HALLMARK
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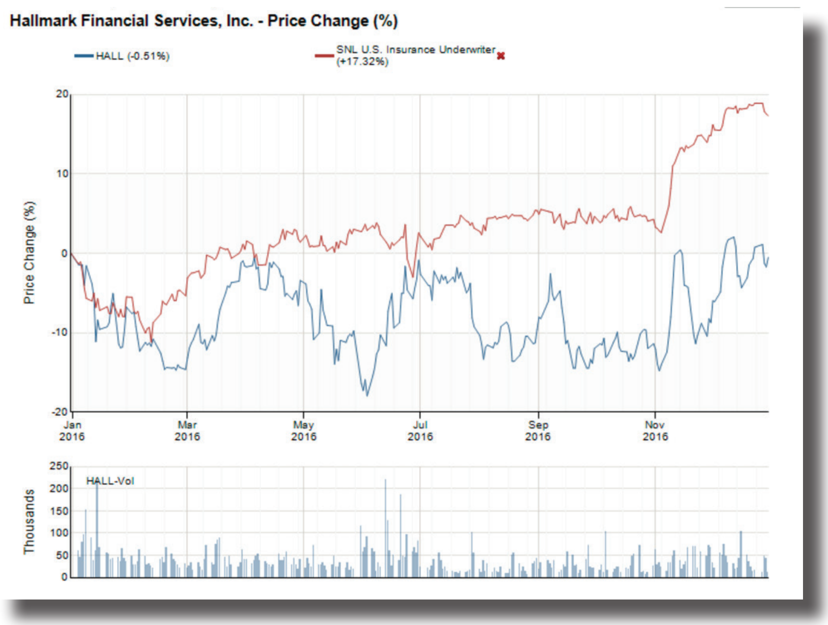
4th Quarter and Fiscal Year 2016 Highlights

Summary

As of December 31, 2016:

- Fiscal 2016 net income of $6.5 million, or $0.34 per diluted share.
- Fourth quarter 2016 net loss of $3.7 million, or $0.20 per diluted share.
- Fourth quarter and fiscal 2016 net catastrophe losses of $0.6 million and $11.0 million, respectively.
- Fourth quarter and fiscal 2016 adverse prior year reserve development of $8.4 million and $7.6 million, respectively.
- Fiscal 2016 net combined ratio of 99.8%, including 3.1% and 2.2% attributable to catastrophe losses and adverse prior year reserve development, respectively.



4th Quarter December 31, 2016	2016	2015	% +/-
	($ in *thousands, unaudited*)		
Gross premiums written	129,528	123,515	5%
Net premiums written	83,275	82,341	1%
Net premiums earned	90,550	85,503	6%
Investment income, net of expenses	4,399	3,918	12%
Gain (loss) on investments[(1)]	930	(55)	nm
Other-than-temporary impairments	-	(1,130)	(100%)
Total revenues	97,254	90,071	8%
Net income (loss)	(3,662)	3,446	(206%)
Net income (loss) per share - basic	$ (0.20)	$ 0.18	(211%)
Net income (loss) per share - diluted	$ (0.20)	$ 0.18	(211%)
Book value per share	$ 14.28	$ 13.72	4%
Cash flow from operations	5,322	9,835	(46%)

Fiscal Year December 31, 2016	2016	2015	% +/-
	($ in *thousands*)		
Gross premiums written	549,077	514,223	7%
Net premiums written	361,829	356,944	1%
Net premiums earned	353,370	349,081	1%
Investment income, net of expenses	16,342	13,969	17%
Gain on investments[(1)]	2,519	5,826	(57%)
Other-than-temporary impairments	(2,888)	(3,323)	(13%)
Total revenues	375,952	372,402	1%
Net income	6,526	21,863	(70%)
Net income per share - basic	$ 0.35	$ 1.14	(69%)
Net income per share - diluted	$ 0.34	$ 1.13	(70%)
Book value per share	$ 14.28	$ 13.72	4%
Cash flow from operations	30,854	52,936	(42%)

[(1)] includes unrealized gain on other investment recognized in earnings

From Naveen Anand, President and CEO

“The 4th Quarter results were disappointing and the conclusion of a challenging year for Hallmark in 2016. Deteriorated results in the automobile line of business, both commercial and personal, as well as higher than expected property catastrophe losses were the primary drivers of our results in 2016. For the year, excluding the 3.1% impact of catastrophe losses and the 2.2% impact from adverse prior accident year reserve development, driven by deteriorating auto results from those prior years, the combined ratio for the group would have been 94.5%.

In the quarter, we noted adverse prior year reserve development and higher current accident year loss trends resulting in an increase of our loss ratio estimates for the auto line of business in both our Specialty Commercial and Personal Segments. Actions to improve these results have been underway through the course of 2016.

In our Personal Segment we have continued to increase rates, culled under-performing risks, implemented significant improvement in claim handling and further reduced our geographic footprint to a core of ten states where we expect to gain scale and profitability as 2017 progresses. As a result of these actions, the elevated frequency and severity trends we’ve seen are beginning to plateau.

In our Specialty Commercial Segment, the auto portfolio experienced a number of large losses in the quarter along with the noted unfavorable reserve development from prior accident years. This led us to increase our current accident year loss estimates as well as to address the prior year reserve development. In the quarter, we implemented an exit from two poorly performing states. Furthermore, we continued to increase rates and expect the impact of rate changes to flow through in 2017.

When I joined Hallmark in late 2014, we launched a strategy to diversify our auto driven, regionally focused portfolio to mitigate volatility and improve our earnings trend. As a result, we’ve given greater emphasis and focus on developing a broader portfolio of specialty products, geographic diversification, investing in talent, enhancing our technology and driving better data and analytics to our pricing decisions. These strategic initiatives are beginning to have the desired outcome. Our Specialty Commercial Segment now accounts for over 70% of our gross written premium and drives the largest contribution to our net income, return on equity and growth. We are equally focused on getting sustained positive contribution from our Standard Commercial and Personal Segments.

From Mark Schwarz, Executive Chairman

“Hallmark reported book value per share of $14.28 as of December 31, 2016, an increase of 4% over prior year. Total cash and investments increased $39.3 million during fiscal 2016 to $741.1 million, an increase of 8% per share to $39.82 per share. Our cash balances (including restricted cash) totaled $87.0 million as of December 31, 2016.”

Fourth Quarter 2016 Commentary

Hallmark reported net income (loss) of ($3.7) million and $6.5 million for the three months and fiscal year ended December 31, 2016 as compared to net income of $3.4 million and $21.9 million for the same periods the prior year. On a diluted basis per share, the Company reported net income (loss) of ($0.20) per share and $0.34 per share for the three months and fiscal year ended December 31, 2016, as compared to net income of $0.18 per share and $1.13 per share for the same periods the prior year.

Hallmark’s consolidated net loss ratio was 85.5% and 71.8% for the three months and fiscal year ended December 31, 2016, as compared to 68.2% and 65.9% for the same periods the prior year. Hallmark’s net expense ratio was 25.5% and 28.0% for the three months and fiscal year ended December 31, 2016 as compared to 27.3% and 28.0% for the same periods the prior year. Hallmark’s net combined ratio was 111.0% and 99.8% for the three months and fiscal year ended December 31, 2016 as compared to 95.5% and 93.9% for the same periods the prior year.

During the three months and fiscal year ended December 31, 2016, Hallmark’s total revenues were $97.3 million and $376.0 million, representing an increase of 8% and 1%, respectively, from the $90.1 million and $372.4 million in total revenues for the same periods of 2015. During the three months and fiscal year ended December 31, 2016, Hallmark’s income (loss) before tax was ($6.2) million and $8.5 million as compared to the $5.1 million and $31.9 million reported during the same periods the prior year.

The increase in revenue for the three months ended December 31, 2016 was primarily attributable to higher net premiums earned, net realized gains in the current quarter as compared to net realized losses on our investment portfolio in the prior year quarter, higher net investment income and higher other income partially offset by lower finance charge revenue and lower commission and fee revenue. 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 December 31, 2016 was due primarily to increased losses and loss adjustment expenses (“LAE”) of $19.1 million and higher interest expense of $0.3 million partially offset by the increase in revenue discussed above and lower other operating expenses of $1.0 million. The increase in losses and LAE was primarily the result of higher 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 each of the reporting segments 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 on December 17, 2015.

The increase in revenue during the fiscal year ended December 31, 2016 was primarily attributable to higher net premiums earned, higher net investment income and higher commission and fee revenue, partially offset by realized losses recognized on the investment portfolio during the current period as compared to realized gains recognized during the same period the prior year and lower finance charges. The increased net premiums earned were primarily attributable to higher net premiums written in the Specialty Commercial Segment and the favorable impact of increased retention under a quota share reinsurance agreement in the Personal Segment effective October 1, 2014, partially offset by the adverse impact on the Standard Commercial Segment of ceding substantially all unearned workers’ compensation premiums effective July 1, 2015.

The decrease in income before tax for the year ended December 31, 2016 was due primarily to increased losses and LAE of $23.5 million, higher operating expenses of $2.8 million and higher interest expense of $0.6 million, partially offset by the increased revenue discussed above. The increase in losses and LAE was primarily the result of unfavorable net prior year loss reserve development and higher current accident year loss trends in the Specialty Commercial Segment and Personal Segment, partially offset by higher favorable net prior year loss reserve development in the Standard Commercial Segment. During the fiscal year ended December 31, 2016, Hallmark recorded unfavorable prior year net loss reserve development of $7.6 million as compared to $7.0 million of favorable prior year net loss reserve development for the same period of 2015. Hallmark incurred an aggregate of $11.0 million of net catastrophe losses during the year ended December 31, 2016 as compared to $9.3 million for the same period the prior year. Other operating expenses increased during the year ended December 31, 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 a previous acquisition 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 the Facility B revolving credit facility entered into during the fourth quarter of 2015.

During the fiscal year ended December 31, 2016, Hallmark’s cash flow provided by operations was $30.9 million compared to cash flow provided by operations of $52.9 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.