



HALLMARK

FINANCIAL SERVICES, INC.

Specialty Insurance Solutions

2016 Annual Shareholder Meeting

June 3, 2016

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

Naveen Anand

President and Chief Executive Officer



Hallmark Financial Services (NASDAQ: HALL)

- **Diversified, niche specialty property/casualty insurer based in Dallas-Fort Worth, Texas**
- **Market, underwrite and service over \$500 million of commercial and personal insurance in selected markets**
 - Focused on underserved sectors, mostly short-tailed lines
 - Operate in diversified, sustainable niche markets
- **Proven and improving track record of underwriting profitability**
 - US focused niche specialty property & casualty insurer
 - Diversification through multiple lines of business
- **Demonstrated ability to identify and acquire profitable, niche businesses.**
- **“A-” (Excellent) A.M. Best Financial Strength Rating.**
- **Combined Statutory Surplus of \$247 million as of 12/31/15.**



Strategic Focus

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
- Mostly low-severity and/or 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

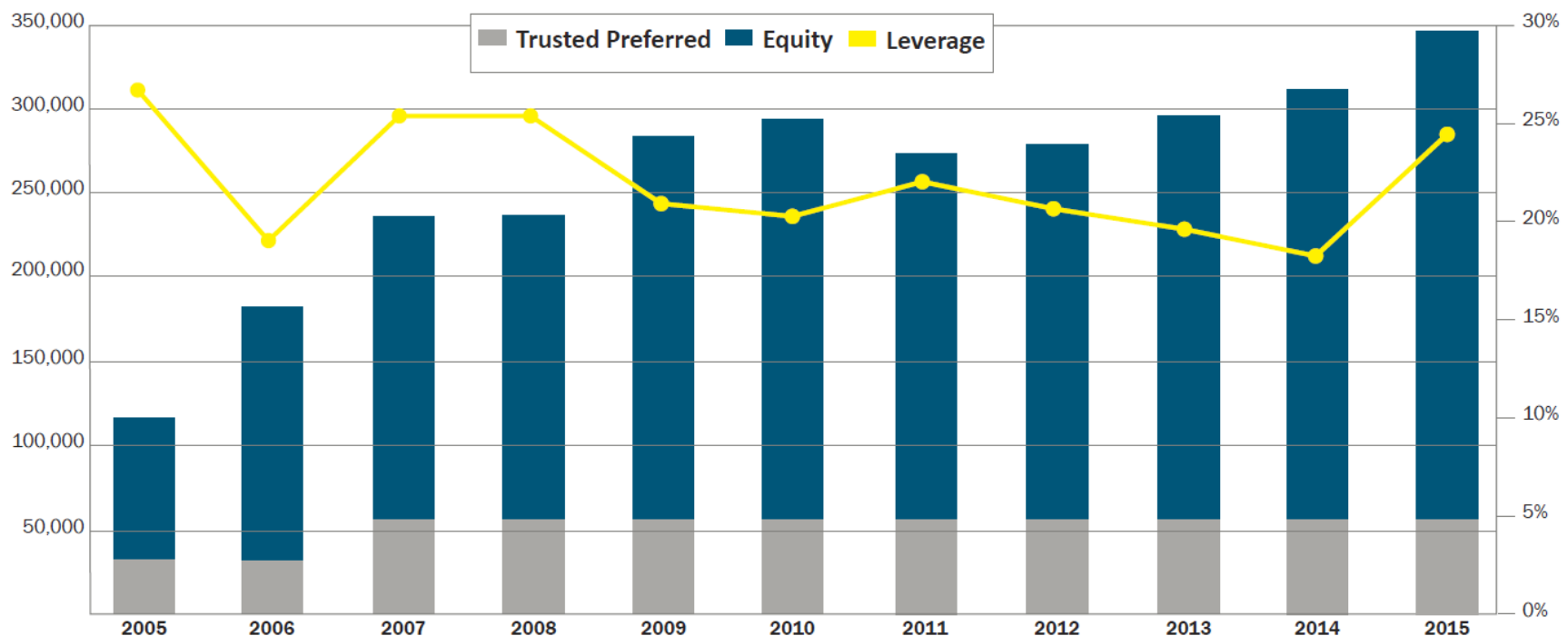
INVESTMENT STRATEGY

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 every year
- Total return approach values all components of investment return equally, whether reported as interest and dividends on the income statements 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

Hallmark Financial Services (NASDAQ: HALL)

- **Market capitalization of \$223.2 million**, with 19.1 million shares outstanding (\$11.69 market value per share) as of December 31, 2015.
- **Consolidated Shareholders' Equity of \$262 million** as of December 31, 2015 (\$13.72 per share).
- **Total capitalization of \$349 million** as of December 31, 2015, including \$57 million of subordinated trust preferred debt securities that mature beginning in 2035.



2015 Highlights

- **Improved Net Income by over 60%** on a year over year basis
- **Net Combined Ratio of 93.9% in 2015** driven by underwriting and pricing improvements across all segments of our business
- **Ten consecutive quarters of underwriting profitability**
- **Increased product and geographic diversification** leading to a more balanced portfolio and improved quality of earnings
- **Strong reinsurance support** and continued affirmation of underwriting quality by reinsurers
- **Aggressively addressed unprofitable segments** and geographies in the Commercial book of business leading to significantly improved results and favorable future outlook

2015 Highlights

- **Continued to strengthen management team** and functional control environment with key hires in various positions across the organization
- **Strong specialty brand** and recognized presence in our targeted commercial and personal niche segments with continued ability to achieve rate increases and stay ahead of loss costs
- **Achieving expected results from our 2015 technology investments** and continuing to invest to drive better pricing and policy execution at point of sale to differentiate Hallmark
- **Strengthened Enterprise Risk Management program** from improved capital management and capital allocation

The Hallmark Track Record

Aggregates & Averages Through 2015 Highlight Hallmark's Successful Expansion and Diversification into Specialty Lines of Business.

	Gross Premiums Produced	Investment Income	Operating Income	Operating Cash Flow	GAAP Equity		GAAP BVPS		Year-End Stock Price	
					(3)	ROAE	(2)(3)	% Chg	(2)	% Chg
			(1)(3)							
2004	\$ 119,305	\$ 1,386	\$ 8,602	\$ 7,339	\$ 32,656	20%	\$ 5.37		\$ 7.20	
2005	\$ 118,066	\$ 3,836	\$ 13,468	\$ 29,654	\$ 85,188	16%	\$ 5.89	10%	\$ 8.16	13%
2006	\$ 293,304	\$ 10,461	\$ 23,950	\$ 75,962	\$ 150,731	13%	\$ 7.26	23%	\$ 9.91	21%
2007	\$ 297,904	\$ 13,180	\$ 41,769	\$ 85,684	\$ 179,621	17%	\$ 8.65	19%	\$ 15.86	60%
2008	\$ 287,081	\$ 16,049	\$ 21,124	\$ 48,712	\$ 179,412	7%	\$ 8.61	0%	\$ 8.77	-45%
2009	\$ 288,450	\$ 14,947	\$ 33,257	\$ 61,698	\$ 226,517	12%	\$ 11.26	31%	\$ 7.96	-9%
2010	\$ 314,857	\$ 14,849	\$ 8,371	\$ 36,360	\$ 235,278	3%	\$ 11.69	4%	\$ 9.10	14%
2011	\$ 344,379	\$ 15,880	\$ (19,787)	\$ 24,610	\$ 215,572	-7%	\$ 11.19	-4%	\$ 6.99	-23%
2012	\$ 384,231	\$ 15,293	\$ 3,374	\$ 33,682	\$ 220,537	2%	\$ 11.45	2%	\$ 9.39	34%
2013	\$ 454,981	\$ 12,884	\$ 11,080	\$ 68,338	\$ 238,118	4%	\$ 12.36	8%	\$ 8.89	-5%
2014	\$ 468,442	\$ 12,383	\$ 18,782	\$ 33,684	\$ 252,037	5%	\$ 13.11	6%	\$ 12.09	36%
2015	\$ 509,188	\$ 13,969	\$ 31,886	\$ 52,936	\$ 262,026	9%	\$ 13.72	5%	\$ 11.69	-3%
TOTAL	\$ 3,880,188	\$ 145,117	\$ 195,876	\$ 558,659						

Last 12 Years (2004-2015)

CAGR	14%	23%	13%	20%	21%	9%	5%
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(1) Operating income is income before noncash interest expense from amortization of deemed discount on convertible notes, income tax and non-controlling interest. (2) Stock prices and BVPS prior to 2006 have been adjusted for the one for six stock split which took place during the Q3 2006. (3) FY2010 and FY2011 Operating income, equity and BVPS have been restated for change in accounting principal related to deferred acquisition costs.

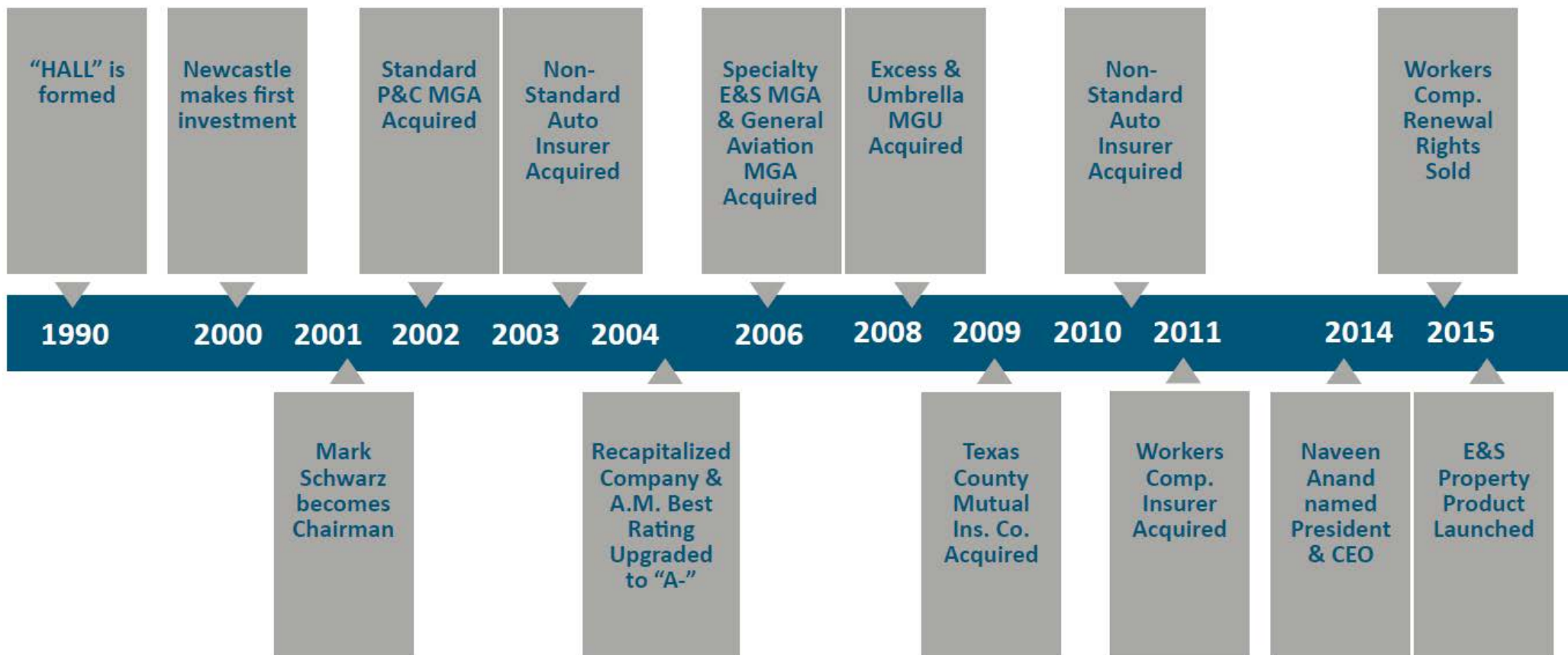


Operational Overview



How We Got to Where We Are Today

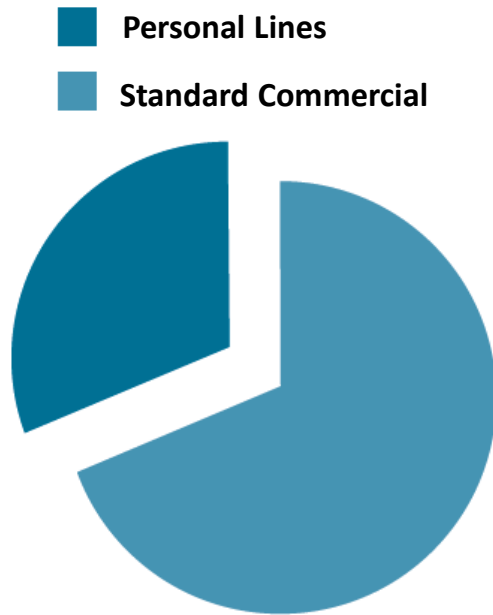
Hallmark Began in 1990 as a Texas-only, Mono-line Company and today is a Diversified, Specialty Lines Focused Property/Casualty Insurer.



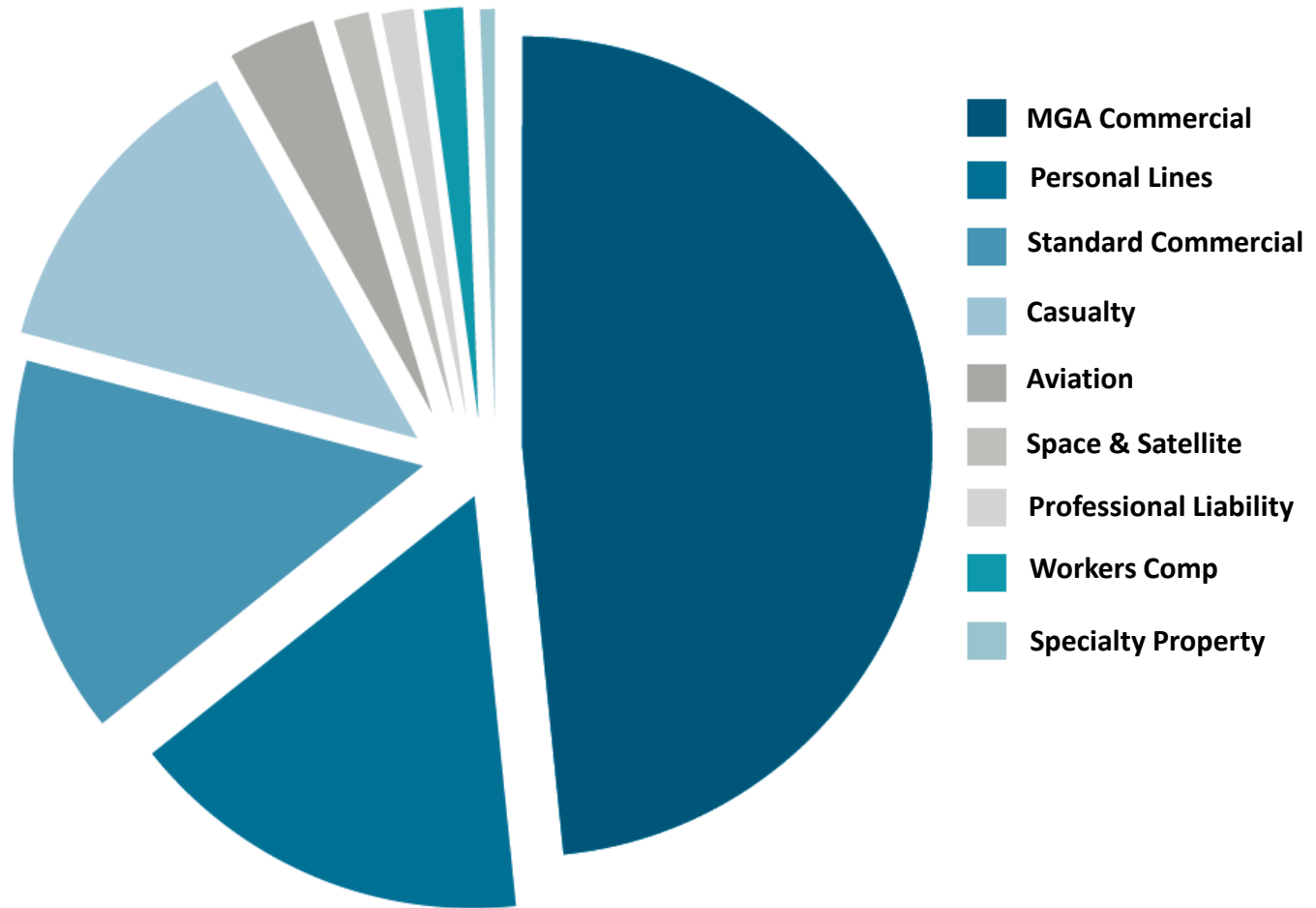
Successful Evolution into a Niche Specialty Insurer

2005

2015



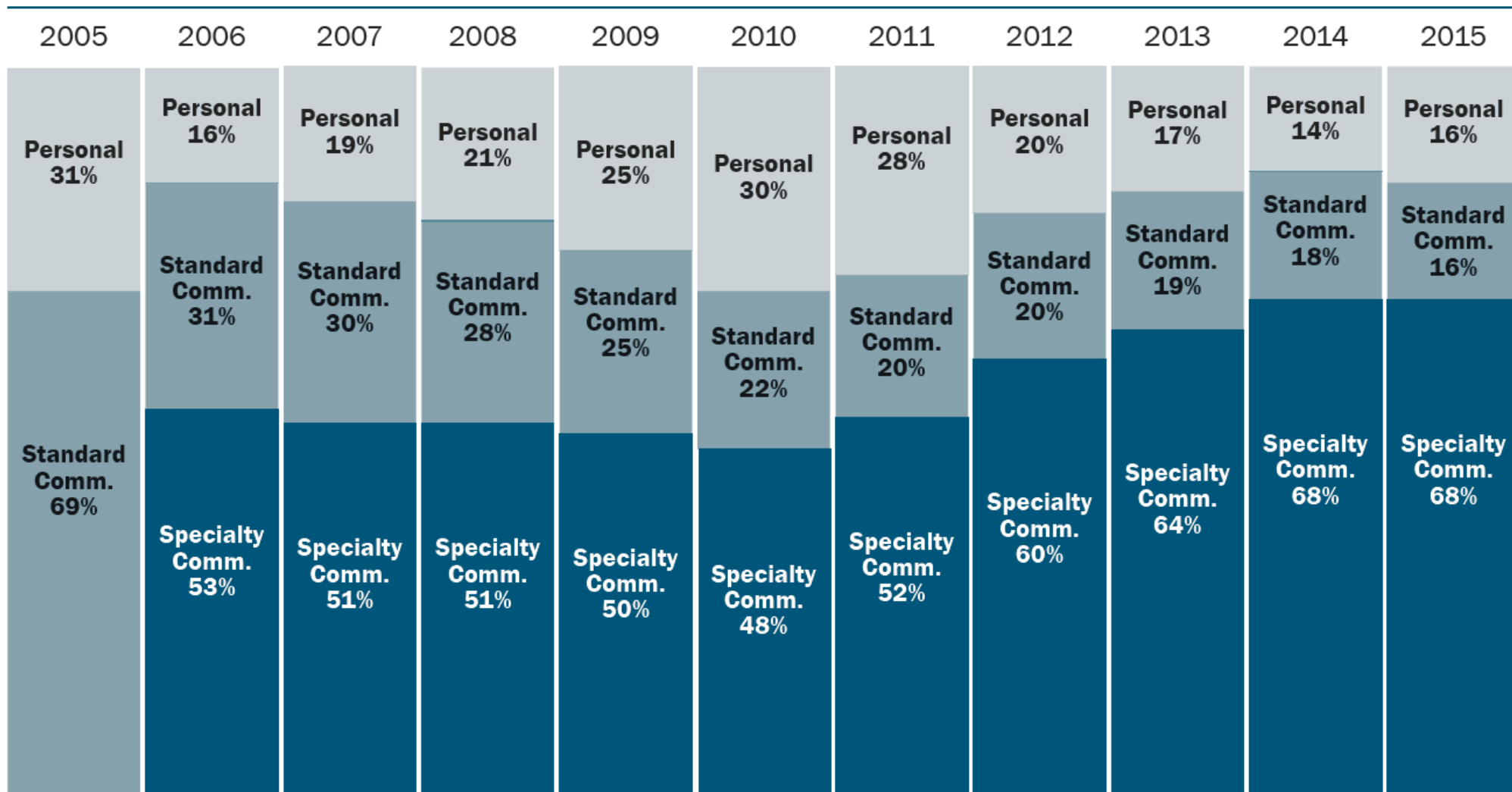
Gross Premiums Produced
\$118 Million



Gross Premiums Produced
\$509 Million

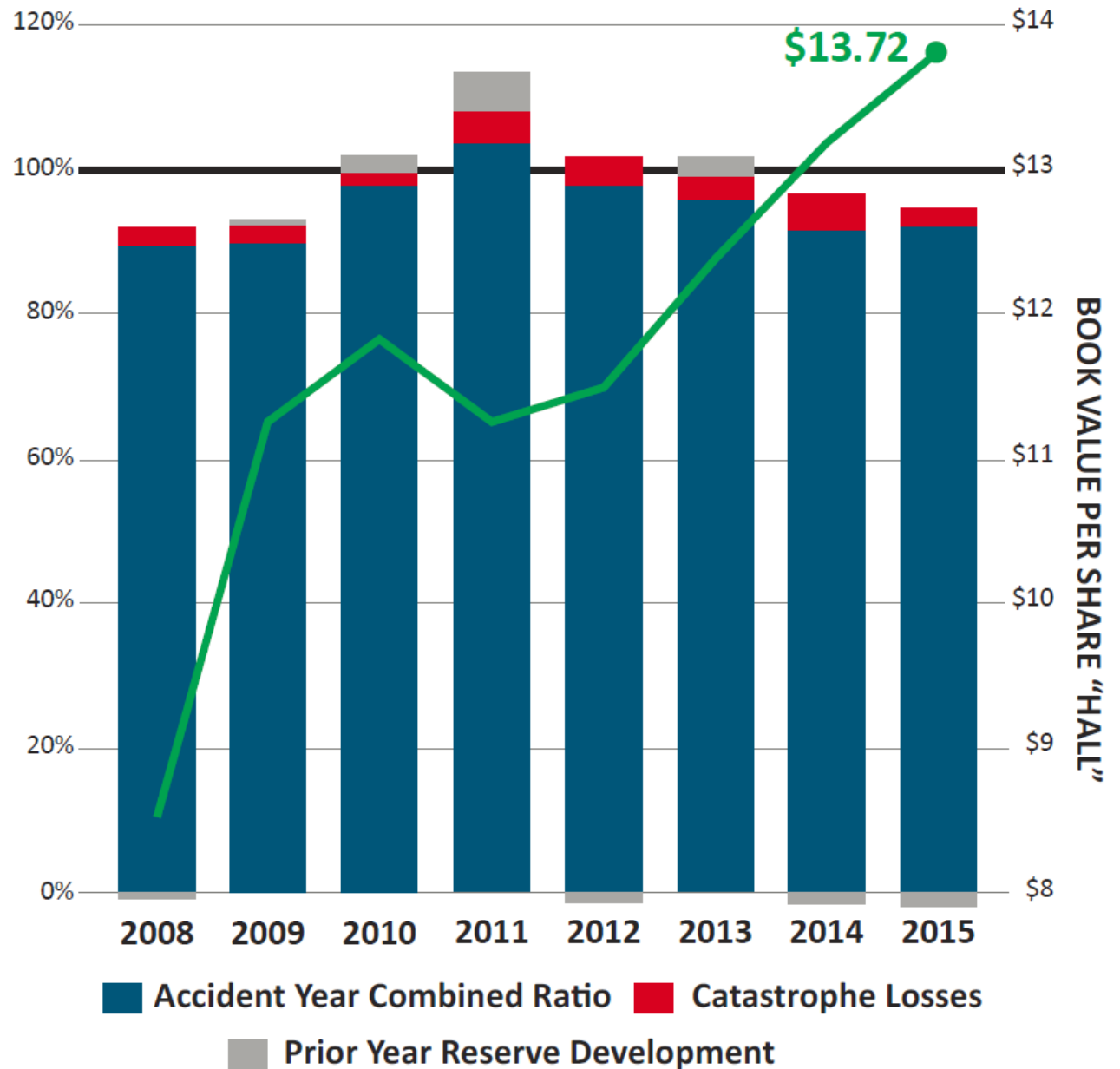
Continued Emphasis on Niche Specialty Segment

Hallmark's product portfolio now accounts for nearly 70% in the "niche" specialty segment where we enjoy strong market positions and unique profit opportunities.



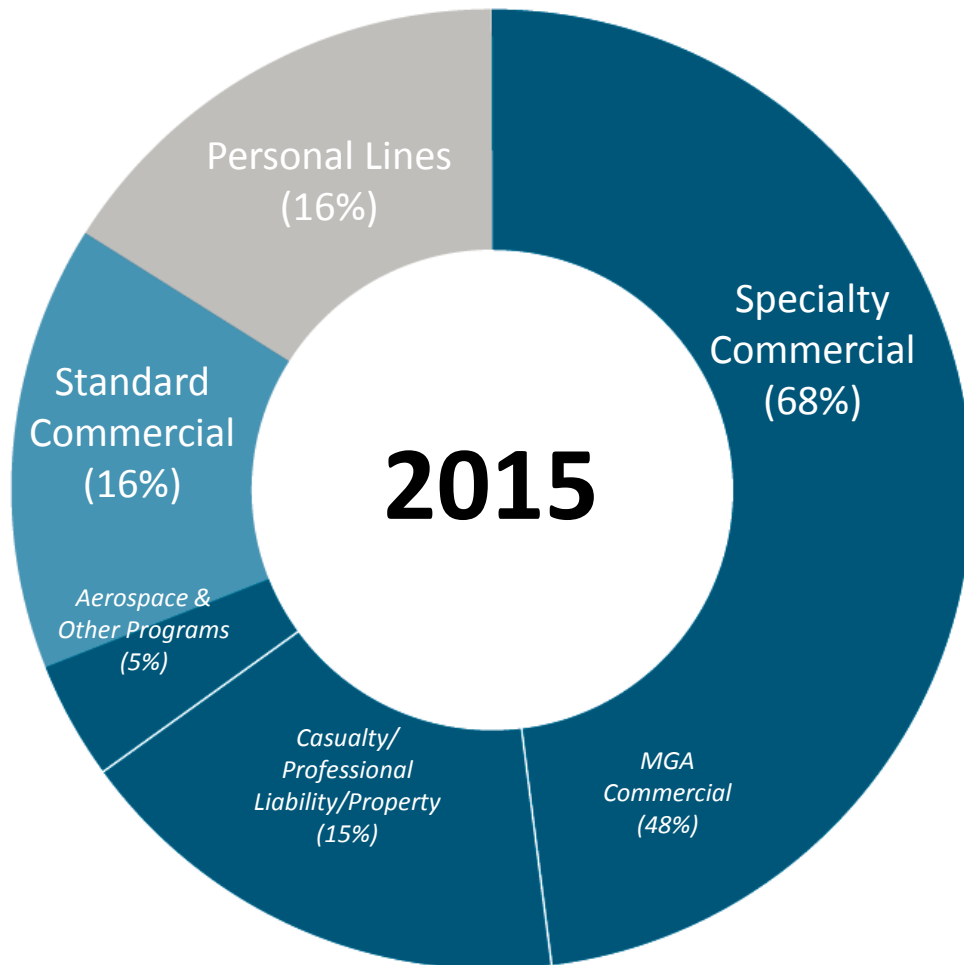
Hallmark's Combined Ratio Trend

Starting in the last half of 2010 and continuing through mid 2012, adverse results from Personal Auto business in Florida drove significant underwriting losses. Since then, accident ratios have trended downward.



Hallmark Operations Overview

Gross Premiums Produced *By Operating Unit*

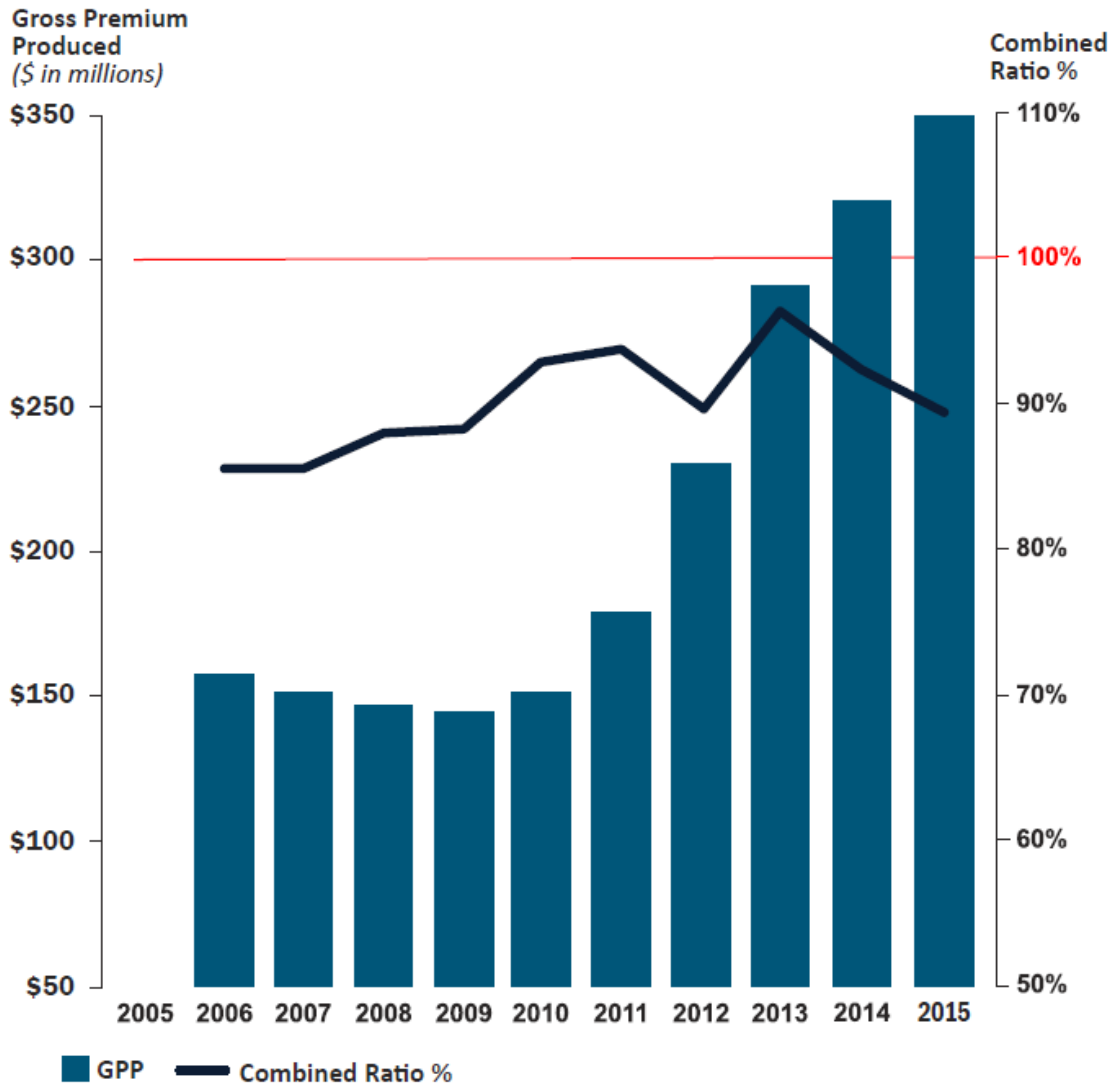


YTD 2015 Gross Premium Produced of \$509 million

Three Reporting Segments:

- **Specialty Commercial:**
 - MGA Commercial: Difficult-to-place accounts, primarily commercial auto and small, stand-alone general liability policies
 - Specialty Commercial: Excess middle market, mostly transportation accounts; small airports, small planes focused on non-standard pilots and older aircraft; space & satellites; property and professional liability
- **Standard Commercial:**
 - Small accounts, low hazard standard commercial package policies
 - Since 2011, Workers Comp and Occupational Accident coverages added through independent agents in Texas
 - Sold renewal rights to Workers Comp business in 2015
- **Personal Lines:**
 - Non-standard automobile coupled with other niche personal line products

Specialty Commercial Operating Trends



- ✓ This segment represents nearly 70% of our insurance portfolio and targets underserved sustainable “niche” specialty segments
- ✓ Strong market position in many of the operating units
- ✓ Largest segment is concentrated in six States, with opportunity for thoughtful and balanced expansion
- ✓ Nimble organization is well positioned to take advantage of market dislocation
- ✓ Key underwriters added over the last several years in NEW niche specialty products:
 - Primary & Excess Property
 - Medical & Hospital Professional Liability
 - Excess & Surplus Primary Casualty
 - Excess coverage for Public entities
 - Space & Satellite

Specialty Insurance Operating Units

- **MGA Commercial Products**

Contract Binding Facility focused on

- Commercial Auto & Transportation
- E&S General Liability and Small Package; Supported Umbrella
- Energy Service Contractors

- **Excess & Umbrella**

- Transportation Risks
- Targeted Excess & Surplus lines classes
- Public Entities

- **Primary General Liability**

- Excess & Surplus Lines Focused Mono-Line Primary GL

- **Professional Liability**

- Medical Professional liability for Non-standard Physicians
- Hospitals, Allied Health and Medical Facilities

- **Aerospace Insurance Managers**

- Aviation Risks
- Transition Pilots

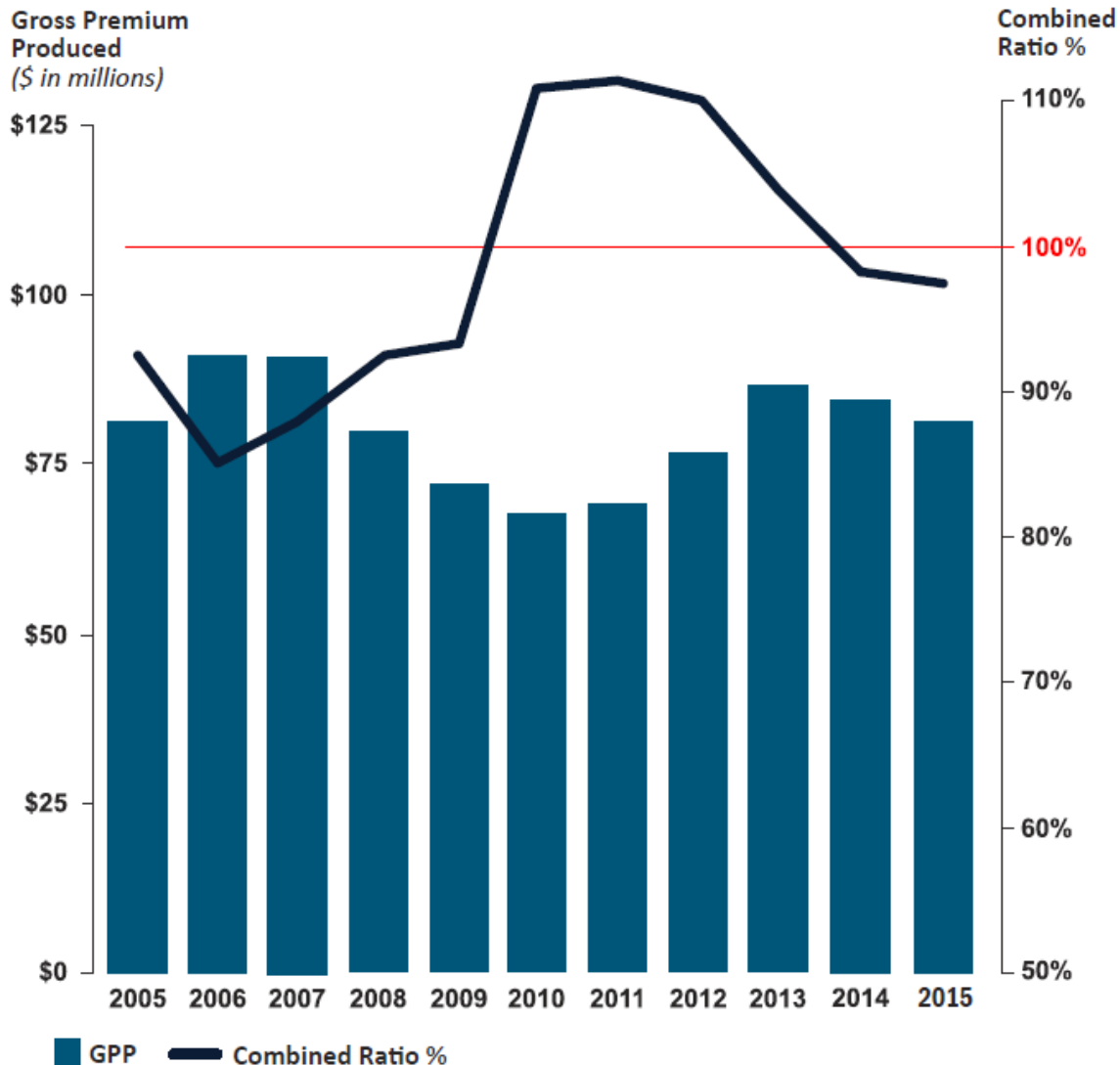
- **Space & Satellite**

- Launch exposure
- Short term in-orbit coverage

- **Specialty Property**

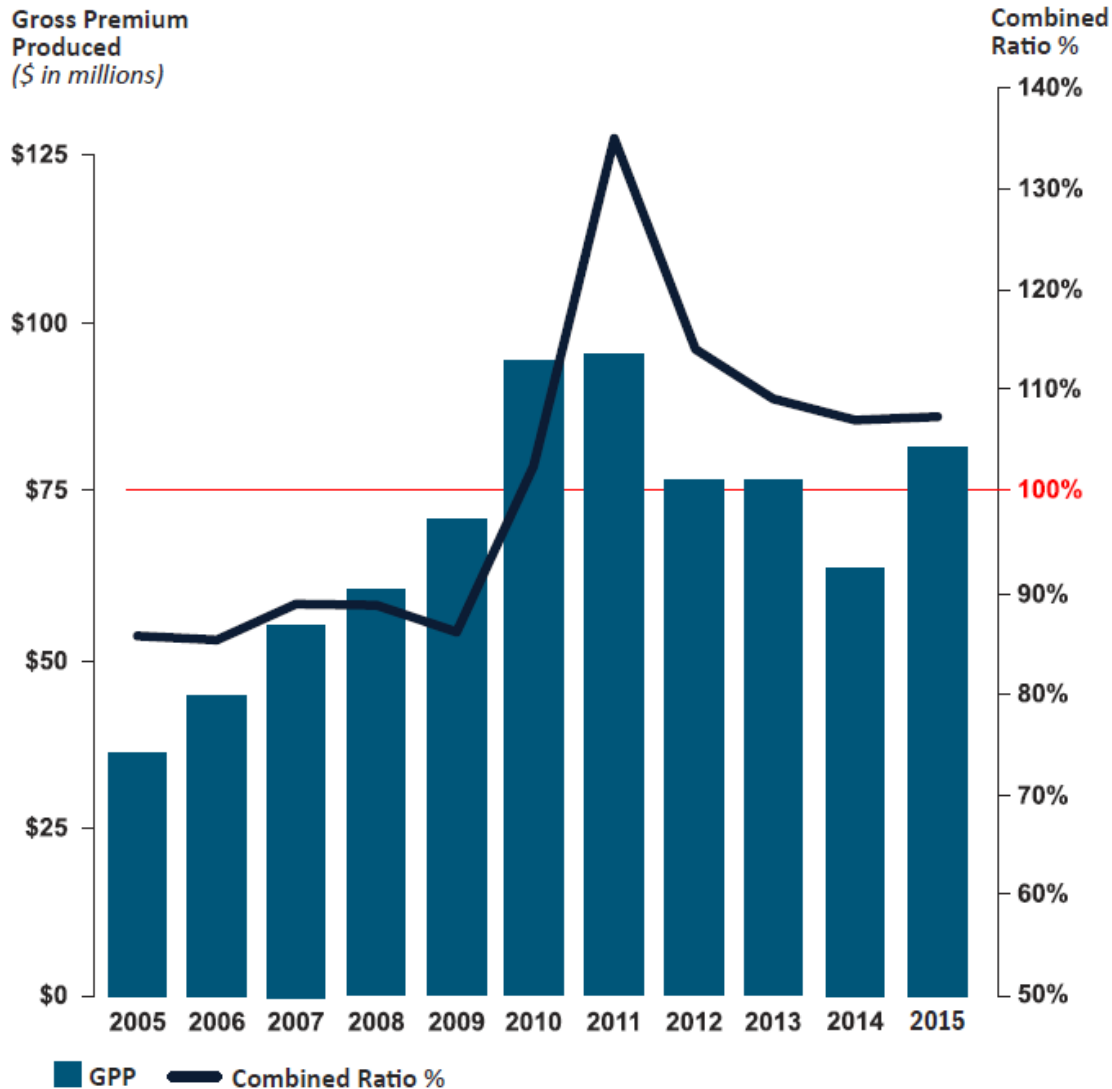
- Primary and Excess Property
- Shared & Layered Programs

Standard Commercial Operating Trends



- ✓ Evolving from a “generalist” approach for small and mid-size commercial risks to targeted industry focused products and specialty affinity programs
- ✓ Regionally focused business currently produced in eleven states
- ✓ Catastrophe losses for 2015 encompassed 10.8% of the segment’s combined ratio, down from 17.1% the previous year due in part to several actions to reduce large loss volatility related to weather risks including:
 - Coverage Limitations and Increased Wind/Hail Deductibles
 - Reduced property exposure in areas subject to severe convective storms
 - Reduced retention to any one event through additional catastrophe reinsurance
- ✓ Sold non-core Mono-line WC business in 2015
- ✓ YOY Rate increases achieved through 2015

Personal Lines Operating Trends



- ✓ **Non Standard Auto and supporting Renters Package product only**
- ✓ **Non renewed Homeowners, Dwelling, RV and motorcycle business resulting dampening of volatility**
- ✓ **Reduced footprint from 22 states to 11 states**
- ✓ **Florida entry drove poor results in 2010-2012, exited the State in 2012, limited number of open claims remaining**
- ✓ **We have seen elevated frequency and severity in 2015 primarily caused by lower gas prices resulting in increase of miles driven. To address rising frequency and severity trends, the focus is on three key initiatives:**
 - ✓ **Aggressively taking additional rate**
 - Sixteen rate revisions implementing in 1Q 2016
 - ✓ **Re-underwriting our legacy books of business to address the poorest performing segments**
 - ✓ **Proactively managing new production to ensure a profitable outcome**
 - All new business being written on new policy platform
 - Improved point of sale underwriting generating rate lift vs. legacy programs



Investment Overview

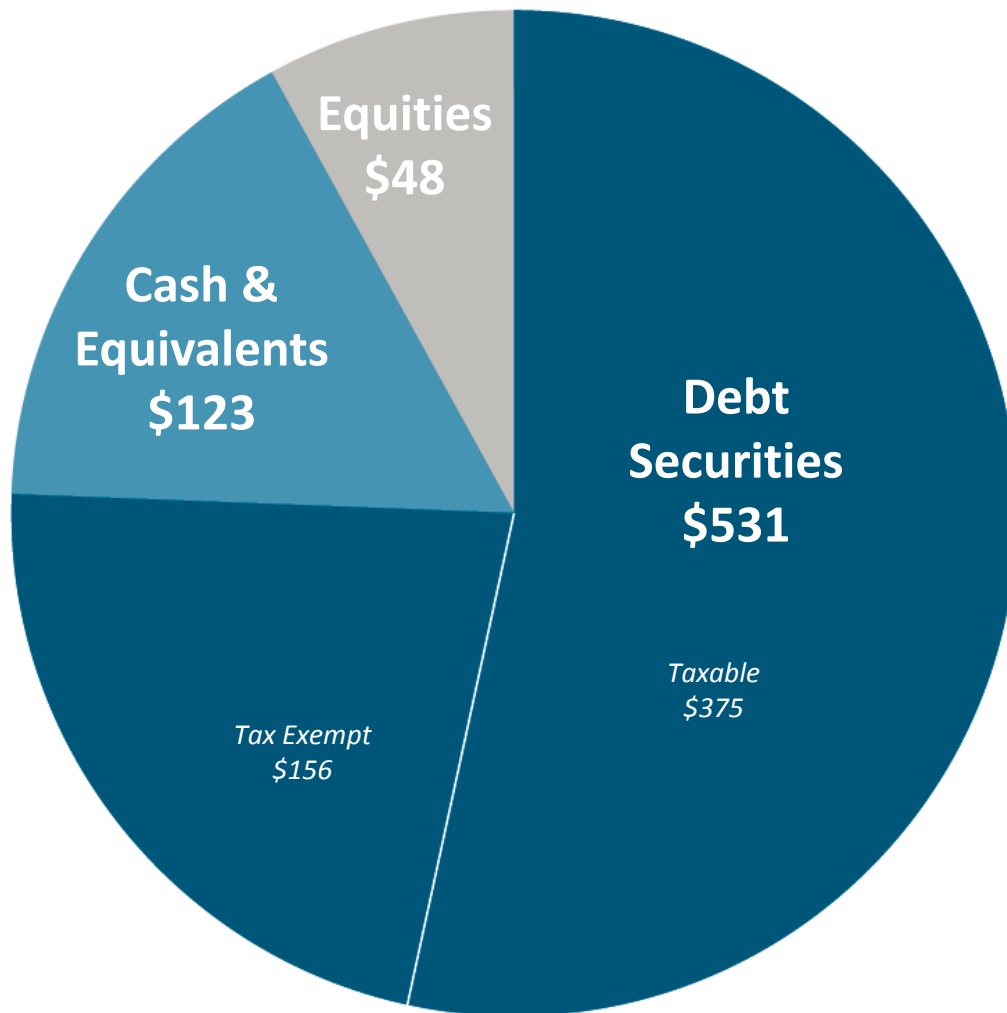
Mark Schwarz

Executive Chairman



Investment Portfolio

As of December 31, 2015
(*\$ in millions*)



Total Cash & Investments of \$702 million, or approximately \$37 per share.

- Investment portfolio of \$579 million
- 8% invested in equities
- Annualized tax equivalent yield of approximately 2.7%
- Weighted-average duration of 3.1 years
- Weighted-average credit rating of “AA”

Key Characteristics of Hallmark Investment Portfolio

- **Hallmark portfolio has significant liquidity**
- **\$207 million total liquidity:**
 - \$213 million cash flow from operations produced in past 5 years
 - \$123 million cash and cash equivalents
 - \$76 million short-term U.S. Government Treasury securities (cash substitute)
 - \$8 million performing auction rate securities (cash substitute)
- **Hallmark portfolio has very short duration**
 - Weighted average duration 3.1 years vs. 5.7 years Barclay's U.S. Aggregate Index
 - Only \$59 million of maturities greater than 10 years – many of these have an expected maturity less than 10 years
 - \$174 million forecasted portfolio maturities, redemptions and interest payments in the next 12 months

Takeaways

- De Minimis exposure to oil & gas related securities.
- De Minimis exposure to commodity related securities.
- In recent years, protecting balance sheet from volatility has been the paramount concern = short duration & lower equity exposure
- In up market, will always underperform benchmark if fixed income duration is shorter than Barclays Aggregate and we remain underweight equities
- Hallmark portfolio compares favorably to Barclays Aggregate, with its notably higher yield and significantly shorter duration
 - Tax equivalent Book yield 2.7% vs. 2.6% for Barclays
 - Weighted average duration of 3.1 vs. 5.7 for Barclays

In conclusion

- A “Best in Class” specialty property /casualty insurer focused on underserved sectors in sustainable “niche” markets.
- Market, underwrite and service approximately half a billion dollars annually in commercial and personal insurance.
- Three reporting segments with a diverse and balanced portfolio of seven product-specific components
- Maintained book value growth during financial crisis and soft markets
- Ten consecutive quarters of underwriting profitability
- Continue to focus on profitability by mitigating risk
- Investing in our infrastructure, technology and people



HALLMARK
FINANCIAL SERVICES, INC.

NASDAQ: HALL

For more information, visit www.hallmarkgrp.com.