed quota share reinsurance agreement effective October 1, 2014 in the Personal Segment.

The decrease in revenue for the three and six months ended June 30, 2016 was partially offset by lower loss and loss adjustment expenses ("LAE") of $1.2 million and $1.9 million, respectively, as compared to the same period in 2015. The decrease in loss and LAE was primarily the result of lower current accident year non-catastrophe loss trends and favorable net prior year loss development in the Standard Commercial Segment, partially offset by higher current accident year catastrophe losses in the Standard Commercial Segment. The Company recorded an aggregate of $8.3 million of net catastrophe losses during the six months ended June 30, 2016 as compared to net catastrophe losses of $3.7 million for the same period of 2015. The Company recorded favorable prior year loss reserve development of $2.8 million for the six months ended June 30, 2016 as compared to $1.5 million of favorable prior year development for the same period of 2015. Other operating expenses increased mostly as a result of a $1.8 million accrual to the earn-out related to the previous acquisition of TBIC and increased salary and related expenses, partially offset by lower production related expenses in the Specialty Commercial Segment.

During the six months ended June 30, 2016, Hallmark's cash flow provided by operations was $2.3 million compared to cash flow provided by operations of $32.9 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.