



Hallmark Financial Services, Inc.

Investor Presentation for

Raymond James

2011 Institutional Investors Conference

March 7, 2011

Forward-Looking Statements

This presentation contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created thereby. These statements include the plans and objectives of management for future operations, including plans and objectives relating to future growth of our business activities and availability of funds. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions, regulatory framework, weather-related events and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this presentation will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by any person that our objectives and plans will be achieved.

More information about forward-looking statements and the risk factors associated with our company are included in our annual, quarterly and other reports filed with the Securities and Exchange Commission.

Strategic Overview

Mark Schwarz

Executive Chairman of the Board

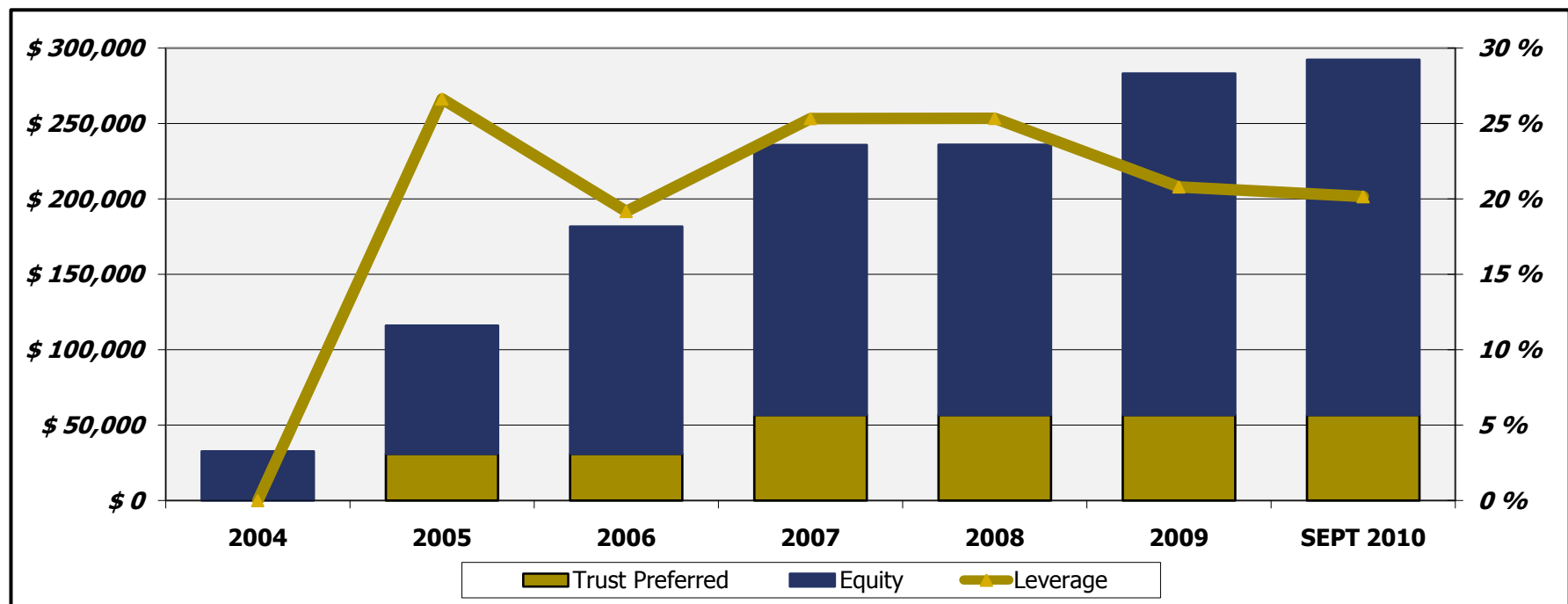


Who We Are

- ✓ Diversified specialty property/casualty insurer with operating units in Dallas-Fort Worth and San Antonio, Texas and Basking Ridge, New Jersey
- ✓ Market, underwrite and service approximately \$300 million of commercial and personal insurance in selected markets
 - Focused on underserved sectors, mostly short-tailed lines
 - Operate in diversified, sustainable niche markets
- ✓ Focus on disciplined underwriting and bottom line profitability
- ✓ Proven track record of strong underwriting performance
- ✓ Demonstrated ability to identify and acquire profitable, niche businesses
- ✓ "A-" (Excellent) A.M. Best Financial Strength Rating
- ✓ Combined Statutory Surplus of \$179 million as of September 2010

Who We Are

- ✓ Market capitalization of \$183 million, with 20.1 million shares outstanding (\$9.10 market value per share) as of Dec. 31, 2010
- ✓ Consolidated Shareholders' Equity of \$236 million as of September 30, 2010 (\$11.71 per share)
- ✓ Total capitalization of \$292 million as of September 30, 2010, including \$57 million of subordinated trust preferred debt securities that mature in 2035.



Our Corporate Strategy

To be a "Best in Class" Specialty Insurance Company Focused on: (1) Underwriting Profitability; and (2) Superior Investment Returns:

- ✓ Strong management team has interests aligned with shareholders
- ✓ Focus on specialty insurance niches
- ✓ Diversification through multiple business lines
- ✓ Selectively and opportunistically acquire well positioned businesses with strong underwriting and operating management
- ✓ Balance Sheet based on strong investment, reinsurance and reserving practices
- ✓ Performance measurement based on long-term growth in book value per share

The Hallmark Track Record

Aggregates & Averages for the Last Six Years Highlight Hallmark's Successful Expansion and Diversification into Specialty Lines of Business.

	Gross Premiums Produced	Investment Income	Operating Income	GAAP Equity		GAAP BVPS		Year End Stock Price	
			(2)		ROAE	(3)	% Chg	(3)	% Chg
2004	\$ 119,305	\$ 1,386	\$ 8,602	\$ 32,656	20%	\$ 5.37		\$ 7.20	
2005	\$ 118,066	\$ 3,836	\$ 13,468	\$ 85,188	16%	\$ 5.89	10%	\$ 8.16	13%
2006 (1)	\$ 293,304	\$ 10,461	\$ 23,950	\$ 150,731	13%	\$ 7.26	23%	\$ 9.91	21%
2007	\$ 297,904	\$ 13,180	\$ 41,769	\$ 179,621	17%	\$ 8.65	19%	\$ 15.86	60%
2008	\$ 287,081	\$ 16,049	\$ 21,124	\$ 179,412	7%	\$ 8.61	0%	\$ 8.77	-45%
2009	\$ 288,450	\$ 14,947	\$ 33,257	\$ 226,517	12%	\$ 11.26	31%	\$ 7.96	-9%
YTD 9/10	\$ 242,705	\$ 10,513	\$ 9,126	\$ 235,698	4%	\$ 11.71	4%	\$ 9.10	14%

Last 6 Years (2004-2009).....

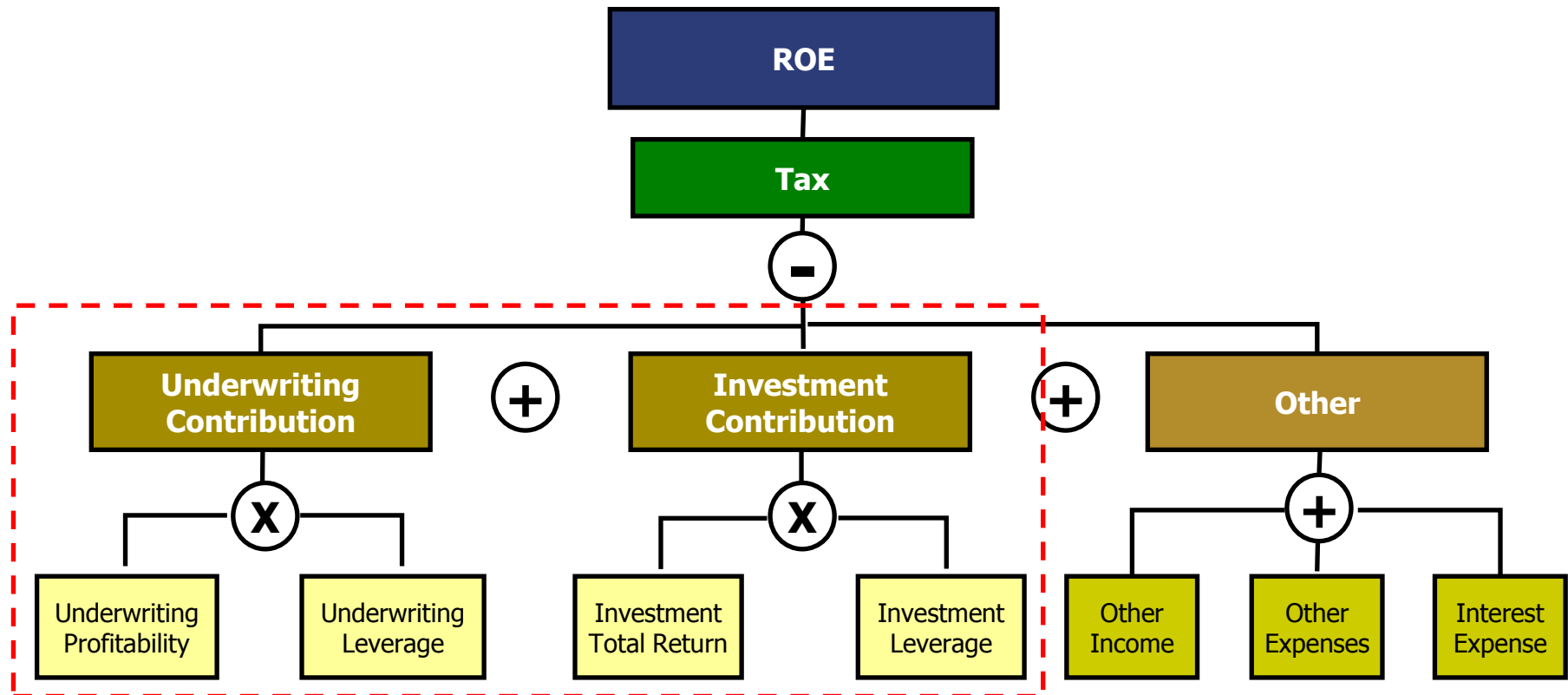
TOTAL \$ 1,404,110 \$ 59,859 \$ 142,170

CAGR 19% 61% 31% 47% 16% 2%

- (1) 2006 excludes the noncash interest expense from amortization of deemed discount on convertible notes. See Non-GAAP measure slide at the end of this presentation for a reconciliation to GAAP
- (2) Operating income is income before noncash interest expense from amortization of deemed discount on convertible notes, income tax and non-controlling interest.
- (3) Stock prices prior to 2006 have been adjusted for the one for six stock split which took place during the Q3 2006. The 2010 stock price is as of December 31, 2010.

ROE Decomposition & Summary Analysis

Return on Equity and Growth in Book Value per Share are Primarily Driven by Two Major Elements: (1) Underwriting Income and (2) Total Investment Return



Underwriting Contribution to ROE

Low Loss Ratios and Expense Management result in a Strong Underwriting Contribution to ROE.

- ✓ Profitable underwriting produces significant ROE contribution
- ✓ Current industry conditions have caused margin pressure across most all lines of business
- ✓ Lack of premium growth reduces underwriting leverage

	Loss Ratio	Expense Ratio	Combined Ratio	(1 - CR%) Underwriting Margin	Underwriting Leverage	Underwriting Contribution
2005	57.1%	30.8%	87.9%	12.1%	1.8	21.9%
2006	57.3%	28.7%	86.0%	14.0%	1.8	25.0%
2007	58.8%	29.1%	87.9%	12.1%	1.5	18.1%
2008	61.0%	30.6%	91.6%	8.4%	1.3	11.1%
2009	61.2%	30.5%	91.7%	8.3%	1.4	11.6%
5-YR AVG	59.1%	29.9%	89.0%	11.0%	1.6	17.5%
YTD 9/2010	70.6%	29.5%	100.1%	-0.1%	1.2	-0.1%

Investment Contribution to ROE

Total Investment Return includes Interest, Dividends, Realized and Unrealized Gains

- ✓ Superior total returns: Outperform market averages
- ✓ Significant outperformance in 2008 and 2009
- ✓ Increasing investment leverage magnifies contribution to ROE

	Total Investment Return	Beginning Invested Assets	Investment Leverage	Investment Contribution
2005	3.6%	\$ 51,531	1.6	5.7%
2006	6.2%	\$ 153,374	1.8	11.3%
2007	5.7%	\$ 268,000	1.8	10.1%
2008	-2.8%	\$ 427,787	2.4	-6.6%
2009	15.7%	\$ 360,683	2.0	31.6%
5-YR AVG	5.7%	\$ 252,275	1.9	10.4%
YTD 9/2010	7.2%	\$ 327,677	1.4	10.5%

Hallmark's Five-Year Track Record

ROE Calculation Utilizing Comprehensive Income is Equivalent to Change in Book Value per Share (after adjustment for changes in equity capitalization)

- ✓ Hallmark produces significant contribution to ROE from both underwriting and investments

	Underwriting	Investment	Debt	Other	Comprehensive Pre-Tax ROBE	Tax	Comprehensive After-Tax ROBE	Stock Buyback	Stock Comp	Stock Issuances	Minority Interest	BVPS Growth
2005	22%	6%	-4%	9%	33%	31%	22%	NA	0.4%	-13%	NA	10%
2006	25%	11%	-7%	-12%	17%	36%	11%	NA	0.2%	12%	NA	23%
2007	18%	10%	-3%	3%	28%	33%	19%	NA	0.2%	NA	NA	19%
2008	11%	-7%	-3%	-1%	1%	NM	-1%	NA	0.6%	NA	-0.1%	-1%
2009	12%	32%	-3%	1%	41%	31%	29%	2%	0.8%	NA	-0.2%	31%
5-YR Avg	18%	10%	-4%	0%	24%	33%	16%	NM	0.4%	NM	NM	16%
YTD 9/2010	0%	10%	-2%	-2%	6%	29%	4%	NA	0.4%	NA	-0.1%	5%

Performance Measured on Growth in Book Value

Why Measure an Insurance Company's Performance on its Growth in Book Value per Share?

- ✓ Standard ROE calculation fails to capture Total Return on investment — an important component on insurance company profitability:
 - Standard ROE calculation excludes changes in unrealized gains or losses
 - Analysts typically adjust ROE calculation to further exclude realized gains
- ✓ The period-to-period change in Book Value per Share captures all elements of insurance company profitability:
 - Underwriting income
 - Total investment return
 - Changes in share capitalization and other items

Growth in BVPS Compared to Best in Class Peers

Hallmark's Three-Year and Five-Year Average Growth in Book Value per Share Meet or Exceed the Performance of Best in Class Peer Companies.

- ✓ Average Growth in Book Value per Share for Hallmark and Best in Class Peer Companies Substantially Exceeds Performance of the S&P 500 Index.

	HALL	Select Leading Specialty Property/Casualty Insurers					S&P
		HCC	WRB	RLI	MKL	BRK	
2004	19%	18%	24%	12%	20%	11%	11%
2005	10%	18%	21%	10%	4%	6%	5%
2006	23%	20%	29%	15%	32%	18%	16%
2007	19%	16%	15%	12%	15%	11%	6%
2008	-1%	10%	-5%	-6%	-16%	-10%	-37%
2009	31%	14%	22%	19%	27%	20%	27%
3-YR CAGR	16%	13%	10%	8%	7%	6%	-2%
5-YR CAGR	16%	15%	16%	10%	11%	9%	3%
YTD 9/2010	4%	9%	15%	11%	11%	7%	2%

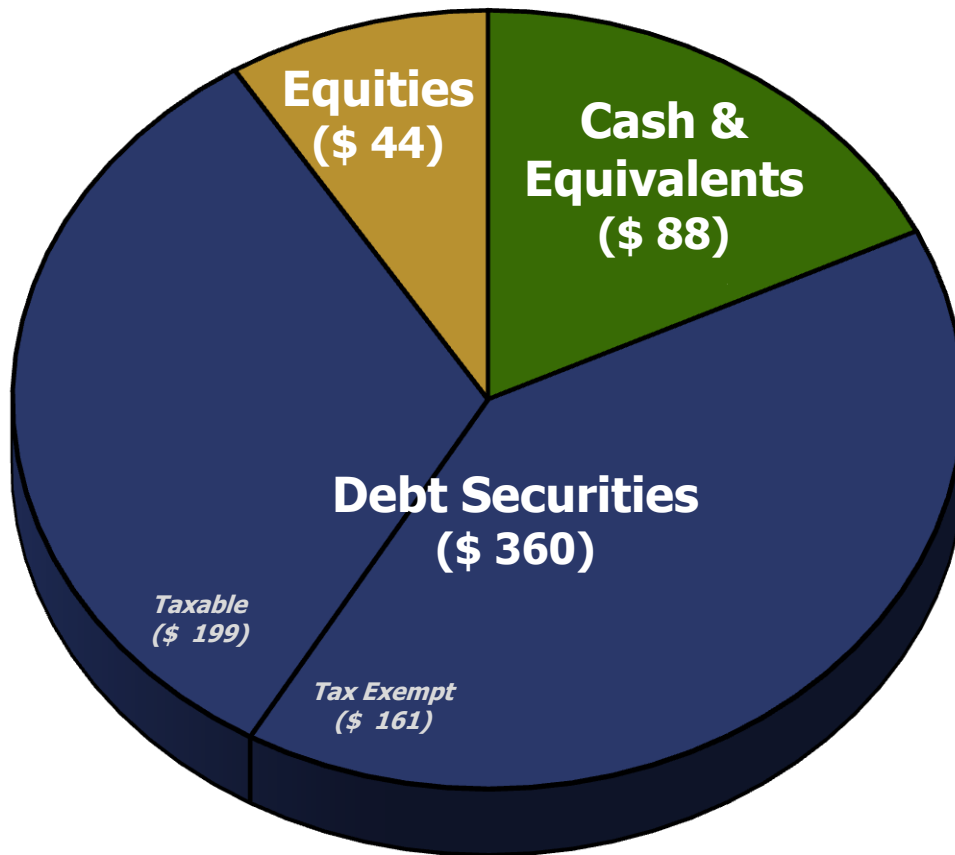
Investment Strategy

Hallmark views Investment Operations as a Core Competency. Hallmark has achieved above average results and expense savings through internal management of its investments.

- ✓ Employ a disciplined, value-based investment strategy
- ✓ Investment process focuses on individual security selection
- ✓ Seek to outperform market benchmarks on average vs. consistently beating the market ever year
- ✓ Total return approach values all components of investment return equally, whether reported as interest and dividends on the income statement or recognized as comprehensive income on the balance sheet
- ✓ Seek to maximize total return on an after-tax basis through investment in tax-exempt securities and compounding of unrealized gains.

Investment Portfolio

As of September 30, 2010
(\$ in millions)



Total Cash & Investments
\$492 million, or Approximately
\$24 per Share.

- ✓ Cash \$88 million
- ✓ Total Investments \$404 million
- ✓ Investment grade portfolio, marketable securities
- ✓ No hedge fund or private equity investments
- ✓ 11% invested in equities
- ✓ Annualized tax equivalent yield of approx 5.7%
- ✓ Weighted-average duration of 2.7 years

Operations Overview

Mark Morrison

President & Chief Executive Officer



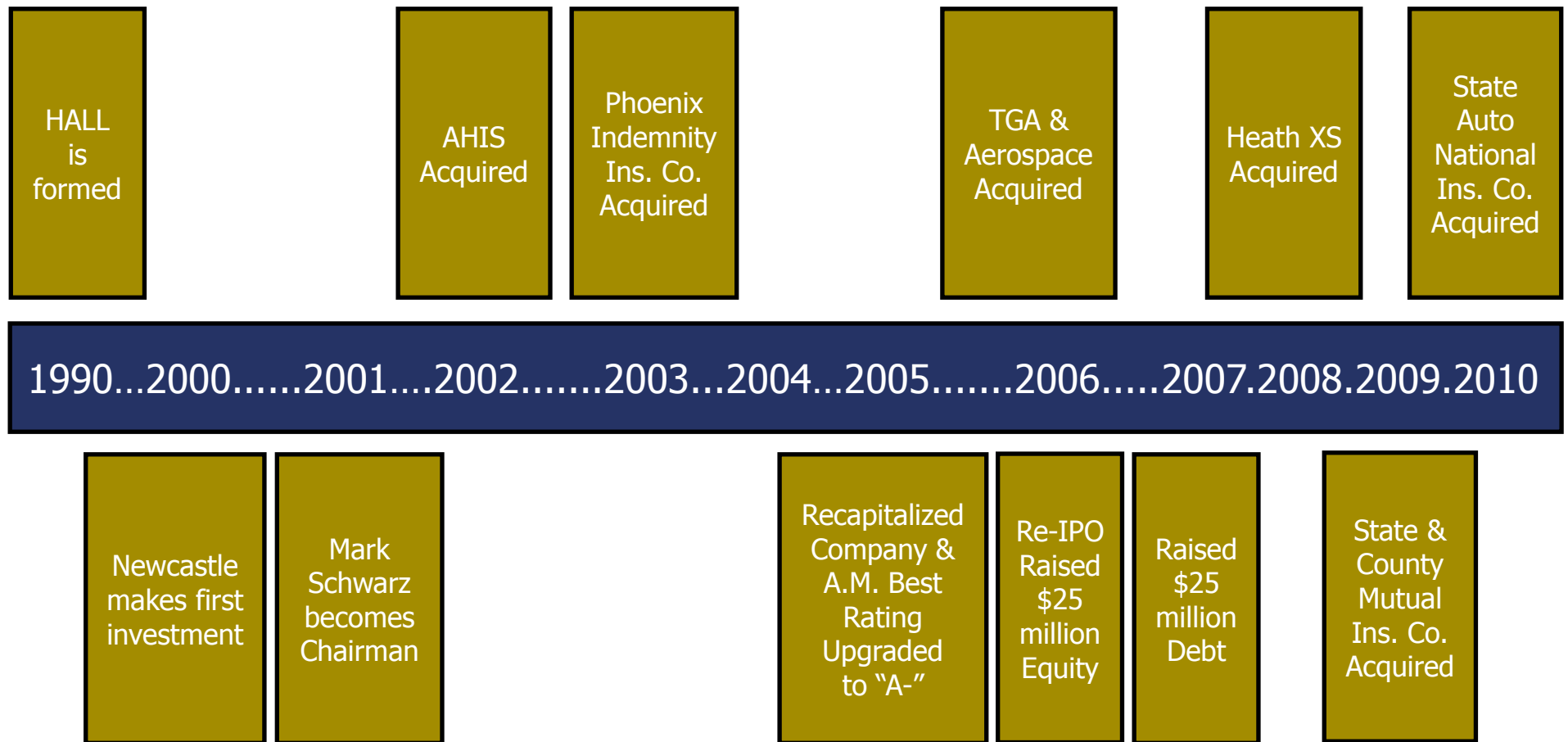
Underwriting Strategy

Disciplined Underwriting Strategy in Specialty Niche Market Segments:

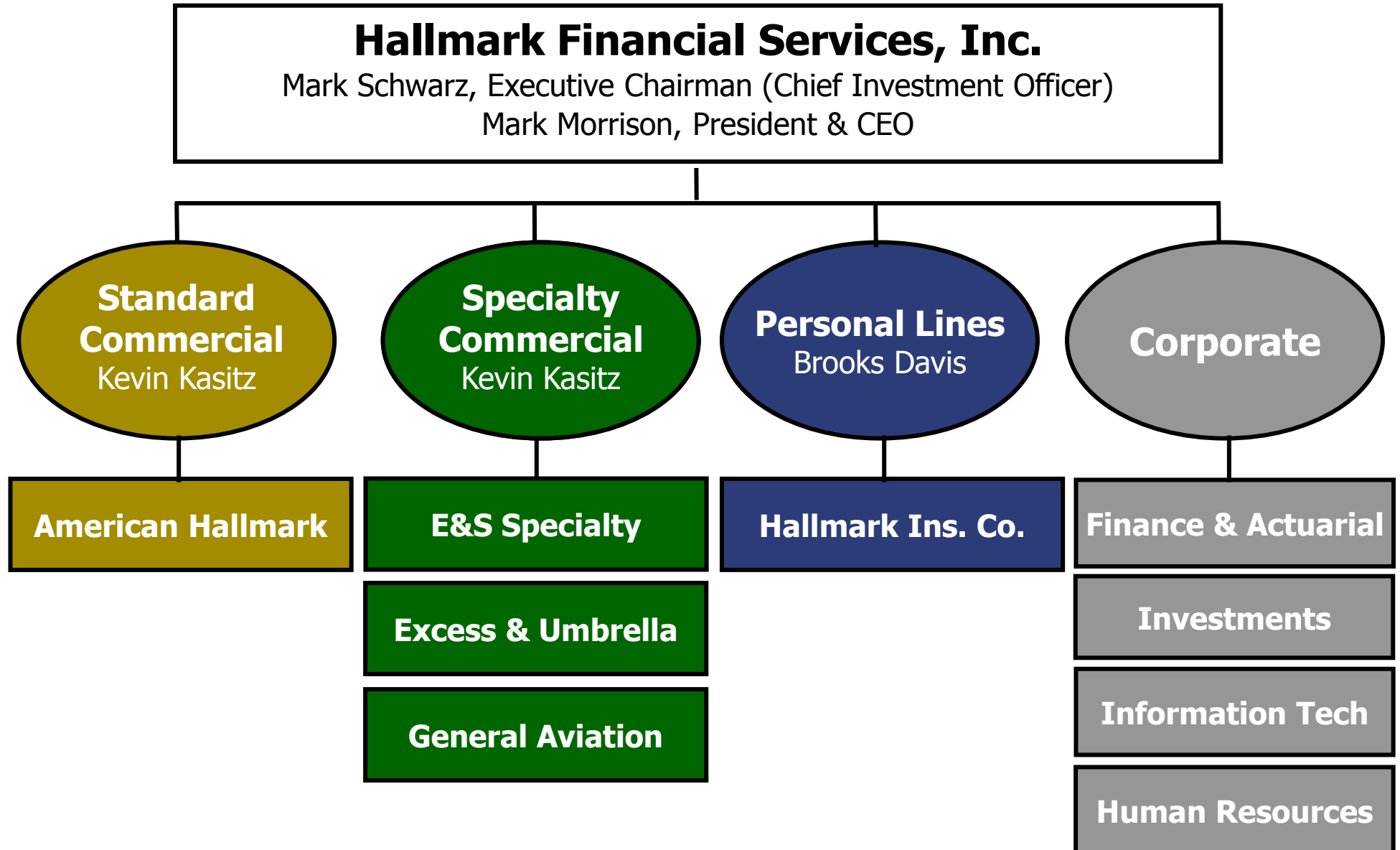
- ✓ Underserved markets – limited competition
- ✓ Highly customized products to meet unique needs of insureds
- ✓ Low price sensitivity
- ✓ Low-severity and short-tailed exposures
- ✓ Underwriting expertise critical: Underwriters have an average of 15 years of experience
- ✓ Underwriters' bonuses based on underwriting performance—emphasizes bottom-line profitability over top-line growth
- ✓ Sustain strong, consistent underwriting performance
- ✓ Reinsurance used to reduce operating volatility and to protect shareholders capital.

How We Got to Where We Are Today

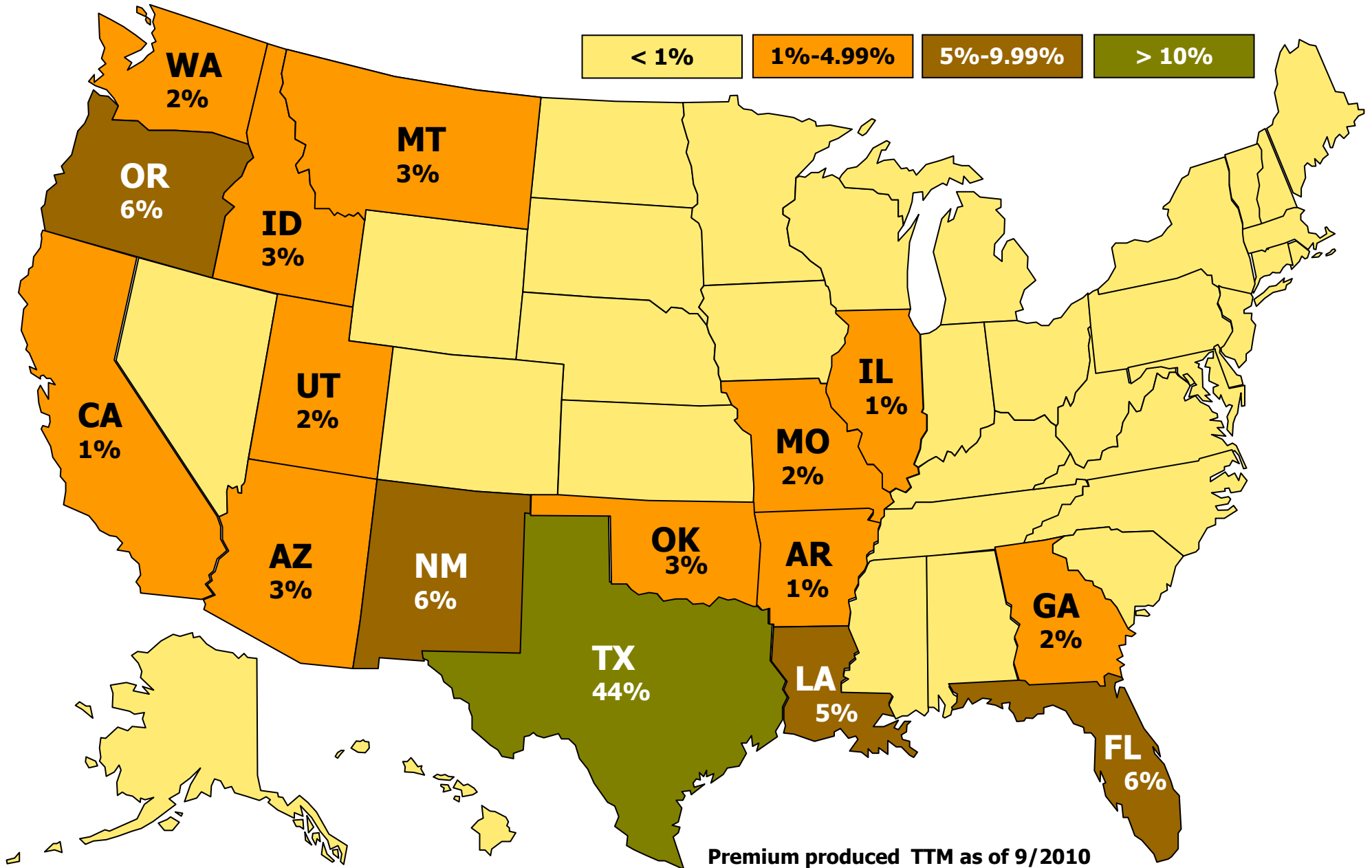
Hallmark Began in 1990 as a Texas-only, Mono-line Company. In 2002, New Management Begins Transformation into into a Diversified, Specialty Lines Focused Property/Casualty Insurer.



Organizational Overview

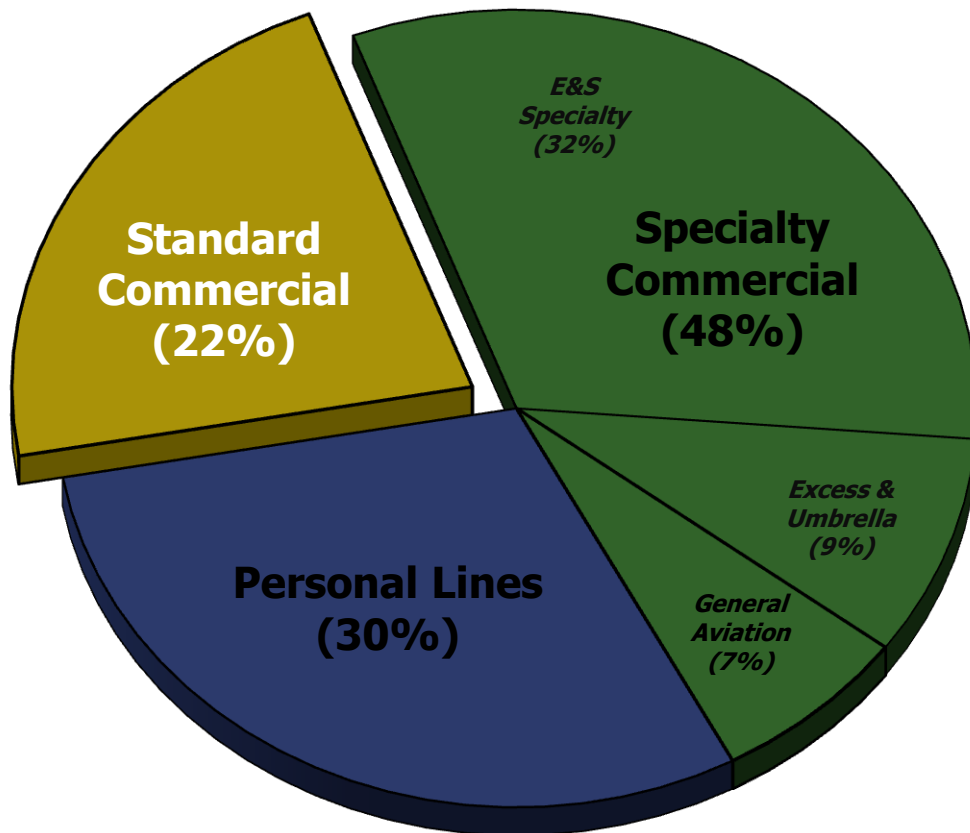


Geographic Spread of Premiums Produced



Standard Commercial

Gross Premiums Produced *By Operating Unit*



TTM 9/2010 GPP of \$309 million

Product/Market Focus:

- ✓ Small account, low-hazard commercial package business
- ✓ Focused on rural and suburban markets
- ✓ Smaller, less competitive markets

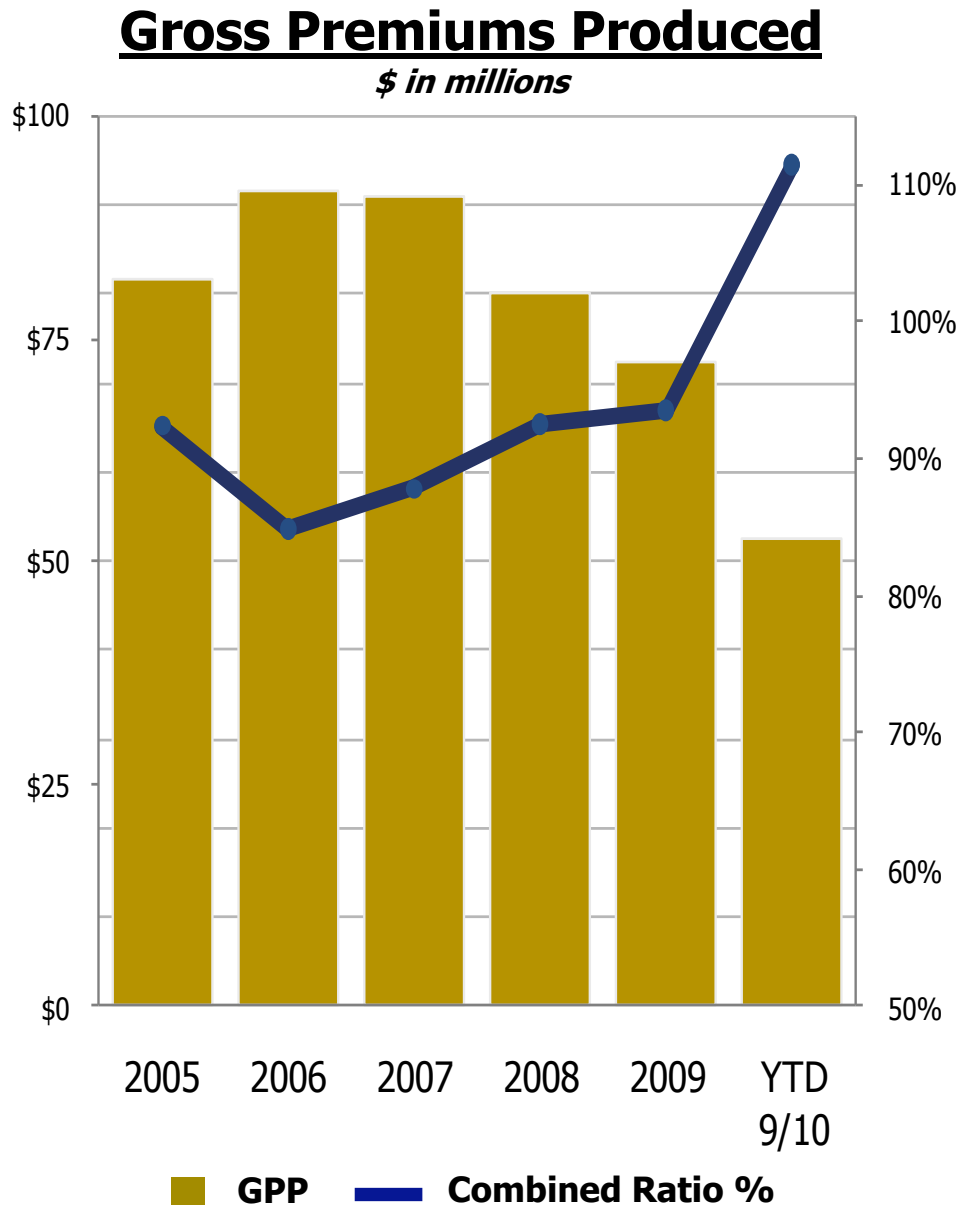
Agency Relationships:

- ✓ Long-standing relationships
- ✓ Selectively chosen group of 327 independent retail agents in TX, NM, OR, ID, MT, WA, UT, WY, AR & HI
- ✓ Agents given market exclusivity

Growth Opportunities:

- ✓ Expand into new geographic areas with new & existing agents
- ✓ Expand into new product lines

Standard Commercial Operating Trends



Disciplined Underwriting in a Prolonged Soft Market has Significantly Reduced Book of Business

- ✓ Larger accounts written in hard market have migrated to national carriers

Cost Saving Initiatives have been Ongoing since 2008

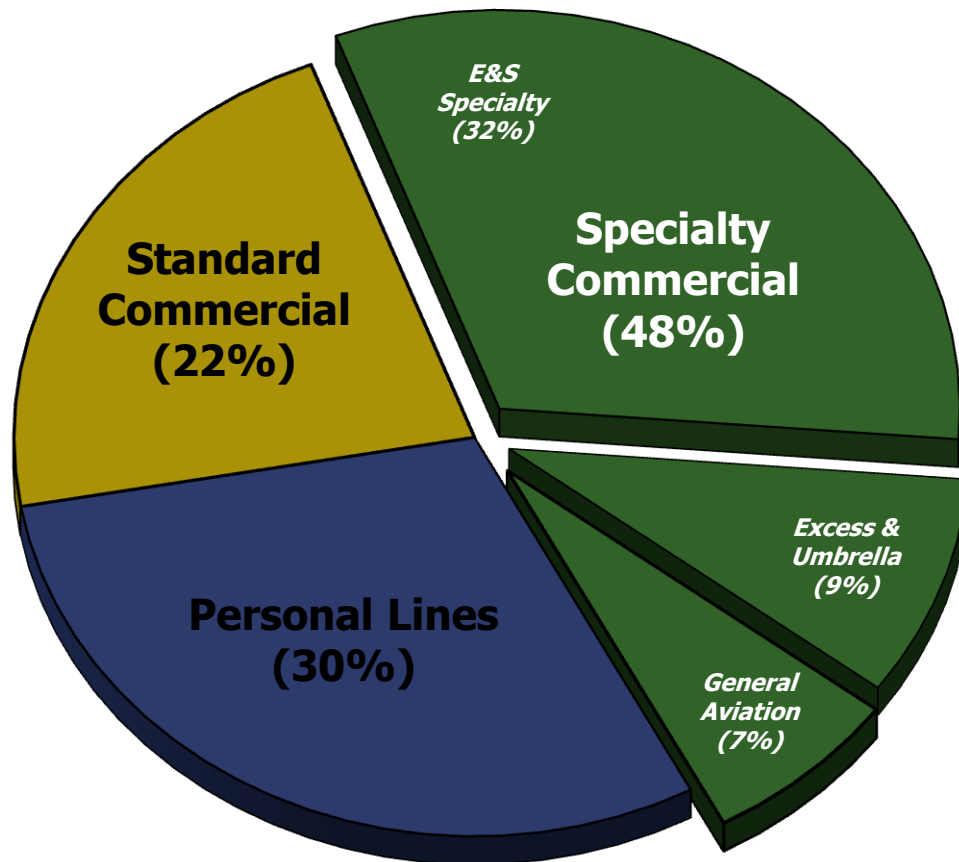
- ✓ Savings help to maintain margins

Loss Ratio in 2010 has been impacted by High Level of Large Property Losses

- ✓ Despite consistent underwriting, an unprecedented level of large property losses incurred as a result of arson and natural catastrophes

Specialty Commercial

Gross Premiums Produced *By Operating Unit*



TTM 9/2010 GPP of \$309 million

Product/Market Focus:

- ✓ Difficult-to-place business risks
- ✓ Mostly commercial auto, surplus lines general liability, general aviation & excess/umbrella
- ✓ National footprint, but still largely concentrated in Texas

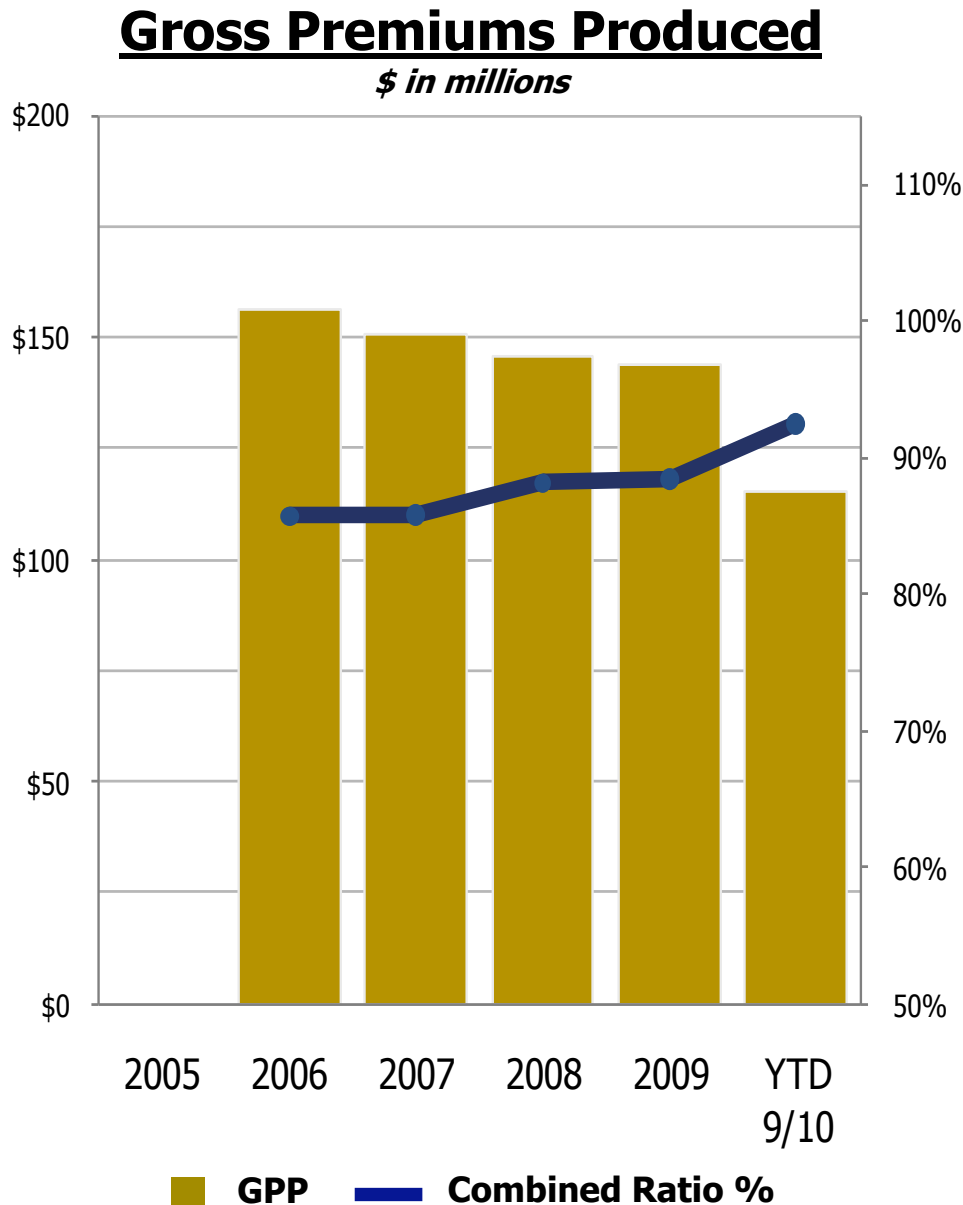
Agency Relationships:

- ✓ 300 wholesale/specialty brokers representing more than 3,000 individual agents nationwide

Growth Opportunities:

- ✓ Expand into new geographic areas through new & existing agents
- ✓ Expand into new Specialty products

Specialty Commercial Operating Trends



Soft Market Conditions Continue to cause Premium Production to Decline

- ✓ Standard markets look to specialty risks for top line growth
- ✓ Current economic conditions severely impact insured exposures

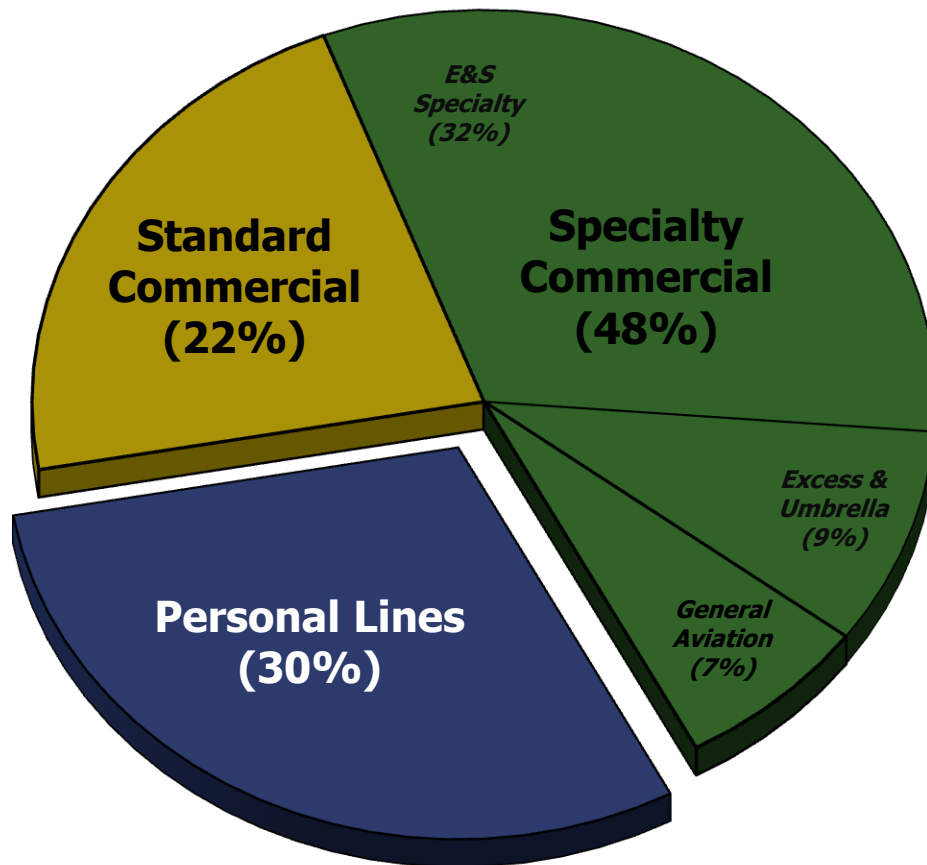
Recent Acquisitions help to support Top Line Growth

- ✓ Net premium retention has increased in order to deploy available capital
- ✓ Experienced specialty lines underwriters added to support geographic & product expansion

Underwriting Discipline has help to Maintain Healthy Margins

Personal Lines

Gross Premiums Produced *By Operating Unit*



TTM 9/2010 GPP of \$309 million

Product/Market Focus:

- ✓ Non-standard personal auto
- ✓ Supplement NSA with other niche personal line products
- ✓ Light touch, low cost provider

Agency Relationships:

- ✓ Over 5,500 independent retail agents in 29 states
- ✓ Efficiency via technology
- ✓ Tiered agency relationships

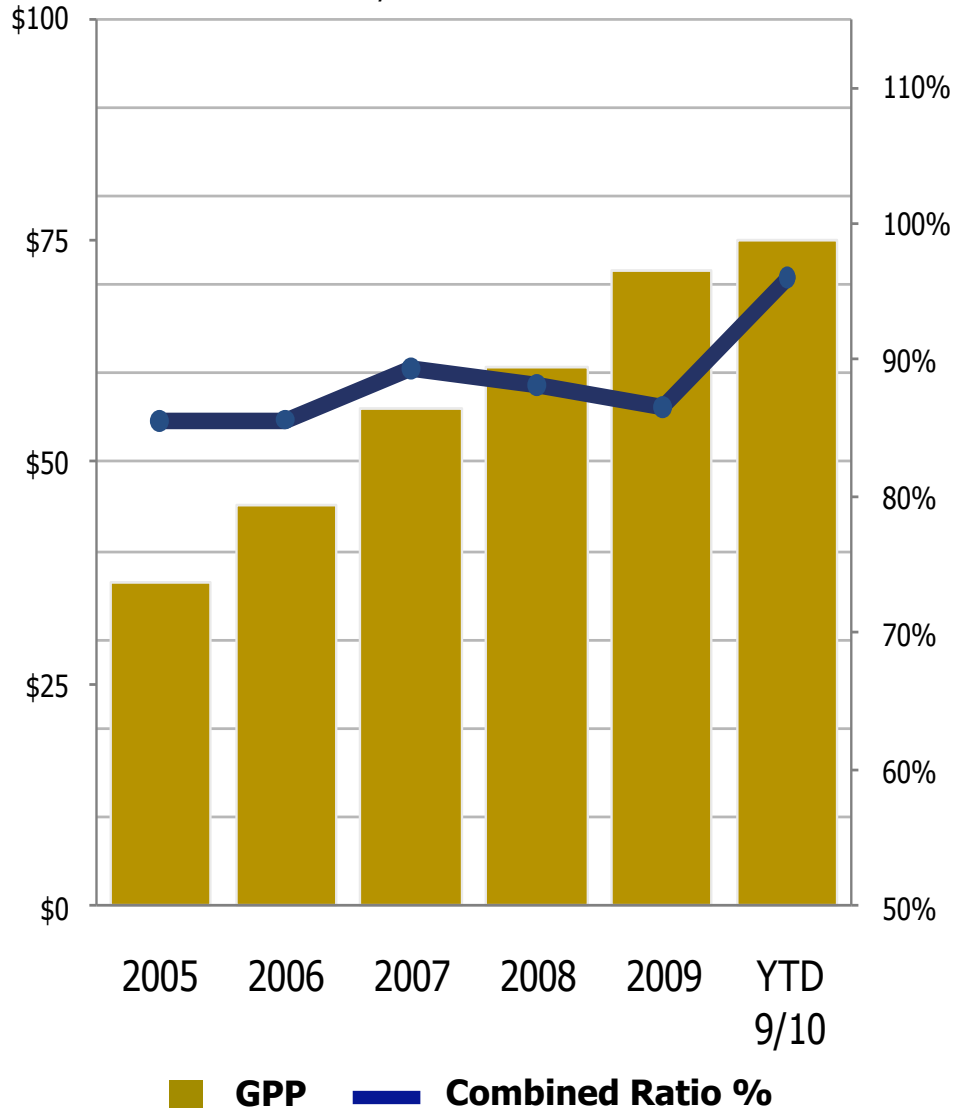
Growth Opportunities:

- ✓ Continued geographic expansion
- ✓ Distribution channel expansion
- ✓ Integration of acquired State Auto National NSA book of business
- ✓ More product expansion (property, motorcycle, business auto)

Personal Lines Operating Trends

Gross Premiums Produced

\$ in millions



Significant Geographic & Product Expansion Strategy

- ✓ Expansion into 4-5 new states per year since 2004
- ✓ Supplementing NSA with other niche personal line products

Highly Efficient Operating Platform with Expense Ratio in low 20%'s

- ✓ Efficiency via technology and light touch approach

Loss Ratio Pressure in 2010 as Recent Expansion States Account for a Greater Share of the Business

- ✓ As business matures, loss ratios are expected to come back in line with historic results

Financial Overview



Select Financial Highlights

Hallmark's Specialty Focus, Underwriting Discipline And Opportunistic Acquisitions Over The Past 6 Years Have Driven "Best In Class" Results.

	Year Ended December 31										4-YR CAGR	Nine Months Ended September 30	
	2005	2006 ⁽¹⁾	2007	2008	2009	2009	2010						
Gross Premiums Produced	↓ \$ 118,066 ↑	\$ 293,304 ↑	\$ 297,904 ↓	\$ 287,081 ↑	\$ 288,450	25%	\$222,447	\$242,705					
Gross Premiums Written	↑ 89,467 ↑	213,945 ↑	249,472 ↓	243,849 ↑	287,558	34%	220,545	247,238					
Net Premiums Earned	↑ 59,184 ↑	152,061 ↑	225,971 ↑	236,320 ↑	251,072	44%	185,987	207,369					
Total Revenues	↑ 87,035 ↑	202,741 ↑	275,166 ↓	268,690 ↑	287,039	35%	213,557	227,727					
Net Earnings ⁽²⁾	↑ 9,186 ↑	15,257 ↑	27,863 ↓	12,899 ↑	24,575	28%	15,279	6,914					
Loss Ratio (GAAP)	↓ 57.1% ↑	57.3% ↑	58.8% ↑	61.0% ↑	61.2%		62.1%	70.6%					
Expense Ratio (GAAP)	↑ 30.8% ↓	28.7% ↑	29.1% ↑	30.6% ↓	30.5%		30.8%	29.5%					
Combined Ratio (GAAP)	↑ 87.9% ↓	86.0% ↑	87.9% ↑	91.6% ↑	91.7%		92.9%	100.1%					
EPS - Basic	↓ \$ 0.76 ↑	\$ 0.89 ↑	\$ 1.34 ↓	\$ 0.62 ↑	\$ 1.19	12%	\$ 0.73	\$ 0.34					
EPS - Diluted	↓ \$ 0.76 ↑	\$ 0.89 ↑	\$ 1.34 ↓	\$ 0.62 ↑	\$ 1.19	12%	\$ 0.73	\$ 0.34					
Return on Average Equity	↓ 16% ↓	13% ↑	17% ↓	7% ↑	12%		10%	4%					
Book Value Per Share	↑ \$ 5.89 ↑	\$ 7.26 ↑	\$ 8.65 ↓	\$ 8.61 ↑	\$ 11.26	18%	\$ 10.79	\$ 11.71					

(1) 2006 adjusted to exclude the effect of the non-cash interest charge (net of tax) of \$6.1 million resulting from the convertible promissory notes issued and converted during 2006. See Non-GAAP measure slide at the end of this presentation for a reconciliation to GAAP.

(2) Net earnings is defined as net income attributable to Hallmark Financial Services, Inc. as reported in our consolidated statements of operations.

Investment Considerations

- ☑ Management's interests aligned with shareholders
- ☑ Substantial low-risk growth potential through retention of existing business—geographic expansion—and acquisitions
- ☑ Disciplined underwriting strategy focused on profitability
- ☑ Track record of strong underwriting performance
- ☑ Operate in diversified, sustainable niche markets
- ☑ Demonstrated ability to identify, acquire and integrate profitable, niche businesses
- ☑ Strong balance sheet built on conservative investment and loss reserving philosophies
- ☑ Targeted long-term returns on equity and growth in book value per share of mid/high teens.



NASDAQ: HALL

Non-GAAP Measure Reconciliation

The following reconciles Hallmark's 2006 annual net income, diluted earnings per share and return on average equity without interest expense from amortization attributable to the deemed discount on convertible promissory notes to its reported results (in thousands). Management believes this reconciliation provides useful supplemental information in evaluating the operating results of Hallmark's business. This disclosure should not be viewed as a substitute for net income, diluted earnings per share and return on average equity determined in accordance with U.S. generally accepted accounting principles ("GAAP"):

	Income excluding interest expense from amortization of discount, net of tax	Interest expense from amortization of discount	Tax effect	Net Income
Year ended December 31, 2006	\$ 15,257	\$ 9,625	\$ (3,559)	\$ 9,191
Weighted average shares - basic	17,181			17,181
Weighted average shares - diluted	17,194			17,194
Average shareholder's equity	117,960			117,960
Net income per share - basic	\$ 0.89			\$ 0.53
Net income per share - diluted	\$ 0.89			\$ 0.53
Return on average equity	12.9%			7.8%