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HALLMARK
FINANCIAL SERVICES, INC.

3rd Quarter 2018 Highlights

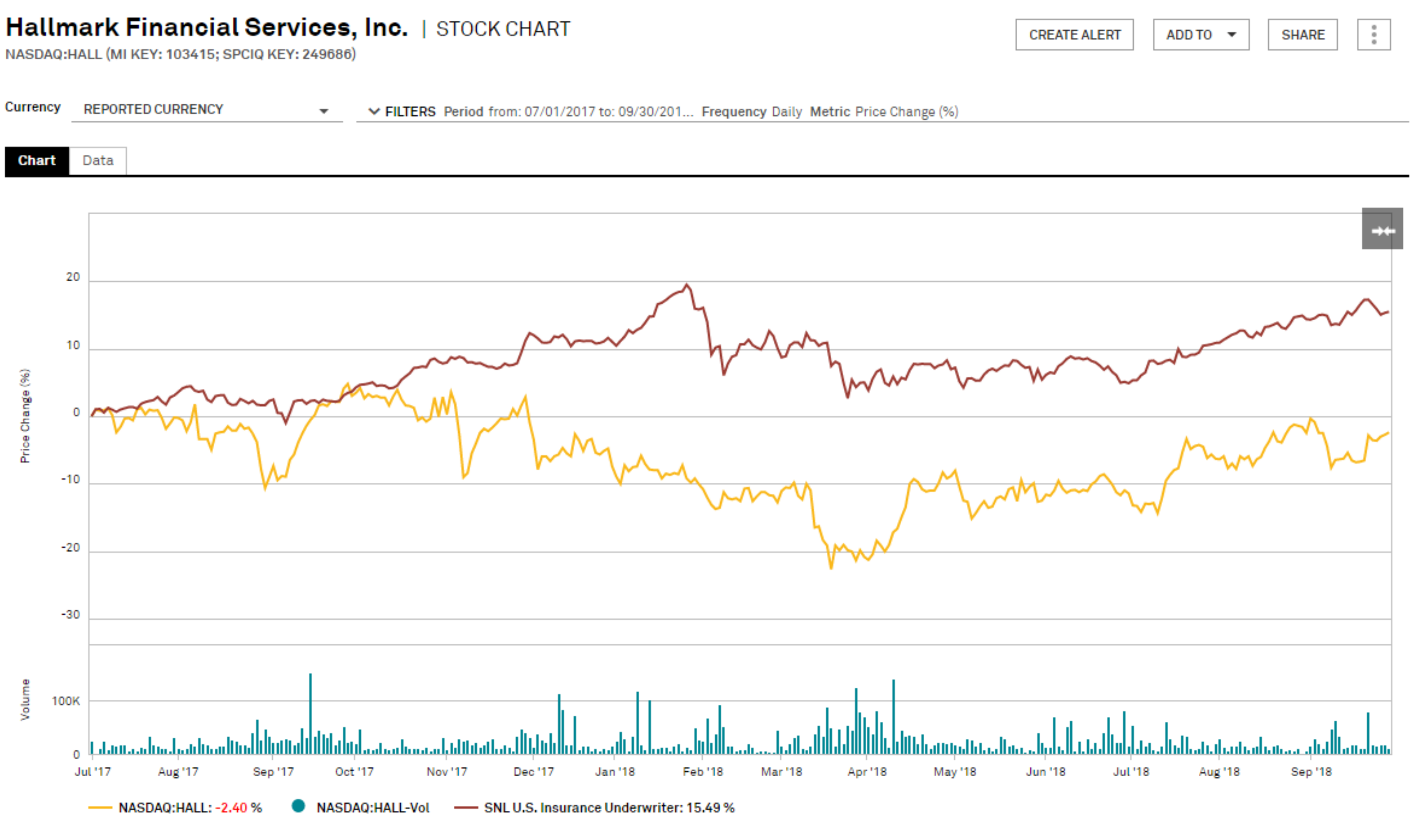
Summary

As of September 30, 2018:

- Third quarter 2018 net income was $9.7 million, or $0.53 per diluted share, compared to net loss of ($1.6) million, or ($0.09) per diluted share reported for the third quarter 2017.
- Year-to-date 2018 net income was $15.4 million, or $0.85 per diluted share, compared to net loss of ($0.9) million, or ($0.05) per diluted share reported for the prior year-to-date.
- Third quarter 2018 net combined ratio of 98.1% versus 108.6% for third quarter 2017.
- Year-to-date 2018 net combined ratio of 97.5% versus 104.2% for the prior year-to-date.
- Year-to-date 2018 gross premiums written of $495.8 million increased 8% from $458.3 million for prior year-to-date.
- Year-to-date 2018 net premiums written of $269.3 million declined 5% from $284.5 million for prior year-to-date.

3rd Quarter September 30, 2018	2018 ($ in *thousands, unaudited*)	2017	% +/-
Gross premiums written	169,112	161,151	5%
Net premiums written	88,012	95,049	(7%)
Net premiums earned	88,862	88,788	0%
Investment income, net of expenses	4,860	5,295	(8%)
Investment gains, net	6,980	2,960	136%
Other-than-temporary impairments	-	(850)	100%
Net income (loss)	9,685	(1,560)	721%
Operating earnings (loss)[1]	4,170	(2,931)	242%
Net income (loss) per share - basic	$ 0.54	$ (0.09)	700%
Net income (loss) per share - diluted	$ 0.53	$ (0.09)	689%
Operating earnings per share - diluted[1]	$ 0.23	$ (0.16)	244%
Book value per share	$ 14.79	$ 14.40	3%

[1] *See "Non-GAAP Financial Measures" on following pages*



From Naveen Anand, President and CEO

"Our net combined ratio reflects improvement in our underwriting results in comparison to last year on both a quarter and year-to-date basis. These results are trending favorably despite catastrophe losses and net adverse prior year reserve development, which collectively contributed 4.0% for the quarter and 4.1% on a year-to-date basis to the net combined ratio.

Rate momentum continues to be strong through the third quarter and on a year-to-date basis. However, we have seen retention dip slightly as we have held firm on pricing. Primary commercial auto gross premium decreased by 20% over the last four quarters, following targeted rate increases and underwriting actions. Just as we did in our Personal Segment, we have developed a proprietary predictive pricing model to support the underwriting process for this portfolio and are seeing positive results from these actions.

Our Personal Segment produced a welcome result of a 96.0% net combined ratio for the third quarter of 2018. The loss ratio results had stabilized over the last several quarters and, as projected, our expense ratio came more in line with our run rate expectations. The actions taken on the personal auto business are similar to what we are executing in commercial auto from an underwriting, pricing and claims perspective.

Our Standard Commercial Segment gross premiums written grew by 10.4% for year-to-date 2018 compared to the prior year. We have been executing our strategy to add states to our footprint and expand our distribution, as well as focusing on a limited group of classes that offer us profitable growth opportunities and where we have expertise.

Losses from catastrophes contributed 2.2% to the net combined ratio in the third quarter of 2018 and 1.8% on a year-to-date basis, with current quarter catastrophe losses being driven by Hurricane Florence. Although losses from Hurricane Michael are too early to project, we do not presently expect it to have a significant impact on our portfolio based on our exposure and modeled loss information. However, this is subject to change as claims are reported and more information becomes available. Our retention on our catastrophe reinsurance program is $5 million."

From Mark Schwarz, Executive Chairman

"Book value per share at September 30, 2018 was $14.79, a year-to-date increase of 7% compared to $13.82 at December 31, 2017. Year-to-date 2018 net investment income was $13.7 million, a 5% decline compared to the prior year-to-date. Total cash and investments was $711.2 million, or $39.38 per share, as of September 30, 2018, a decrease of 2% from $40.12 per share as of December 31, 2017."

Third Quarter 2018 Commentary

Hallmark reported net income of $9.7 million and $15.4 million for the three months and nine months ended September 30, 2018, respectively, as compared to a net loss of $1.6 million and $0.9 million for the three months and nine months ended September 30, 2017, respectively. On a diluted basis per share, the Company reported net income of $0.53 per share and $0.85 per share for the three months and nine months ended September 30, 2018, respectively, as compared to a net loss of $0.09 per share and $0.05 per share for the three months and nine months ended September 30, 2017, respectively.

Hallmark's consolidated net loss ratio was 72.3% and 70.5% for the three months and nine months ended September 30, 2018, respectively, as compared to 81.5% and 76.3% for the three months and nine months ended September 30, 2017, respectively. Hallmark's net expense ratio was 25.8% and 27.0% for the three months and nine months ended September 30, 2018, respectively, as compared to 27.1% and 27.9% for the three months and nine months ended September 30, 2017, respectively. Hallmark's net combined ratio was 98.1% and 97.5% for the three months and nine months ended September 30, 2018, respectively, as compared to 108.6% and 104.2% for the three months and nine months ended September 30, 2017, respectively.

During the three months and nine months ended September 30, 2018, Hallmark's gross premiums written were $169.1 million and $495.8 million, representing an increase of 5% and 8%, respectively from the $161.2 million and $458.3 million in gross premiums written for the same periods in 2017. Hallmark's net premiums written were $88.0 million and $269.3 million, representing a decrease of 7% and 5%, respectively from the $95.0 million and $284.5 million in net premiums written for the same periods of 2017. The decline in net premiums written was driven by an intentional shift in the mix of business away from a commercial auto concentration in the portfolio towards targeted growth in the Specialty Commercial operating unit, a larger portion of which is ceded to reinsurers. Hallmark's net premiums earned were $88.9 million and $271.8 million for the three months and nine months ended September 30, 2018, respectively, as compared to $88.8 million and $268.7 million for the same periods in 2017. During the three months and nine months ended September 30, 2018, Hallmark's income before tax was $12.1 million and $19.3 million, respectively, as compared to a loss before tax of $1.5 million and $0.6 million reported during the same periods in 2017.

The stable net premiums earned for the three months ended September 30, 2018 was due to net premium growth in the Standard Commercial Segment, offset by lower net premiums earned in the Specialty Commercial and Personal Segments. The modest increase in net premiums earned for the nine months ended September 30, 2018 was driven by improvements in both 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 nine months ended September 30, 2018 was largely due to increased investment gains and decreased losses and loss adjustment expenses. The investment gain during the nine months ended September 30, 2018 included $3.2 million in gain 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. The decrease in loss and LAE was primarily the result of unfavorable net prior year loss reserve development of $1.6 million and $6.1 million for the three and nine months ended September 30, 2018, respectively, as compared to unfavorable net prior year loss reserve development of $10.6 million and $20.2 million during the same periods of 2017. Higher commissions, fees and finance charges, partially offset by lower investment income, further contributed to the increase in income before tax for the three months and nine months ended September 30, 2018. The decrease in net investment income for the three and nine months ended September 30, 2018 was primarily the result of the final distribution on a fixed income security during the third quarter of the prior year.

[1]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.

($ in thousands)	Income Before Tax	Less Tax Effect	Net After Tax	Weighted Average Shares Diluted	Diluted Per Share
Third Quarter 2018					
Reported GAAP measures	$12,075	$2,390	$9,685	18,167	$0.53
Excluded investment losses/gains	$(6,980)	$(1,465)	$(5,515)	18,167	$(0.30)
Operating earnings	$5,095	$925	$4,170	18,167	$0.23
Third Quarter 2017					
Reported GAAP measures	$(1,525)	$35	$(1,560)	18,180	$(0.09)
Excluded investment losses/gains	$(2,110)	$(739)	$(1,371)	18,180	$(0.07)
Operating loss	$(3,635)	$(704)	$(2,931)	18,180	$(0.16)

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.