Hallmark Financial Services, Inc.

Presentation for

2011 KBW Insurance Conference

September 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

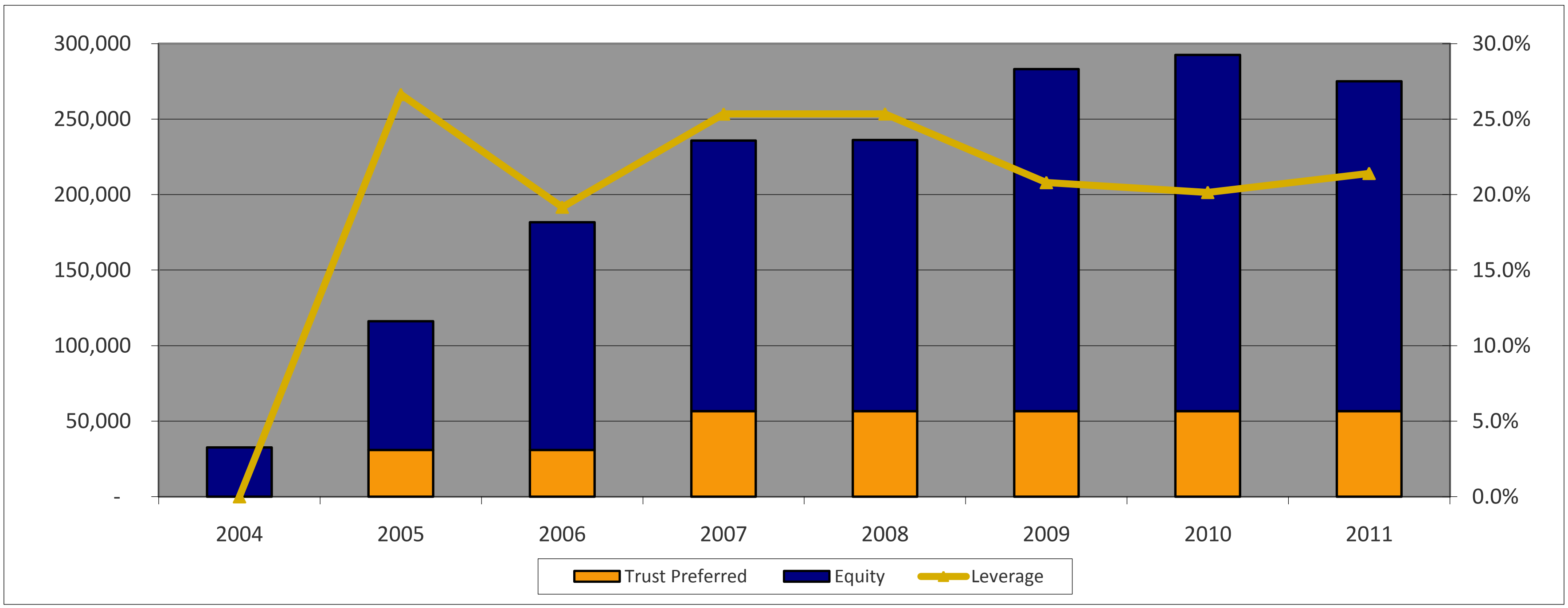
HALLMARK
FINANCIAL SERVICES, INC.

Who We Are

- ✓ Diversified specialty property/casualty insurer with operating units in Dallas-Fort Worth and San Antonio, Texas
- ✓ Market, underwrite and service over $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 $167 million as of June 2011

Who We Are

- ✓ Market capitalization of $134 million, with 19.3 million shares outstanding ($6.94 market value per share) as of August 31, 2011
- ✓ Consolidated Shareholders' Equity of $218 million as of June 30, 2011 ($11.23 per share)
- ✓ Total capitalization of $278 million as of June 30, 2011, including $57 million of subordinated trust preferred debt securities that mature in 2035.



HALLMARK FINANCIAL SERVICES, INC.

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 with customized products by competing on service and coverage, not price
- ✓ 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 Through the end of 2010 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%*
2010		**$ 314,857**	**$ 14,849**	**$ 8,264**	**$ 235,763**	*3%*	**$ 11.72**	*4%*	**$ 9.10**	*14%*
2011 YTD		$ 173,868	$ 7,785	$ (20,849)	$ 218,391	-10%	$ 11.23	-4%	$ 7.87	-14%
Last 7 Years (2004-2010)..										
TOTAL		***$ 1,718,967***	***$ 74,708***	***$ 150,434***						
CAGR		***18%***	***48%***	***-1%***	***39%***		***14%***		***4%***	

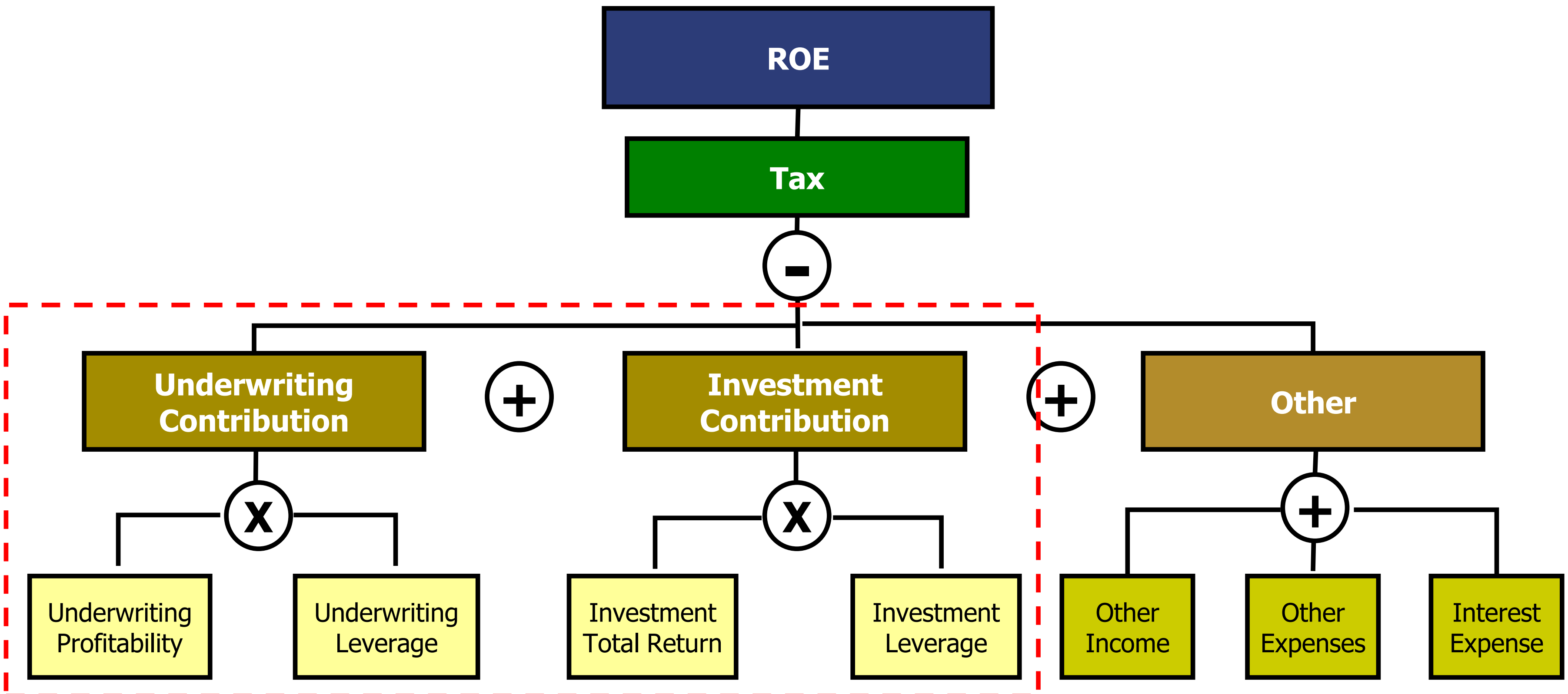
(1) 2006 excludes the noncash interest expense from amortization of deemed discount on convertible notes. See Non-GAAP measure slide at the end of this presentation for a reconciliation to GAAP

(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. YTD 2011 stock price is as of June 30, 2011.

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%
2010	72.8%	29.6%	102.4%	-2.4%	1.2	-2.9%
6 Yr Avg	61.4%	29.9%	91.3%	8.8%	1.5	14.1%

Investment Contribution to ROE

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

- ✓ Superior total returns: Outperform market averages
- ✓ Significant outperformance in since 2008
- ✓ 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%
2010	7.7%	$ 327,677	1.4	11.1%
6 Yr Avg	6.0%	$ 264,842	1.8	10.5%

Hallmark's Six-Year Track Record

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

- ✓ Over the six-year period below, Hallmark produces significant contribution to ROE from both underwriting and investments

	Underwriting	Investment	Debt	Other	Comprehensive Pre-Tax ROBE	Tax	Comprehensive After-Tax ROBE	Treasury 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%	268%	-1%	NA	0.6%	NA	-0.1%	-1%
2009	12%	32%	-3%	1%	41%	31%	29%	2%	0.8%	NA	-0.2%	31%
2010	-3%	11%	-2%	-2%	4%	14%	4%	NA	0.5%	NA	-0.1%	4%
6-YR Avg	*14%*	*11%*	*-3%*	*0%*	*21%*	*32%*	*14%*	*NM*	*0.4%*	*NM*	*NM*	*14%*

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

Through 2010, 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.

		Select Leading Specialty Property/Casualty Insurers					
	HALL	**HCC**	**WRB**	**RLI**	**MKL**	**BRK**	**S&P**
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%**
2010	**4%**	**8%**	**14%**	**-4%**	**16%**	**13%**	**15%**
3-YR Average	***11%***	***11%***	***10%***	***3%***	***9%***	***8%***	***2%***
5-YR Average	***15%***	***14%***	***15%***	***7%***	***15%***	***11%***	***5%***

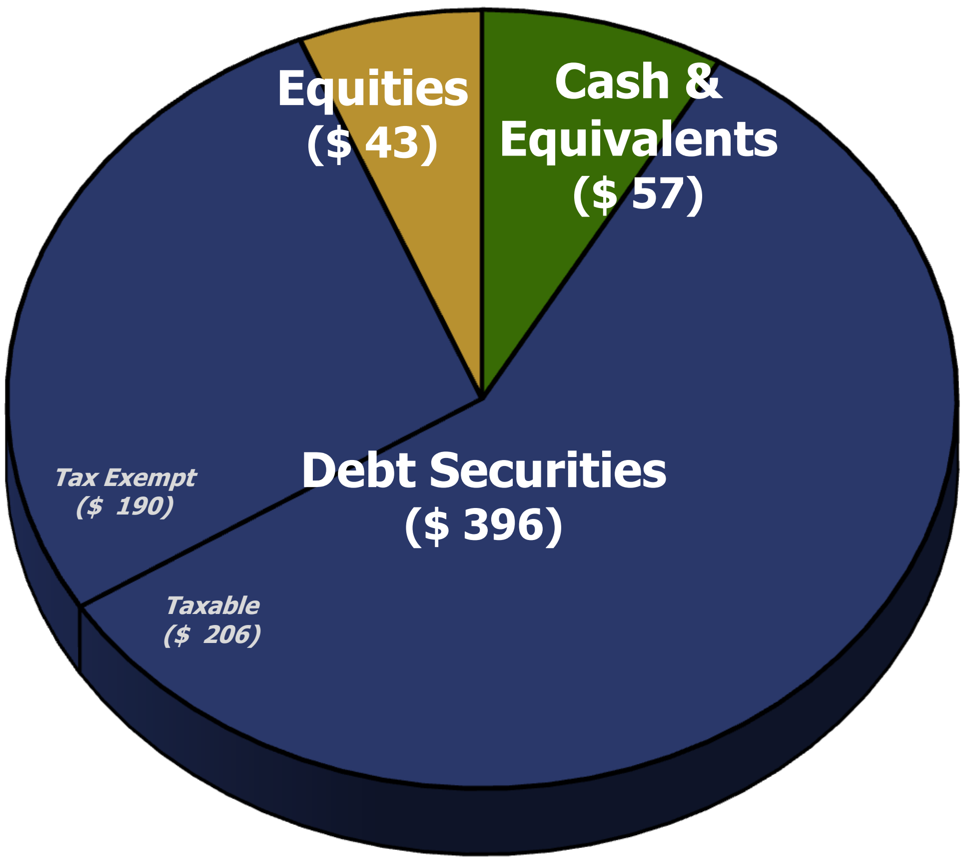
Investment Strategy

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 June 30, 2011
($ in millions)



Total Cash & Investments $496 million, or Approximately $26 per Share.

- ✓ Cash $57 million
- ✓ Total Investments $438 million
- ✓ Investment grade portfolio, marketable securities
- ✓ No hedge fund or private equity investments
- ✓ 10% invested in equities
- ✓ Book tax equivalent yield of approx 4.9%
- ✓ Weighted-average duration of 2.8 years

Operations Overview

Mark Morrison

President & Chief Executive Officer

HALLMARK

FINANCIAL SERVICES, INC.

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.

HALL is formed

AHIS Acquired

Phoenix Indemnity Ins. Co. Acquired

Texas General Agency & Aerospace Acquired

Heath XS Acquired

State Auto National Ins. Co. Acquired

1990…2000……2001..2002…..2003…2004…2005…2006…2007..2008..2009..2010..2011

Newcastle makes first investment

Mark Schwarz becomes Chairman

Recapitalized Company & A.M. Best Rating Upgraded to "A-"

Re-IPO Raised $25 million Equity

Raised $25 million Debt

State & County Mutual Ins. Co. Acquired

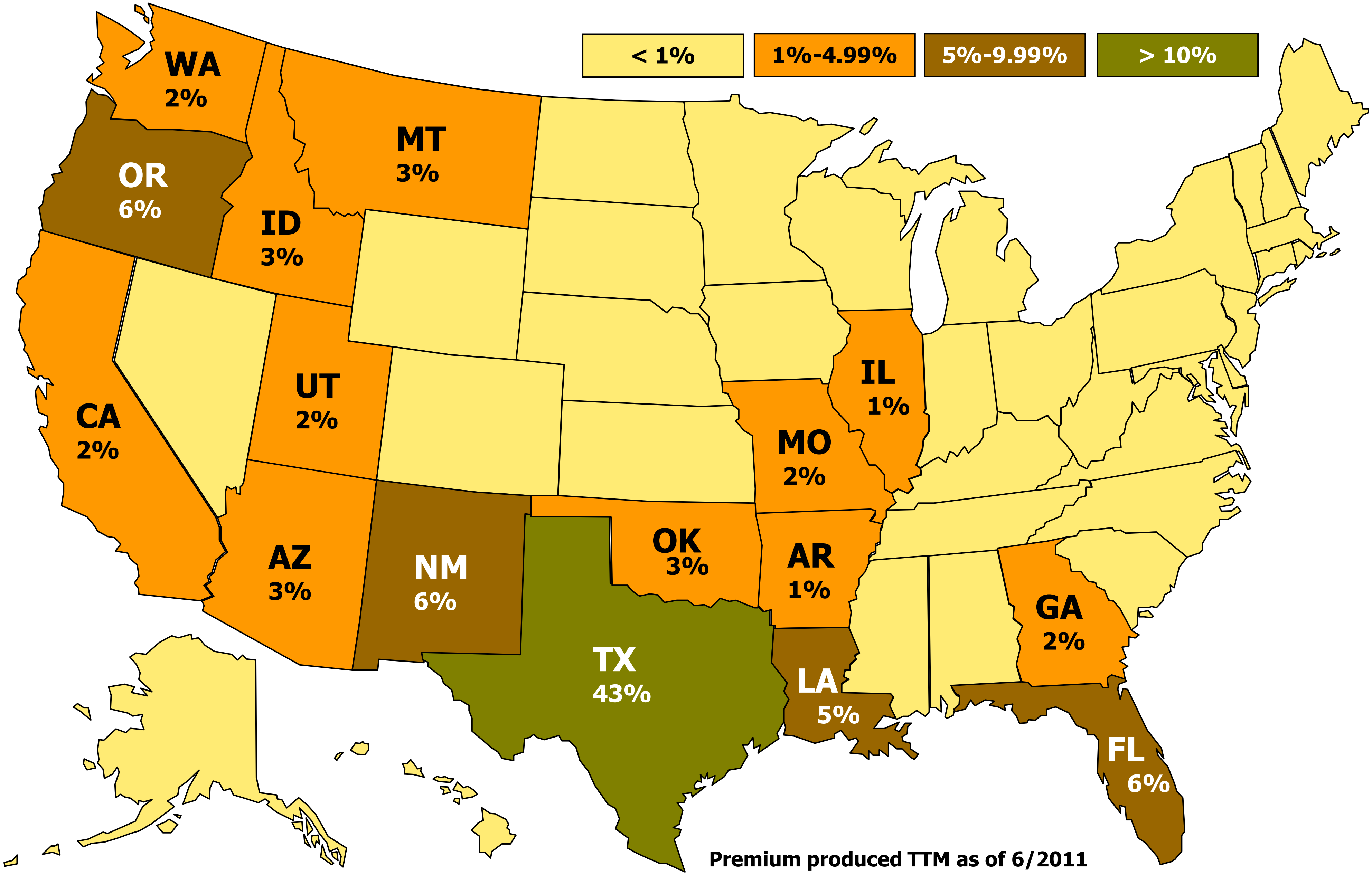
Texas Builders Ins. Co. Acquired

Organizational Overview

Hallmark Financial Services, Inc.
Mark Schwarz, Executive Chairman (Chief Investment Officer)
Mark Morrison, President & CEO

- **Standard Commercial**
  - American Hallmark
  - Workers Comp
- **Specialty Commercial**
  - E&S Specialty
  - Excess & Umbrella
  - General Aviation
- **Personal Lines**
  - Hallmark Ins. Co.
- **Corporate**
  - Investments
  - Finance & Actuarial
  - Information Tech
  - Human Resources

Geographic Spread of Premiums Produced

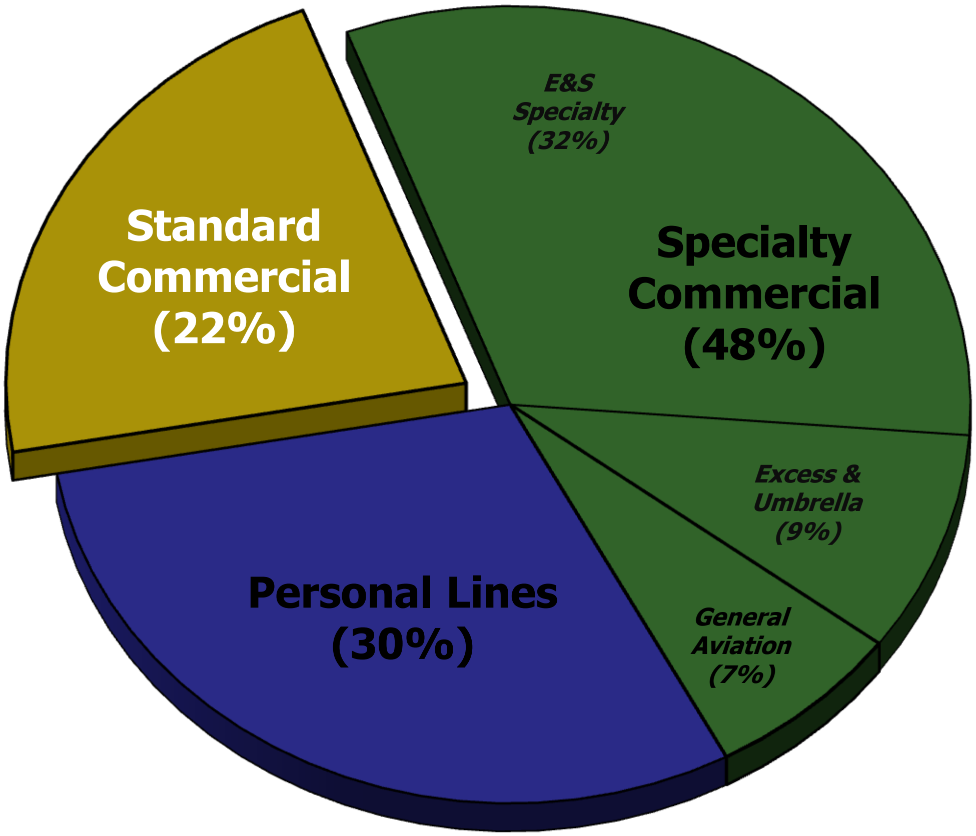


Premium produced TTM as of 6/2011

Standard Commercial

Gross Premiums Produced

By Operating Unit



FY 2010 Gross Premium Produced of $315 million

Product/Market Focus:

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

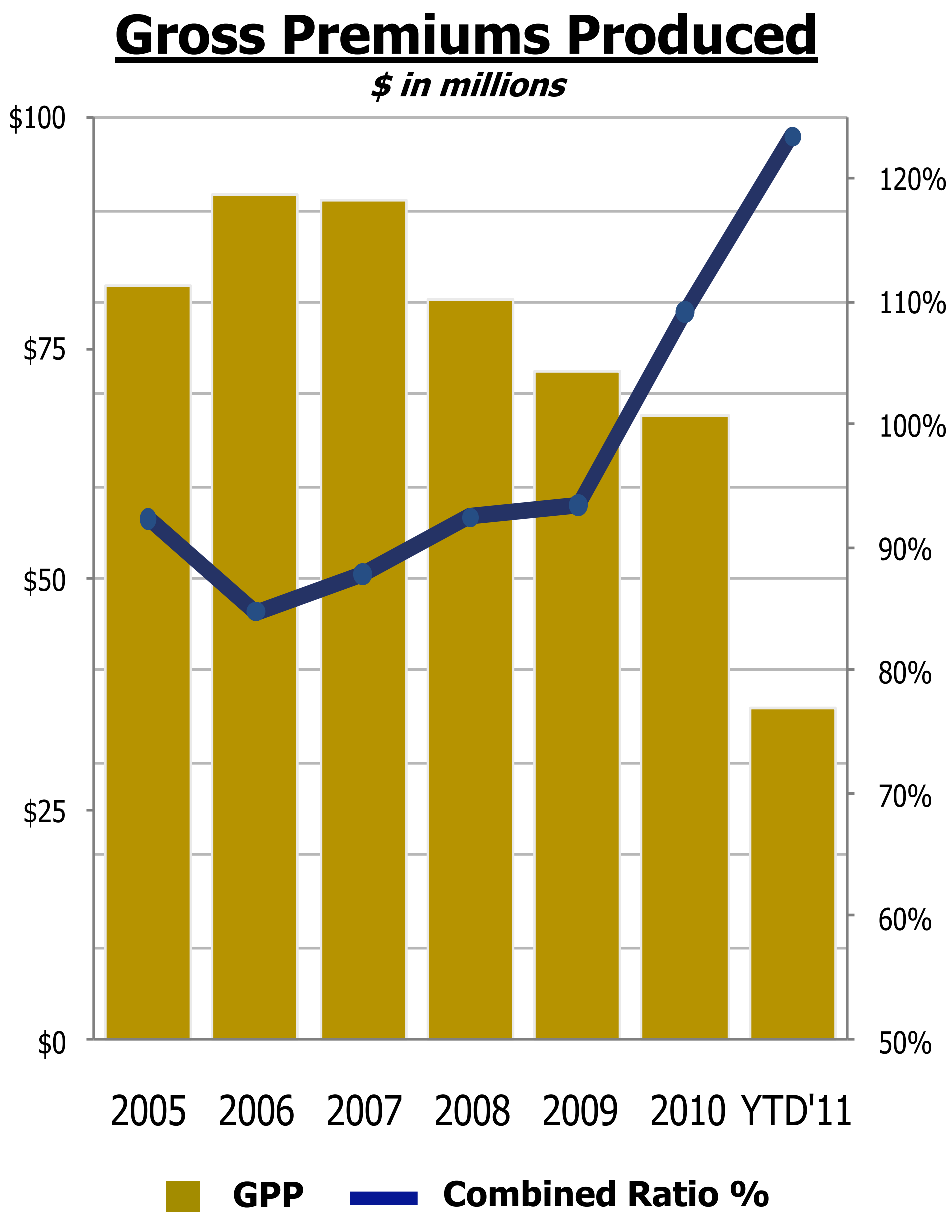
Agency Relationships:

- ✓ Long-standing relationships
- ✓ Selectively chosen group of 200 independent retail agencies with 325 offices in AR, HI, ID, MT, NM, OR, TX, UT, WA & WY
- ✓ Agents given market exclusivity

Growth Opportunities:

- ✓ Expand into new geographic areas with new & existing agents
- ✓ Expand into new product lines
- ✓ Acquired experienced Workers Comp operating platform to round out commercial package product offering

Standard Commercial Operating Trends



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

- ✓ Reduced book increases underwriting volatility driven by large losses

Cost Saving Initiatives have been Ongoing since 2008

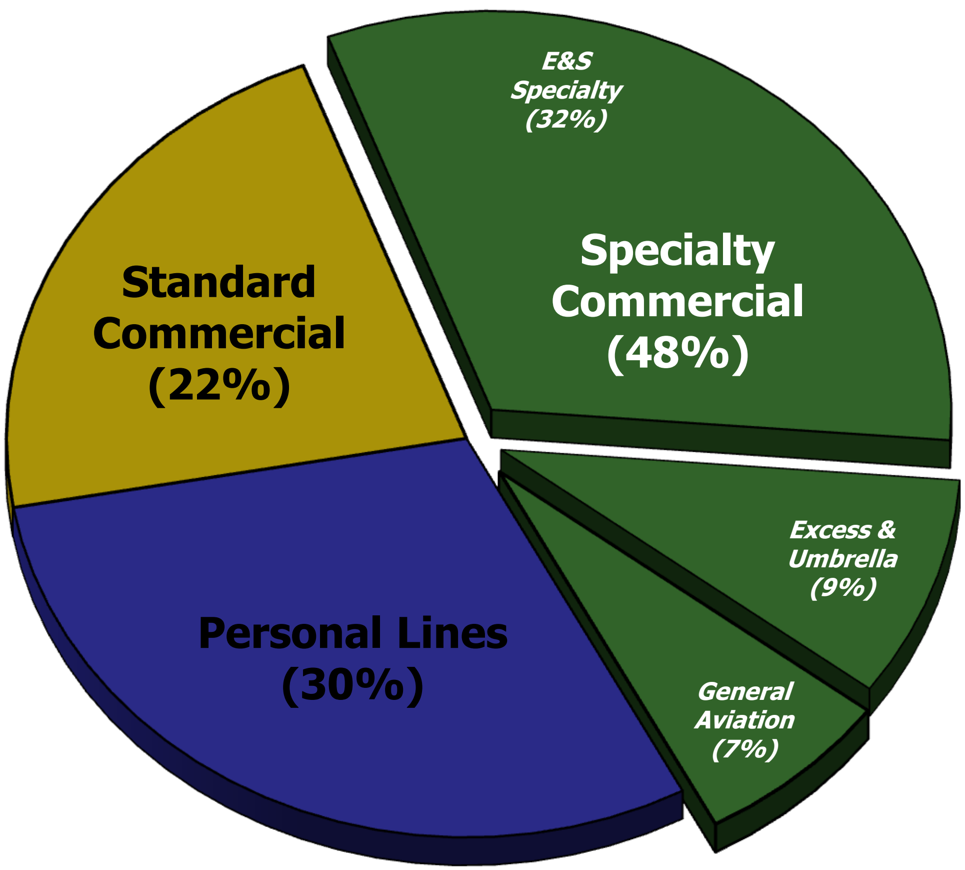
- ✓ Savings help to maintain margins

Losses in 2010 & 2011 has been Adversely Impacted by High Level of Large Property Losses

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

Specialty Commercial

Gross Premiums Produced
By Operating Unit



FY 2010 Gross Premium Produced of $315 million

Product/Market Focus:

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

Agency Relationships:

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

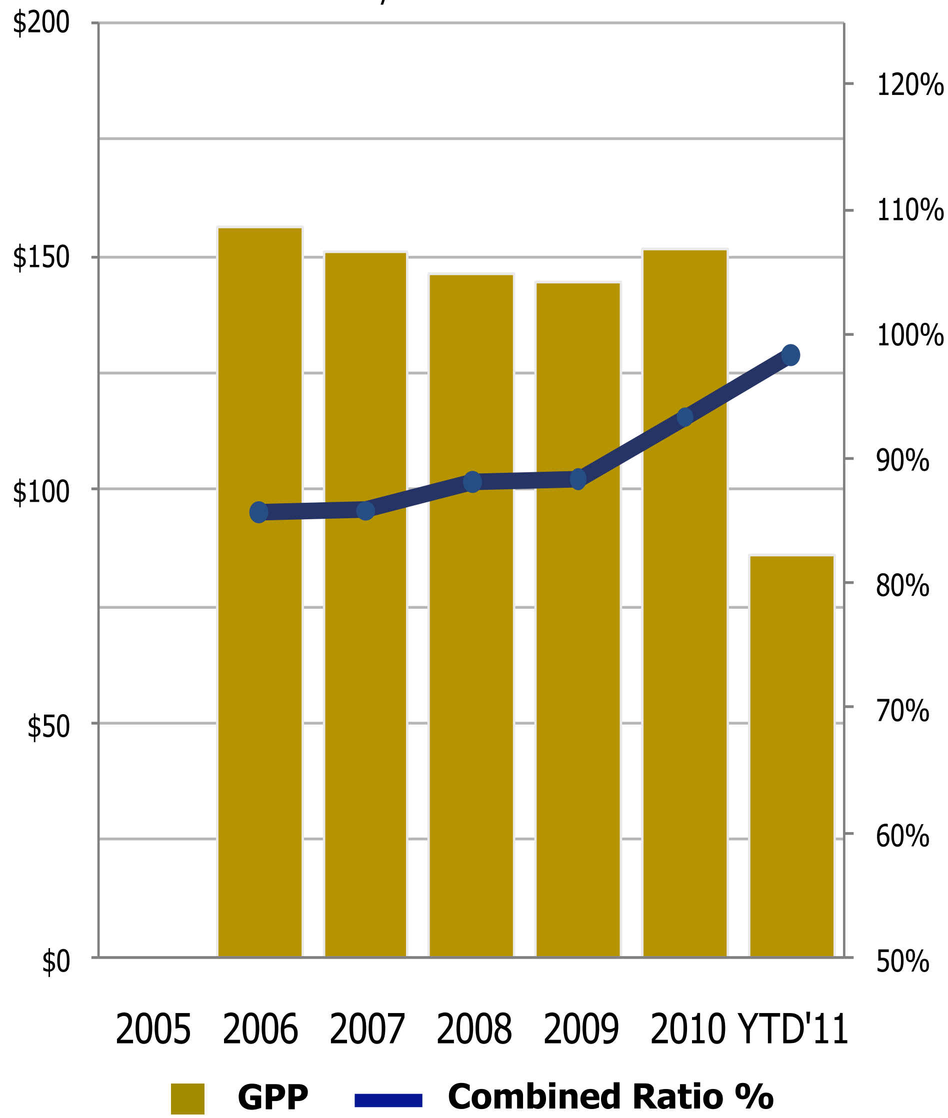
Growth Opportunities:

- ✓ Expand into new geographic areas through new & existing agents
- ✓ Acquire underwriting expertise to expand into new specialty lines products

Specialty Commercial Operating Trends

Gross Premiums Produced

$ in millions



Soft Market Conditions Continue, but Recent Signs Suggest a Possible Change

- ✓ Standard markets appear to be more selective in writing marginal risks and classes of business
- ✓ Increases in insured exposures suggest stabilizing economic conditions

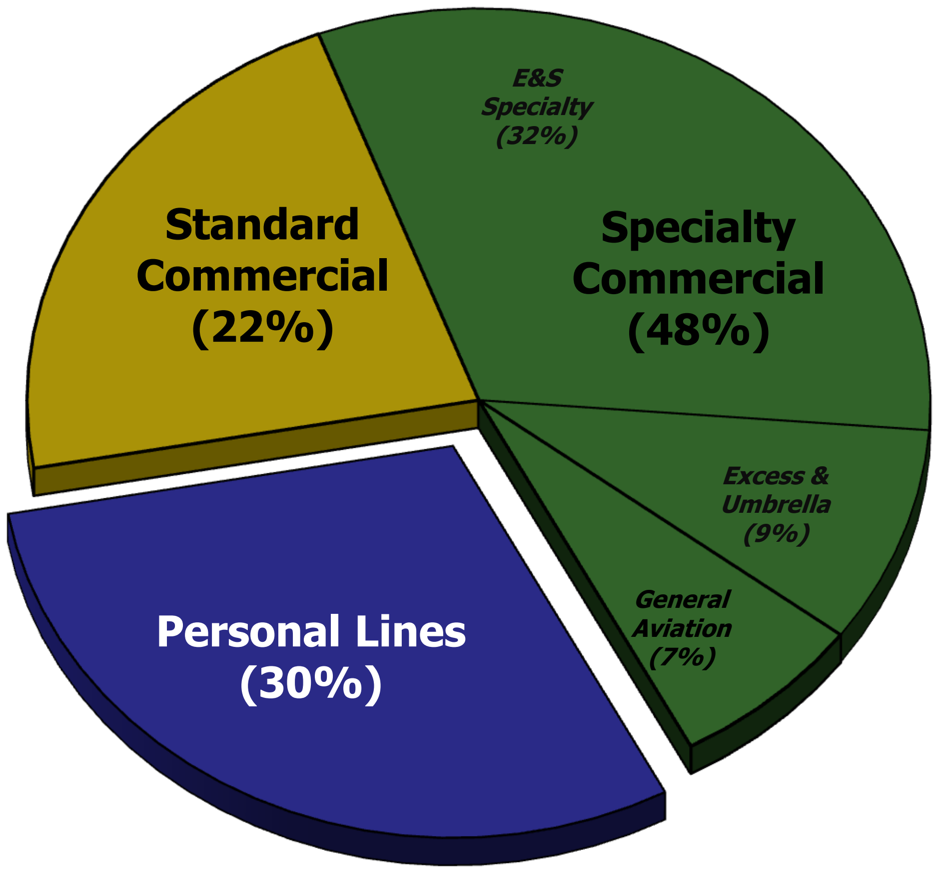
Recent Acquisitions and Hiring of Specialty Underwriting Teams Help Support Product and Geographic Expansion

- ✓ Experienced underwriters in Medical Professional Liability and Oil & Gas added since 2010

Underwriting Discipline has help to Maintain Healthy Margins

Personal Lines

<u>Gross Premiums Produced</u>
By Operating Unit



FY 2010 Gross Premium Produced of $315 million

Product/Market Focus:
- ✓ Non-standard personal auto
- ✓ Supplement NSA with other niche personal line products
- ✓ Light touch, low cost provider

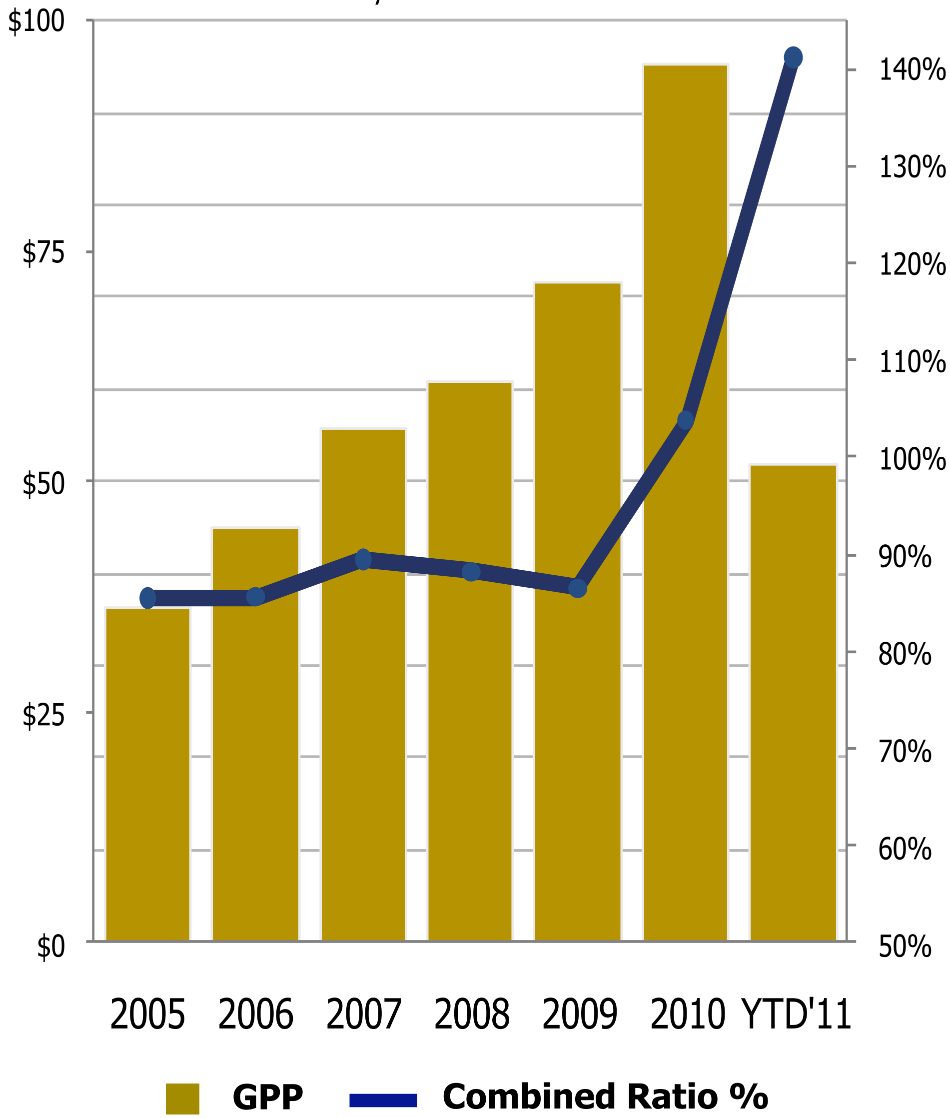
Agency Relationships:
- ✓ Over 9000 independent retail agents in 31 states
- ✓ Efficiency via technology
- ✓ Tiered agency relationships

Growth Opportunities:
- ✓ Additional rate in under-performing markets
- ✓ Integration of recent acquisition of established NSA book of business
- ✓ Greater product penetration in historically profitable markets (personal property, motorcycle)

Personal Lines Operating Trends

Gross Premiums Produced

$ in millions



Reduced Focus on Geographic & Product Expansion Strategy

- ✓ Expansion into 4-5 new states per year since 2004…none in 2011
- ✓ Exit non-profitable, under-penetrated markets/products

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

- ✓ Efficiency via technology and light touch approach

Loss Ratio Slammed by PIP Fraud with 2009 Expansion into Florida Personal Auto Market

- ✓ Aggressive measures taken in 2011 to mitigate losses and exit Florida
- ✓ Significant rate increases taken in underperforming markets/products

Financial Overview

Select Financial Highlights

Since 2003, Hallmark's Specialty Focus, Underwriting Discipline And Opportunistic Acquisitions Have Driven "Best In Class" Results. Misstep into Florida's Personal Auto Market Blemishes this Record.

	Year Ended December 31					4-YR	Six Months Ended June 30	
	2006 *(1)*	2007	2008	2009	2010	CAGR	2010	2011
Gross Premiums Produced	↑ $ 293,304	↑ $ 297,904	↓ $ 287,081	↑ $ 288,450	↑ $ 314,857	*2%*	$162,278	↑ $173,868
Gross Premiums Written	↑ 213,945	↑ 249,472	↓ 243,849	↑ 287,558	↑ 320,973	*11%*	165,039	↑ 181,083
Net Premiums Earned	↑ 152,061	↑ 225,971	↑ 236,320	↑ 251,072	↑ 278,271	*16%*	136,963	↑ 141,691
Total Revenues	↑ 202,741	↑ 275,166	↓ 268,690	↑ 287,039	↑ 307,060	*11%*	151,510	↑ 155,921
Net Earnings *(2)*	↑ 15,257	↑ 27,863	↓ 12,899	↑ 24,575	↓ 7,334	*-17%*	5,898	↓ (11,249)
Loss Ratio (GAAP)	↑ 57.3%	↑ 58.8%	↑ 61.0%	↑ 61.2%	↑ 72.8%		69.5%	↑ 88.7%
Expense Ratio (GAAP)	↓ 28.7%	↑ 29.1%	↑ 30.6%	↓ 30.5%	↓ 29.6%		29.5%	↑ 31.2%
Combined Ratio (GAAP)	↓ 86.0%	↑ 87.9%	↑ 91.6%	↑ 91.7%	↑ 102.4%		99.0%	↑ 119.9%
EPS - Basic	↑ $ 0.89	↑ $ 1.34	↓ $ 0.62	↑ $ 1.19	↓ $ 0.36	*-20%*	$ 0.29	↓ $ (0.56)
EPS - Diluted	↑ $ 0.89	↑ $ 1.34	↓ $ 0.62	↑ $ 1.19	↓ $ 0.36	*-20%*	$ 0.29	↓ $ (0.56)
Return on Average Equity	↓ 13%	↑ 17%	↓ 7%	↑ 12%	↓ 3%		5%	↓ -10%
Book Value Per Share	↑ $ 7.26	↑ $ 8.65	↓ $ 8.61	↑ $ 11.26	↑ $ 11.72	*13%*	$ 11.49	↓ $ 11.23

(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-teens.

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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%