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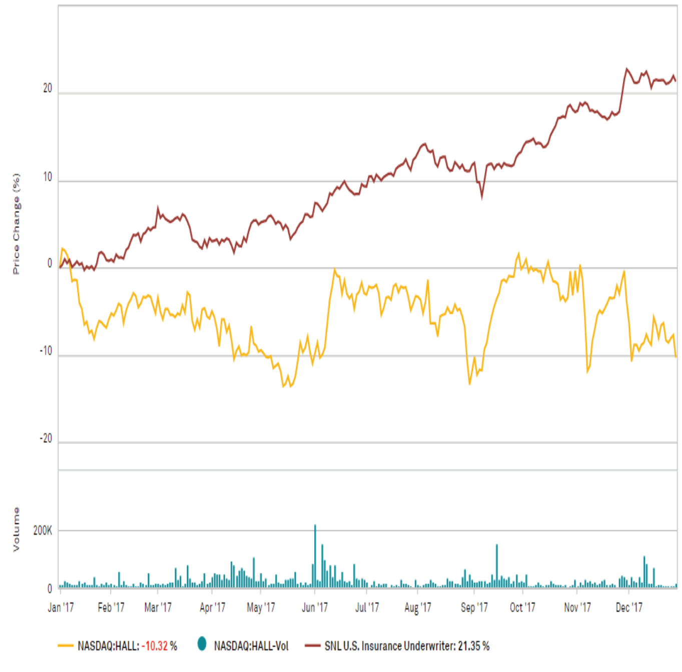
4th Quarter and Fiscal Year 2017 Highlights

Summary

As of December 31, 2017:

- Fiscal 2017 net loss of $11.6 million, or $0.63 per diluted share. Fourth quarter 2017 net loss of $10.6 million, or $0.59 per diluted share.
- Net combined ratio of 118.7% for 4th quarter 2017 and 107.9% for fiscal 2017.
- Fourth quarter 2017 unfavorable prior year reserve development of $19.9 million versus $8.4 million unfavorable development for fourth quarter 2016
- Fiscal 2017 unfavorable prior year reserve development of $40.1 million versus $7.6 million unfavorable development for prior year
- Catastrophe losses, net of reinsurance, of $1.4 million for the fourth quarter 2017 and $7.8 million for fiscal 2017, which included $3.1 million from Hurricane Harvey, compared to $0.6 million and $11.0 million for the same periods of the prior year
- Fourth quarter 2017 total revenues of $97.4 million, increased slightly over fourth quarter 2016. Fiscal 2017 total revenues of $385.5 million increased 3% over the prior year.
- Fourth quarter results include a deferred tax revaluation charge of $1.3 million, or $0.07 per share, related to the passage of the Tax Cuts and Jobs Act of 2017



4th Quarter

($ in thousands)	2017	2016	% +/-
Gross premiums written	145,837	129,528	13%
Net premiums written	81,121	83,275	(3%)
Net premiums earned	92,319	90,550	2%
Investment income, net of expenses	4,513	4,399	3%
Gain on investments(1)	724	930	(22%)
Other-than-temporary impairments	(1,620)	-	nm
Total revenues	97,375	97,254	0%
Net loss	(10,629)	(3,662)	190%
Net loss per share - basic	$ (0.59)	$ (0.20)	195%
Net loss per share - diluted	$ (0.59)	$ (0.20)	195%
Book value per share	$ 13.82	$ 14.28	(3%)
Cash flow from operations	(27,130)	5,322	(610%)

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

Fiscal Year

($ in thousands)	2017	2016	% +/-
Gross premiums written	604,156	549,077	10%
Net premiums written	365,583	361,829	1%
Net premiums earned	361,037	353,370	2%
Investment income, net of expenses	18,874	16,342	15%
Gain on investments(1)	5,672	2,519	125%
Other-than-temporary impairments	(5,877)	(2,888)	103%
Total revenues	385,521	375,952	3%
Net (loss) income	(11,553)	6,526	(277%)
Net (loss) income per share - basic	$ (0.63)	$ 0.35	(280%)
Net (loss) income per share - diluted	$ (0.63)	$ 0.34	(285%)
Book value per share	$ 13.82	$ 14.28	(3%)
Cash flow from operations	7,199	30,854	(77%)

From Naveen Anand, President and CEO

"Our results have been adversely impacted by reserve development from prior years on our commercial and personal auto lines. The impact of the prior year development contributed 21.5 points and 11.1 points to the combined ratio for the fourth quarter and fiscal year, and has masked the underlying progress made in diversifying and developing a best in class specialty insurer. We have seen rising frequency and severity trends, as well as significantly more litigation, in the commercial and personal auto lines.

In commercial auto, we are seeing significantly more adverse verdicts hitting policy limits making this line of business a target for litigation and large claim settlements. We changed our underwriting approach and underwriting leadership as well as adjusted our claim operations to address the new reality in this line. We have exited two states due to price inadequacy and increased rates on all segments of commercial auto over the last two years. Additionally, we have culled underperforming accounts and developed and launched our package binding authority business to further diversify this segment of our business.

We've conducted comprehensive reviews of open claims and conservatively adjusted case reserves to reflect our current outlook. Over the course of the last two years, we have effectively transitioned Hallmark from a decentralized claims operation to a centralized one for every product and line of business and made appropriate leadership and management investments throughout the claim organization. The claims processes have been completely revamped as well.

This is beginning to have the expected impact on more current accident year loss ratios for 2016 and 2017. We are seeing positive rate momentum across most lines of business which we believe will ultimately offset the claims frequency and severity trends.

In personal auto, underwriting actions taken have improved the loss ratios by 31.5 points for the fourth quarter and 14.7 points for 2017 compared to the same periods of the previous year. Our actions have resulted in a reduction in gross premiums and the expense ratio has increased in the near term. We expect the expense ratio to normalize over the course of 2018.

Early in my tenure at Hallmark, we identified the need to diversify the book from primarily an auto writer into other specialty product segments. That process is well underway. Our specialty brokerage business is now our largest segment within Hallmark. Additionally, we've re-balanced the book on a geographic standpoint and adjusted our catastrophe underwriting approach. The improved 2017 catastrophe results reflect these actions despite a record setting year for the industry for natural disasters. An updated investor presentation is posted on our website (www.hallmarkgrp.com) that provides a summary of the significant strategic actions undertaken to develop Hallmark into a best in class specialty insurance group."

From Mark Schwarz, Executive Chairman

"Our total cash and investments was $729.0 million, or $40.12 per share, as of December 31, 2017, which was up slightly from the $39.82 per share as of December 31, 2016. Our balance sheet remains liquid with a very short duration in our investment portfolio and cash balances (including restricted cash) of $67.6 million as of December 31, 2017, ready to be deployed as we see opportunity."

Fourth Quarter 2017 Commentary

Hallmark reported a net loss of $10.6 million and $11.6 million for the three months and fiscal year ended December 31, 2017, as compared to a net loss of $3.7 million and net income of $6.5 million for the same periods the prior year. On a diluted basis per share, the Company reported a net loss of $0.59 per share and $0.63 per share for the three months and fiscal year ended December 31, 2017, as compared to a net loss of $0.20 per share and net income of $0.34 per share for the same periods the prior year.

Hallmark's consolidated net loss ratio was 90.3% and 79.9% for the three months and fiscal year ended December 31, 2017, as compared to 85.5% and 71.8% for the same periods the prior year. Hallmark's net expense ratio was 28.4% and 28.0% for the three months and fiscal year ended December 31, 2017 as compared to 25.5% and 28.0% for the same periods the prior year. Hallmark's net combined ratio was 118.7% and 107.9% for the three months and fiscal year ended December 31, 2017, as compared to 111.0% and 99.8% 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 0.9 points for the fiscal year ended December 31, 2017, compared to a favorable impact of 0.5 points for the fiscal year ended December 31, 2016. Similarly, within the Standard Commercial Segment these discontinued lines of business accounted for 4.9 points of the 102.8% net combined ratio for the fiscal year ended December 31, 2017, as compared to (1.7) points of the 94.0% net combined ratio of the Standard Commercial Segment for the fiscal year ended December 31, 2016.

During the three months and fiscal year ended December 31, 2017, Hallmark's total revenues were $97.4 million and $385.5 million, representing an increase of 0% and 3%, from the $97.3 million and $376.0 million in total revenues for the same periods of 2016. During the three months and fiscal year ended December 31, 2017, Hallmark's loss before tax was $16.0 million and $16.6 million, as compared to loss before tax of $6.2 million and income before tax of $8.5 million reported during the same periods the prior year. Hallmark's reported net loss of $10.6 million for the three months and $11.6 million for the fiscal year ended December 31, 2017 included a charge of $1.3 million from the revaluation of deferred tax balances from a 35% statutory tax rate to the new 21% statutory tax rate under the Tax Cuts and Jobs Act of 2017.

The increase in revenue for the fiscal year ended December 31, 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 fiscal year ended December 31, 2017 included the impact of $1.3 million of ceded reinstatement premium attributable to Hurricane Harvey. Further contributing to the increase in revenues was higher net investment income, higher net realized gains and higher commission and fee revenue. These increases in revenue during the fiscal year ended December 31, 2017 were partially offset by higher other-than-temporary impairments and lower finance charges.

The increase in revenue for the fiscal year ended December 31, 2017 was offset by higher losses and loss adjustment expenses ("LAE") of $34.6 million over the prior year. 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 Contract Binding operating unit. During the twelve months ended December 31, 2017, Hallmark recorded unfavorable prior year net loss reserve development of $40.1 million as compared to $7.6 million of unfavorable prior year net loss reserve development for the same period of 2016. The unfavorable prior year reserve development during the twelve months ended December 31, 2017 was primarily driven by the continued emergence of increased frequency and severity trends in the primary commercial auto lines of business within the Contract Binding operating unit, which was representative of industry trends. These trends had an amplified impact on Hallmark's consolidated results because this is the largest line of retained business in the Company's portfolio. Hallmark incurred an aggregate of $7.8 million of net catastrophe losses during the year ended December 31, 2017 as compared to $11.0 million for the same period the prior year. Operating expenses during the year ended December 31, 2017 were unchanged from the same period during 2016 mostly as a result of a $1.8 million payment to settle the earn-out related to the previous acquisition of TBIC during the second quarter of 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 Hallmark's investment in technology for the year ended December 31, 2017 as compared to the same periods during 2016.