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HALLMARK
FINANCIAL SERVICES, INC.

2nd Quarter 2018 Highlights

Summary

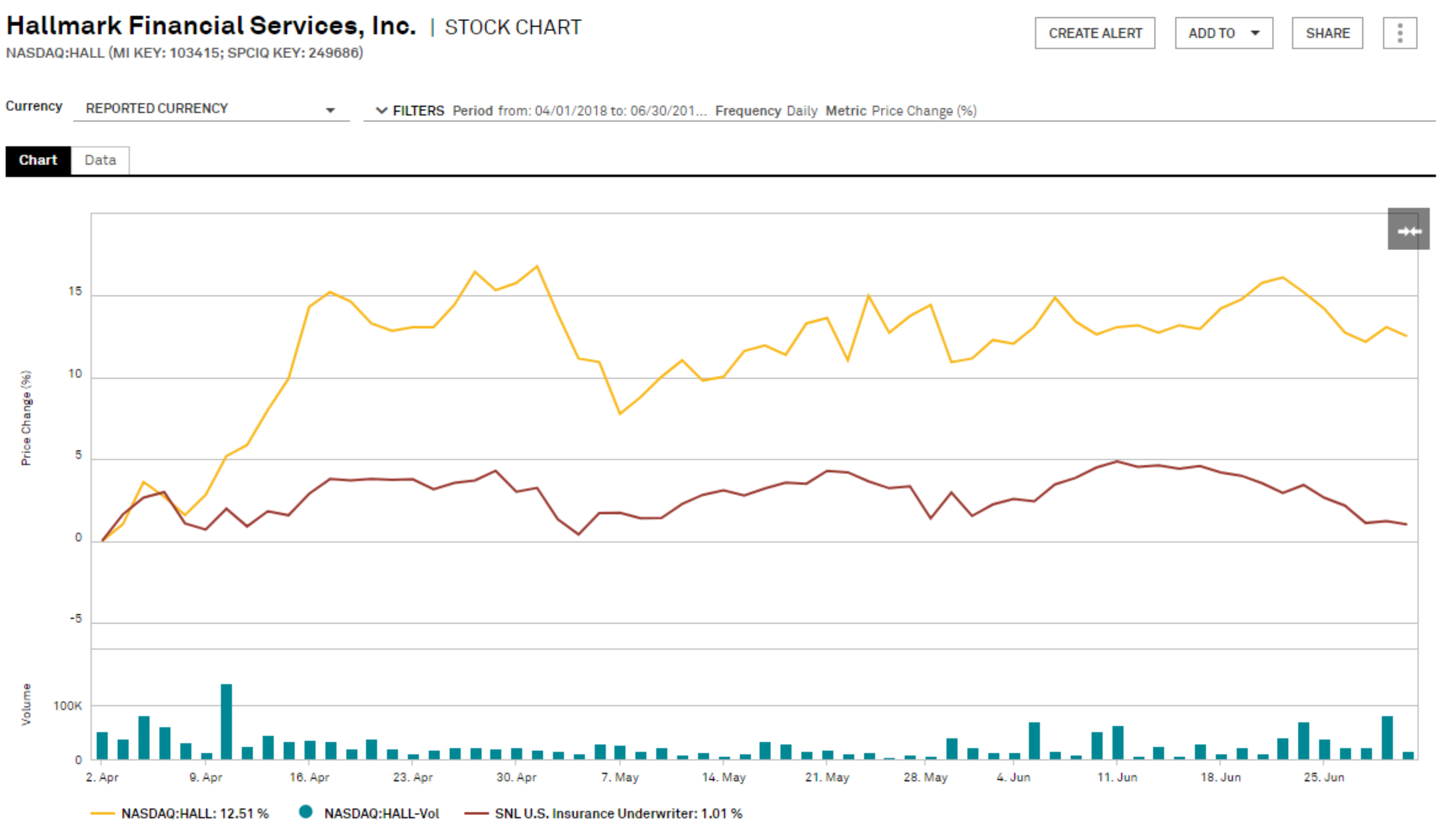
As of June 30, 2018:

- Second quarter 2018 net income was $5.1 million, or $0.28 per diluted share, compared to net loss of ($3.4) million, or ($0.18) per diluted share reported for the second quarter 2017.
- Year-to-date 2018 net income was $5.7 million, or $0.31 per diluted share, compared to net income of $0.6 million, or $0.03 per diluted share reported for the prior year-to-date.
- Second quarter 2018 net combined ratio of 97.0% versus 105.1% for second quarter 2017.
- Year-to-date 2018 net combined ratio of 97.1% versus 101.9% for the prior year-to-date.
- Year-to-date 2018 gross premiums written of $326.7 million were up 10% compared to prior year-to-date.
- Year-to-date 2018 net premiums written of $181.3 million declined 4% compared to prior year-to-date.

2nd Quarter

June 30, 2018

	2018	2017	% +/-
	($ in *thousands, unaudited*)		
Gross premiums written	173,219	162,056	7%
Net premiums written	89,846	100,894	(11%)
Net premiums earned	90,978	90,707	0%
Investment income, net of expenses	4,406	4,587	(4%)
Investment (losses) gains, net	533	(72)	840%
Other-than-temporary impairments	-	(3,407)	100%
Net income (loss)	5,090	(3,350)	252%
Operating earnings (loss)	4,669	(1,089)	529%
Net income (loss) per share - basic	$ 0.28	$ (0.18)	256%
Net income (loss) per share - diluted	$ 0.28	$ (0.18)	256%
Operating earnings per share - diluted	$ 0.26	$ (0.06)	533%
Book value per share	$ 14.23	$ 14.57	(2%)
Cash flow from operations	9,320	3,545	163%



From Naveen Anand, President and CEO

"I am pleased to report continued progress in our results that reflect improvement and momentum 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 re-balance the geographic footprint of our book. We reported a net combined ratio of 97.0% for the quarter which was significantly improved from last year and in line with our expectations for the quarter. We continue to see strong rate increases in many of our product lines which contributed to the 7% increase in gross premiums for the quarter.

Severity and litigation trends in commercial auto continue to be challenging. In addition to having successfully transitioned our claims operations to address the new realities in this line, we continue to drive meaningful rate increases and underwriting actions within our commercial auto portfolio and our more current accident years are performing in line with expectations. We are however, seeing irresponsible new competitors buying their way into the market by underpricing business. We continue to walk away from risks that don't meet our pricing requirements or quality standards."

From Mark Schwarz, Executive Chairman

"Book value per share at June 30, 2018 increased to $14.23 compared to $13.82 at December 31, 2017. Year-to-date net investment income was $8.8 million, a 2% decline compared to the prior year-to-date. Total cash and investments was $712.5 million, or $39.45 per share, as of June 30, 2018, a decrease of 2% from $40.12 per share as of December 31, 2017."

Second Quarter 2018 Commentary

Hallmark reported net income of $5.1 million and $5.7 million for the three months and six months ended June 30, 2018, respectively, as compared to ($3.4) million and $0.6 million for the three months and six months ended June 30, 2017, respectively. On a diluted basis per share, the Company reported net income of $0.28 per share and $0.31 per share for the three months and six months ended June 30, 2018, respectively, as compared to ($0.18) per share and $0.03 per share for the three months and six months ended June 30, 2017, respectively.

Hallmark's consolidated net loss ratio was 70.0% and 69.6% for the three months and six months ended June 30, 2018, respectively, as compared to 77.9% and 73.7% for the three months and six months ended June 30, 2017, respectively. Hallmark's net expense ratio was 27.0% and 27.5% for the three months and six months ended June 30, 2018, respectively, as compared to 27.2% and 28.2% for the three months and six months ended June 30, 2017, respectively. Hallmark's net combined ratio was 97.0% and 97.1% for the three months and six months ended June 30, 2018, respectively, as compared to 105.1% and 101.9% for the three months and six months ended June 30, 2017, respectively.

During the three months and six months ended June 30, 2018, Hallmark's gross premiums written were $173.2 million and $326.7 million, representing an increase of 7% and 10%, respectively from the $162.1 million and $297.2 million in gross premiums written for the same periods in 2017. Hallmark's net premiums earned were $91.0 million and $182.9 million for the three months and six months ended June 30, 2018, respectively, as compared to $90.7 million and $179.9 million for the same periods in 2017. During the three months and six months ended June 30, 2018, Hallmark's income before tax was $6.4 million and $7.2 million, respectively, as compared to ($4.9) million and $0.9 million reported during the same periods in 2017.

The increase in net premiums earned for both the three months and six months ended June 30, 2018 was driven by improvement in the Specialty Commercial and Standard Commercial Segments, partially offset by lower net premiums earned in the Personal Segment. The increase in income before tax for the three months and six months ended June 30, 2018 was due primarily to the increase in net earned premiums, as well as higher commissions, fees and finance charges and decreased losses and loss adjustment expenses ("LAE"). The quarterly results were also favorably impacted by investment gains of $0.5 million in 2018 as compared to investment losses of $3.5 million in 2017, while the year to date results were adversely impacted by higher net investment losses of $4.3 million for 2018 as compared to $1.4 million for 2017. The decrease in loss and LAE was primarily the result of unfavorable net prior year loss reserve development of $5.0 million and $4.5 million for the three and six months ended June 30, 2018, respectively, as compared to unfavorable net prior year loss reserve development of $10.2 million and $9.7 million during the same periods of 2017. The investment loss during the six months ended June 30, 2018 includes $3.9 million in loss attributable to the adoption effective January 1, 2018 of Accounting Standards Update No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" which requires equity investments that are not consolidated or accounted for under the equity method of accounting to be measured at fair value with changes in fair value recognized in net income.

Hallmark's effective tax rate was 20.1% for the six months ended June 30, 2018 as compared to 30.9% 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.

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.