HALLMARK
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3rd Quarter 2017 Highlights

Summary

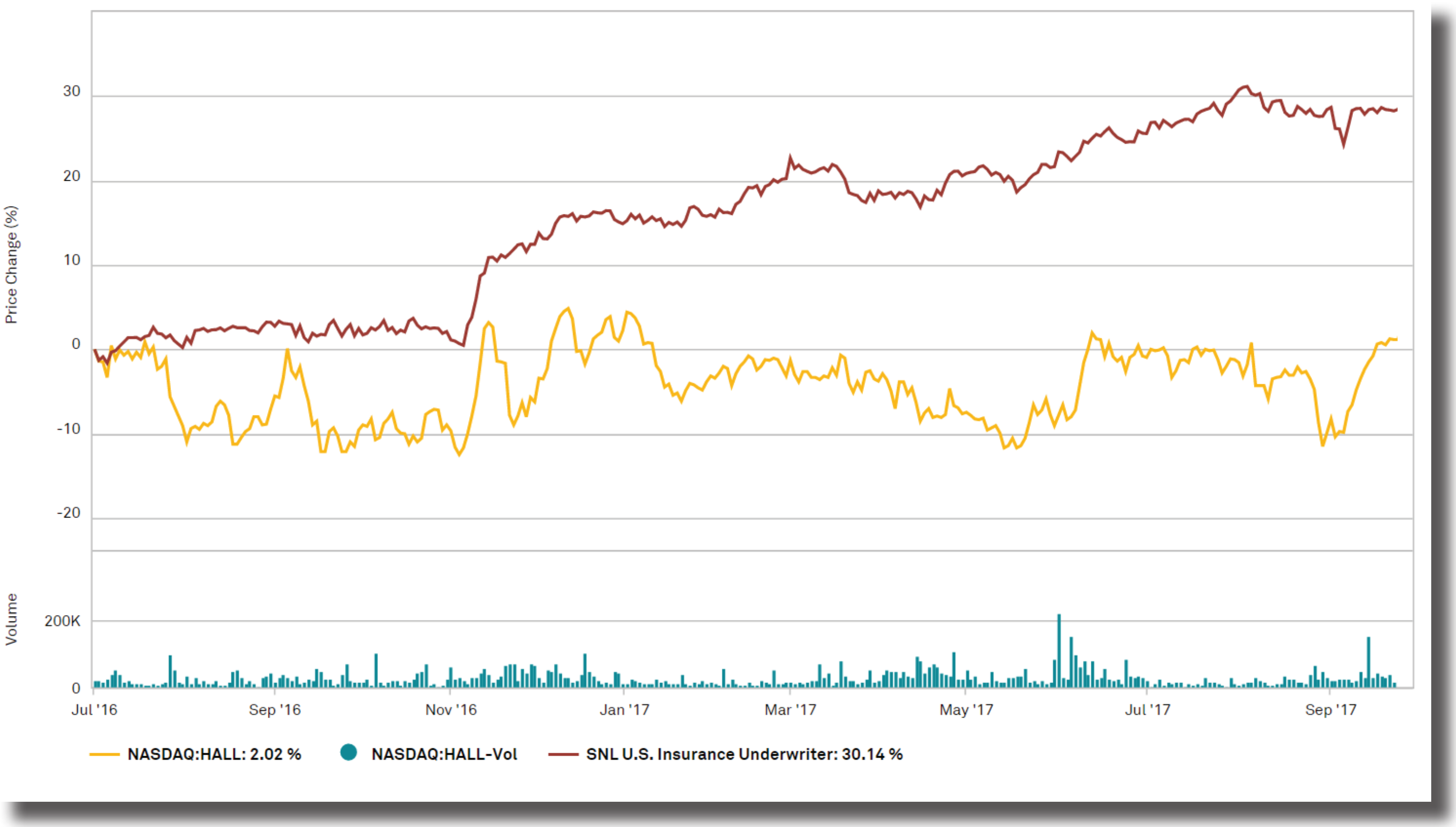
As of September 30, 2017:

- Third quarter 2017 net loss was $1.6 million, or $0.09 per diluted share. Year to date 2017 net loss was $0.9 million, or $0.05 per diluted share.
- Net combined ratio of 108.6% for third quarter 2017 and 104.2% for year to date 2017.
- Third quarter 2017 unfavorable prior year reserve development of $10.6 million versus $2.0 million unfavorable development for prior year.
- Catastrophe losses, net of reinsurance, of $4.4 million for the 3rd quarter 2017 and $6.3 million year to date 2017, each including $3.1 million from Hurricane Harvey, compared to $2.2 million and $10.4 million for the same prior periods.
- Year to date 2017 cash flow from operations of $34.3 million increased 34% over prior year.
- Third quarter 2017 total revenues of $97.7 million, increased slightly over prior year.
- Year to date 2017 total revenues of $288.1 million, increased 3% over prior year.

3rd Quarter

September 30, 2017

	2017	2016	% +/-
	($ in *thousands, unaudited*)		
Gross premiums written	161,151	147,065	10%
Net premiums written	95,049	95,685	(1%)
Net premiums earned	88,788	90,795	(2%)
Investment income, net of expenses	5,295	4,070	30%
Gain on investments	2,960	1,105	168%
Other-than-temporary impairments	(850)	-	NM
Total revenues	97,723	97,618	0%
Net (loss) income	(1,560)	5,048	(131%)
Net (loss) income per share - basic	$ (0.09)	$ 0.27	(133%)
Net (loss) income per share - diluted	$ (0.09)	$ 0.27	(133%)
Book value per share	$ 14.40	$ 14.53	(1%)
Cash flow from operations	21,945	23,198	(5%)



From Naveen Anand, President and CEO

"It was a challenging quarter for Hallmark driven by both prior year loss development, primarily in commercial auto, and natural catastrophes.

Considering the industry impact from the catastrophe losses and our home base of Texas, Hallmark weathered the storm well. Catastrophe losses contributed 4.9 points(1) to the third quarter and 2.4 points to the year to date net combined ratios. This compares to a catastrophe loss contribution of 2.4 points and 4.0 points to the third quarter and year to date 2016 net combined ratios. The loss results would have been higher if not for the improved exposure management and enterprise risk management strategies deployed over the last few years. Prior year adverse loss reserve development contributed another 11.9 points and 7.5 points to the current third quarter and year to date net combined ratios.

Primary commercial auto is a challenging environment. We are addressing the issues by significantly increasing rates, exiting territories that are underperforming or where there is irresponsible price competition, and culling poor performing risks from the book of business. We have filed our third rate increase in 15 months and last year ceased writing business in two states. This line of business has become a target for litigation and we've adjusted our underwriting and claims processes to address the new realities of the line.

Our gross premiums increased by 10% for the third quarter and 9% year to date primarily driven by product lines we've invested in over the last three years to diversify and balance the book of business. These lines continue to perform in line with expectations. Specialty Commercial now accounts for over 76% of our year to date gross premiums written. Our Personal Segment gross premiums written decreased by 39% for the third quarter and 25% year to date as compared to the same periods the prior year. Personal Segment net loss ratios improved by over 16 points for the quarter and over 9 points for year to date as compared to prior year periods. The Personal Segment expense ratio increased due to the premium volume reduction, but we expect that to come in line over the next few quarters and expect that the loss ratio will continue to improve as well,"

From Mark Schwarz, Executive Chairman

"We reported book value per share of $14.40 as of September 30, 2017, which is an increase of 1% during the first nine months of 2017. Our total cash and investments increased by $22.3 million during the first nine months of 2017 to $763.4 million, or $42.04 per share, driven mostly by $34.3 million of cash flow from operations for the first nine months of 2017, which is an increase of 34% over the same period the prior year. Our balance sheet remains liquid with a very short duration in our investment portfolio and cash balances (including restricted cash) of $93.1 million as of September 30, 2017, ready to be deployed as we see opportunity."

Third Quarter 2017 Commentary

Hallmark reported a net loss of $1.6 million and $0.9 million for the three months and nine months ended September 30, 2017, as compared to net income of $5.0 million and $10.2 million for the same periods the prior year. On a diluted basis per share, the Company reported a net loss of $0.09 per share and $0.05 per share for the three months and nine months ended September 30, 2017, as compared to net income of $0.27 per share and $0.54 per share for the same periods the prior year.

Hallmark's consolidated net loss ratio was 81.5% and 76.3% for the three months and nine months ended September 30, 2017, as compared to 68.7% and 67.1% for the same periods the prior year. Hallmark's net expense ratio was 27.1% and 27.9% for the three months and nine months ended September 30, 2017 as compared to 27.9% and 28.9% for the same periods the prior year. Hallmark's net combined ratio was 108.6% and 104.2% for the three months and nine months ended September 30, 2017, as compared to 96.6% and 96.0% for the same periods the prior year.

Hallmark's discontinued workers' compensation and occupational accident lines of business, previously written by the Standard Commercial Segment, adversely impacted the consolidated net combined ratio by 1.1 points and 1.2 points for the three months and nine months ended September 30, 2017, compared to an adverse impact of 0.3 points for the three months and a favorable impact of 0.5 points for the nine months ended September 30, 2016. Similarly, within the Standard Commercial Segment these discontinued lines of business accounted for 6.2 points of the 108.0% net combined ratio and 6.6 points of the 105.6% net combined ratio for the three months and nine months ended September 30, 2017, as compared to 2.2 points of the 89.2% net combined ratio and -2.5 points of the 92.6% net combined ratio of the Standard Commercial Segment for the same periods the prior year.

During the three months and nine months ended September 30, 2017, Hallmark's total revenues were $97.7 million and $288.1 million, representing an increase of 0% and 3%, from the $97.6 million and $278.7 million in total revenues for the same periods of 2016. During the three months and nine months ended September 30, 2017, Hallmark's loss before tax was $1.5 million and $0.6 million, as compared to income before tax of $7.2 million and $14.7 million reported during the same periods the prior year.

This increase in revenue for the three months and nine months ended September 30, 2017 was primarily attributable to higher net earned premiums in the Specialty Commercial Segment, partially offset by lower net earned premiums in the Standard Commercial Segment and the Personal Segment. Net earned premiums for the three and nine months ended September 30, 2017 include the impact of $1.5 million of ceded reinstatement premium attributable to Hurricane Harvey. Further contributing to this increase in revenues was higher net investment income and higher net realized gains recognized on the investment portfolio during the three and nine months ended September 30, 2017 as compared to the same periods during 2016. These increases in revenue during the three and nine months ended September 30, 2017 were partially offset by lower finance charges.

The increase in revenue for the three and nine months ended September 30, 2017 was offset by higher losses and loss adjustment expenses ("LAE") of $10.0 million and $28.7 million, as compared to the same periods in 2016. The increase in losses and LAE was primarily the result of unfavorable net prior year loss reserve development of $10.6 million and $20.2 million for the three and nine months ended September 30, 2017 as compared to unfavorable net prior year loss reserve development of $2.0 million during the third quarter of 2016 and $0.8 million of favorable net prior year loss reserve development during the nine months ended September 30, 2016, as well as higher current accident year loss trends in the Contract Binding operating unit (formerly the MGA Commercial Products operating unit). The Company reported $4.4 million and $6.3 million of net catastrophe losses during the three and nine months ended September 30, 2017, of which $3.1 million was attributable in both periods to Hurricane Harvey, as compared to $2.2 million and $10.4 million of net catastrophe losses during the same periods of 2016. Other operating expenses decreased mostly as a result of a $1.8 million payment to settle the earn-out related to the previous acquisition of TBIC during 2016 and lower production related expenses due primarily to increased ceding commissions in the Specialty Commercial Segment, partially offset by increased salary and related expenses and other operating expenses driven by investment in technology for the three and nine months ended September 30, 2017 as compared to the same periods during 2016.

During the nine months ended September 30, 2017, Hallmark's cash flow provided by operations was $34.3 million compared to cash flow provided by operations of $25.5 million during the same period the prior year. The increase in operating cash flow was primarily due to higher collected net investment income, higher collected ceding commissions, decreased paid losses (including timing of reinsurance claim settlements), lower income taxes paid and higher collected net premiums (including timing of reinsurance payments), partially offset by lower collected finance charges and higher paid interest expense.

(1) "Points" are either calculated as the impacted amount of net loss and loss adjustment expense and operating expenses divided by net earned premium when referencing the impact to the period or calculated as the difference in net loss and loss adjustment expense ratio or net combined ratio when comparing periods.