HALLMARK FINANCIAL SERVICES, INC.

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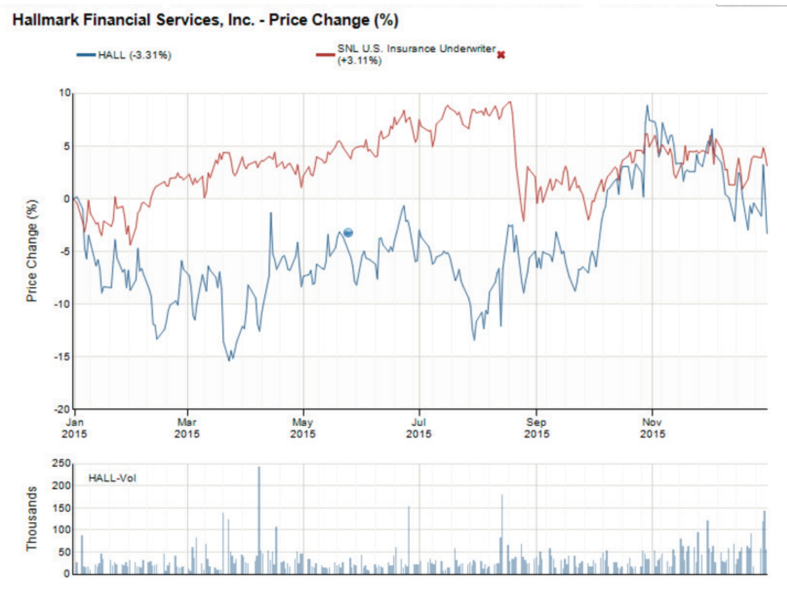
4th Quarter and Fiscal Year 2015 Highlights

Summary

As of December 31, 2015:

- Fourth quarter 2015 net income of $3.4 million, or $0.18 per diluted share, compared to net income of $3.8 million, or $0.19 per diluted share, reported for fourth quarter 2014.
- Fiscal 2015 net income of $21.9 million, or $1.13 per diluted share, compared to net income of $13.4 million, or $0.69 per diluted share, for fiscal 2014.
- Fourth quarter 2015 total revenues of $90.1 million as compared to $88.0 million for the fourth quarter of 2014.
- Fiscal 2015 total revenues of $372.4 million as compared to $337.4 million reported for fiscal 2014.



4th Quarter

December 31, 2015

	2015	2014	% +/-
	($ in *thousands, unaudited*)		
Gross premiums written	123,515	109,973	12%
Net premiums written	82,341	83,703	(2%)
Net premiums earned	85,503	83,447	2%
Investment income, net of expenses	3,918	3,244	21%
Net realized gains (losses)	(1,185)	256	nm
Total revenues	90,071	88,004	2%
Net income	3,446	3,767	(9%)
Net income per share - basic	$ 0.18	$ 0.20	(10%)
Net income per share - diluted	$ 0.18	$ 0.19	(5%)
Book value per share	$ 13.72	$ 13.11	5%
Cash flow from operations	9,835	11,974	(18%)

Fiscal Year

December 31, 2015

	2015	2014	% +/-
	($ in *thousands*)		
Gross premiums written	514,223	473,218	9%
Net premiums written	356,944	324,352	10%
Net premiums earned	349,081	321,217	9%
Investment income, net of expenses	13,969	12,383	13%
Net realized gains	2,503	134	1,768%
Total revenues	372,402	337,366	10%
Net income	21,863	13,429	63%
Net income per share - basic	$ 1.14	$ 0.70	63%
Net income per share - diluted	$ 1.13	$ 0.69	64%
Book value per share	$ 13.72	$ 13.11	5%
Cash flow from operations	52,936	33,684	57%

From Naveen Anand, President and CEO

"Our net income increased by over 60% from the prior year. In looking back at 2015, Hallmark has become an even more focused specialty property & casualty insurer. Actions taken across the portfolio, such as eliminating ancillary homeowners and dwelling business in our Personal Segment, selling our non-core workers' compensation book of business and developing several new product and business initiatives in our highly profitable Specialty Commercial Segment, are having the desired impact on our bottom line. Although the market continues to be challenging, Hallmark is well positioned in our targeted niche specialty segments for continued profitable growth.

Our Specialty and Standard Commercial Segments both produced good results and improved from the prior year. Our Personal Segment, which is primarily non-standard auto, continued to see an uptick in both frequency and severity from automobile losses for the year. We are aggressively addressing the issues in this segment by continuing to increase rates and implementing improved capabilities in terms of risk selection and segmentation. The early results appear positive.

The fourth quarter of 2015 was active in terms of catastrophe losses, driven by hail and tornado activity, that contributed nearly 5 points to the quarter's net combined ratio. The exposure management practices that we've implemented over the last few years are having the desired impact, despite one of the most active years for severe convective storms in Texas."

From Mark Schwarz, Executive Chairman

"Book value per share was $13.72 as of December 31, 2015, an increase of 5% over the prior year end. Total cash and investments have increased 8% year over year to $701.8 million, or $36.75 per share. Cash flow from operations was $52.9 million for fiscal 2015 and our cash balances (including restricted cash) totaled $123.0 million as of December 31, 2015."

Fourth Quarter 2015 Commentary

Hallmark reported net income of $3.4 million and $21.9 million for the three months and fiscal year ended December 31, 2015 as compared to net income of $3.8 million and $13.4 million for the same periods the prior year. On a diluted basis per share, the Company reported net income of $0.18 per share and $1.13 per share for the three months and fiscal year ended December 31, 2015, as compared to net income of $0.19 per share and $0.69 per share for the same periods the prior year.

Hallmark's consolidated net loss ratio was 68.2% and 65.9% for the three months and fiscal year ended December 31, 2015, as compared to 65.0% and 65.4% for the same periods the prior year. Hallmark's net expense ratio was 27.3% and 28.0% for the three months and fiscal year ended December 31, 2015 as compared to 30.9% and 30.5% for the same periods the prior year. Hallmark's net combined ratio was 95.5% and 93.9% for the three months and fiscal year ended December 31, 2015 as compared to 95.9% and 95.9% for the same periods the prior year.

During the three months and fiscal year ended December 31, 2015, Hallmark's total revenues were $90.1 million and $372.4 million, representing an increase of 2% and 10%, respectively, from the $88.0 million and $337.4 million in total revenues for the same periods of 2014. For fiscal 2015, the increase in revenue was primarily attributable to higher net earned premiums, higher net investment income, higher gains on investments of $5.8 million for 2015 as compared to $0.4 million for 2014 (partially offset by higher other-than-temporary impairments of $3.3 million for 2015 as compared to $0.3 million for 2014) and lower adverse profit share commission adjustments in the Standard Commercial Segment. The increased net earned premiums were primarily attributable to increased retained premium under a renewed quota share reinsurance agreement effective October 1, 2014 in the Personal Segment and increased premium production in both the Personal Segment and the MGA Commercial Products operating unit.

The increase in revenue for the three months and fiscal year ended December 31, 2015 was partially offset by increased loss and loss adjustment expenses of $4.1 million and $20.1 million, respectively, as compared to the same periods in 2014. The increase in loss and LAE for fiscal 2015 was primarily the result of an increase in retained losses in the Personal Segment under the renewed quota share reinsurance agreement. During the fiscal years ended December 31, 2015 and 2014, the Company recorded favorable prior year net loss reserve development of $7.0 million and $5.2 million, respectively. Also partially offsetting the increased revenue was increased other operating expenses due mostly to higher production related expenses in the Personal Segment due to the impact of the change in terms of the quota share reinsurance agreement and increased salary and related expenses in the Specialty Commercial and Corporate Segments.