HALLMARK
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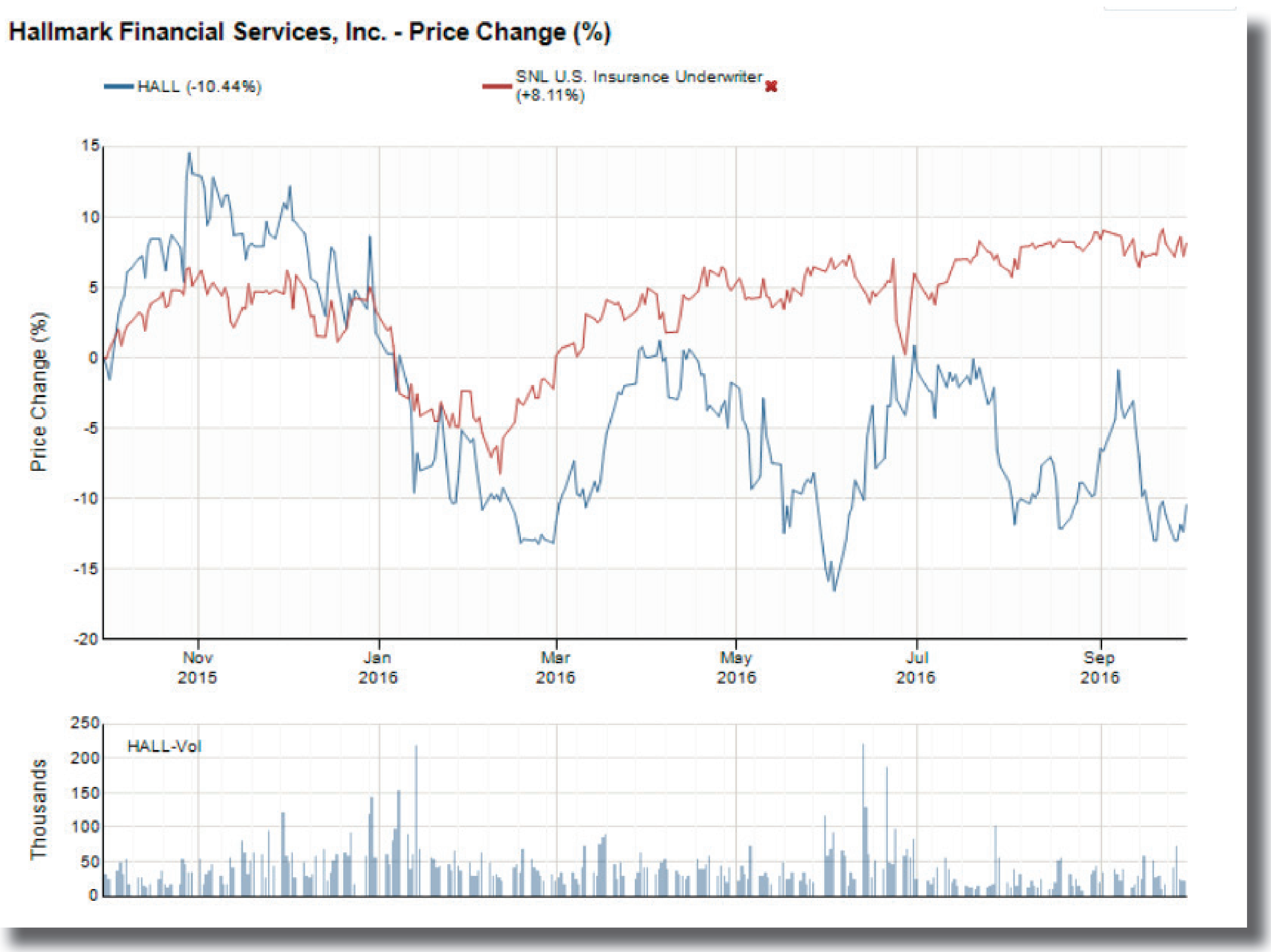
3rd Quarter 2016 Highlights

Summary

As of September 30, 2016:

- Third quarter net income of $5.0 million, or $0.27 per diluted share.
- Third quarter catastrophe losses of $2.2 million, or $0.08 per diluted share net of tax.
- Third quarter net combined ratio of 96.6%, including 2.4% attributable to catastrophe losses.
- Third quarter gross premiums written up 11% compared to prior year.
- Third quarter operating cash flow up 127% compared to prior year.
- Third quarter ending book value per share of $14.53, up 7% compared to September 30, 2015.

3rd Quarter September 30, 2016	2016	2015	% +/-
	($ in thousands, unaudited)		
Gross premiums written	147,065	132,141	11%
Net premiums written	95,685	89,924	6%
Net premiums earned	90,795	88,406	3%
Investment income, net of expenses	4,070	3,495	16%
Gain on investments	1,105	28	3,846%
Other-than-temporary impairments	-	(363)	(100%)
Total revenues	97,618	93,684	4%
Net income	5,048	6,698	(25%)
Net income per share - basic	$ 0.27	$ 0.35	(23%)
Net income per share - diluted	$ 0.27	$ 0.35	(23%)
Book value per share	$ 14.53	$ 13.62	7%
Cash flow from operations	$23,198	$10,223	127%



From Naveen Anand, President and CEO

"Our Specialty Commercial Segment and Standard Commercial Segment continued to perform well both in the quarter and on a year to date basis. Our investments in additional underwriting talent and new products in the Specialty Commercial Segment are beginning to deliver as expected. We continue to find opportunities for profitable growth. As a result, the Specialty Commercial Segment now represents over 70% of our portfolio.

Auto results in our Personal Segment continue to face challenging headwinds. We will continue to address these challenges by increasing rates, culling unprofitable sectors of this business and implementing changes in our claims processes to improve performance."

From Mark Schwarz, Executive Chairman

"Hallmark reported book value per share of $14.53 as of September 30, 2016, an increase of 7% over September 30, 2015. Total cash and investments increased $28.9 million during the first nine months of 2016 to $730.7 million, an increase of 7% per share to $39.19 per share. Our cash balances (including restricted cash) totaled $81.1 million as of September 30, 2016."

3rd Quarter 2016 Commentary

Hallmark reported net income of $5.0 million and $10.2 million for the three and nine months ended September 30, 2016 as compared to net income of $6.7 million and $18.4 million for the same periods the prior year. On a diluted basis per share, the Company reported net income of $0.27 per share and $0.54 per share for the three and nine months ended September 30, 2016, as compared to net income of $0.35 per share and $0.95 per share for the same periods the prior year.

Hallmark's consolidated net loss ratio was 68.7% and 67.1% for the three and nine months ended September 30, 2016, as compared to 63.3% and 65.2% for the same periods the prior year. Hallmark's net expense ratio was 27.9% and 28.9% for the three and nine months ended September 30, 2016 as compared to 27.7% and 28.2% for the same periods the prior year. Hallmark's net combined ratio was 96.6% and 96.0% for the three and nine months ended September 30, 2016 as compared to 91.0% and 93.4% for the same periods the prior year.

During the three and nine months ended September 30, 2016, Hallmark's total revenues were $97.6 million and $278.7 million, representing an increase of 4% and a decrease of 1%, respectively, from the $93.7 million and $282.3 million in total revenues for the same periods of 2015. During the three and nine months ended September 30, 2016, Hallmark's income before tax was $7.2 million and $14.7 million, representing a decrease of $2.6 million and $12.1 million from the $9.8 million and $26.8 million reported during the same periods the prior year.

The increase in revenue for the three months ended September 30, 2016 was primarily attributable to realized gains recognized on the investment portfolio during the current quarter as compared to realized losses recognized during the same period the prior year. Also contributing to the increase in revenue were higher net premiums earned, higher net investment income and higher commission and fee revenue partially offset by lower finance charge revenue and lower other income. The higher net premiums earned were driven by higher net premiums written in the Specialty Commercial Segment and Personal Segment.

The decrease in income before tax for the three months ended September 30, 2016 was due primarily to increased loss and loss adjustment expenses ("LAE") of $6.3 million and higher interest expense of $0.4 million partially offset by the increase in revenue discussed above and lower other operating expenses of $0.1 million. The increase in loss and LAE was primarily the result of unfavorable net prior year loss reserve development in the Specialty Commercial Segment and Personal Segment, as well as higher current accident year loss trends in the Personal Segment and Standard Commercial Segment that was partially offset by higher favorable net prior year loss reserve development in the Standard Commercial Segment. The increase in interest expense was due to interest on a new revolving credit facility ("Facility B") entered into during the fourth quarter of 2015.

The decrease in revenue during the nine months ended September 30, 2016 was primarily attributable to realized losses recognized on the investment portfolio during the current period as compared to realized gains recognized during the same period the prior year. Also contributing to the lower revenue was lower net premiums earned, finance charges and other income, partially offset by higher net investment income and higher commission and fee revenue. The decrease in net premiums earned was primarily attributable to the adverse impact on the Standard Commercial Segment of ceding substantially all unearned workers' compensation premiums effective July 1, 2015, partially offset by the favorable impact of increased retention under a quota share reinsurance agreement in the Personal Segment effective October 1, 2014.

The decrease in income before tax for the nine months ended September 30, 2016 was due primarily to increased loss and LAE of $4.4 million, increased other operating expense of $3.7 million, decreased revenue discussed above and increased interest expense of $0.4 million. The increase in loss and LAE was primarily the result of an increase in retained losses in the Personal Segment under the quota share reinsurance agreement and higher current accident year loss trends. Hallmark incurred an aggregate of $10.4 million of net catastrophe losses during the nine months ended September 30, 2016 as compared to $5.3 million for the same period the prior year. The Company incurred net favorable loss reserve development of $0.8 million for the nine months ended September 30, 2016 as compared to $4.6 million of favorable loss reserve development for the same period in the prior year. Other operating expenses increased during the nine months ended September 30, 2016 primarily as the result of increased salary and related expenses in the Specialty Commercial Segment and a $1.8 million payment to settle the earn-out related to the previous acquisition of the subsidiaries comprising the Workers Compensation operating unit accrued during the second quarter of 2016, partially offset by lower production related expenses predominately in the Specialty Commercial Segment. The increase in interest expense was due to interest on Facility B.

During the nine months ended September 30, 2016, Hallmark's cash flow provided by operations was $25.5 million compared to cash flow provided by operations of $43.1 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 increased net collected premiums, lower taxes paid, lower net paid operating expenses and higher collected net investment income.