



Hallmark Financial Services, Inc.

presentation for

2013 Annual Shareholder Meeting

May 30, 2013

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.



Property & Casualty Insurance Industry Update

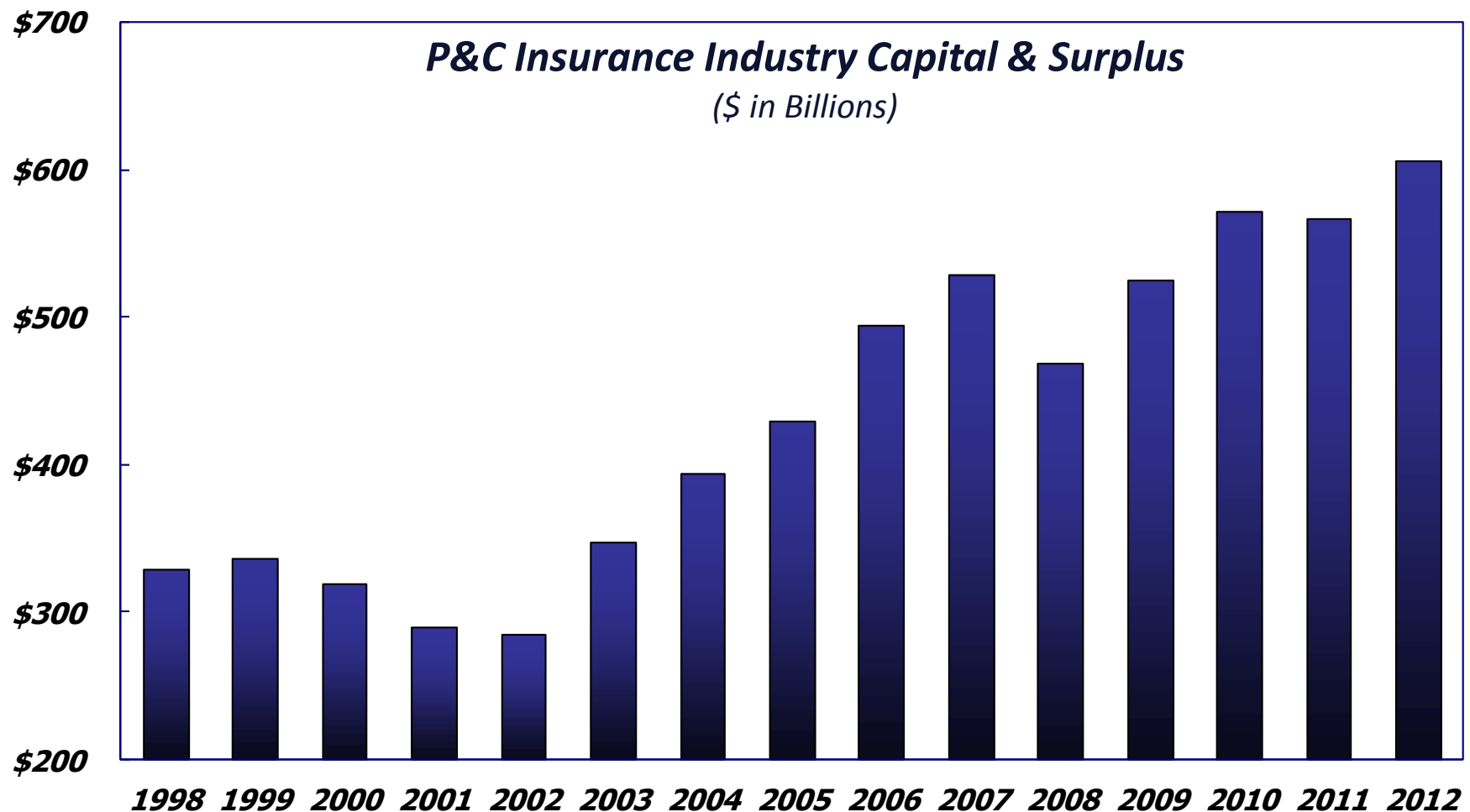


Property & Casualty Industry Update

- Industry net premiums written grew 4.3% during 2012; as improved underwriting and pricing discipline generated favorable pricing trends.
- The industry combined ratio improved 4.7 percentage points to 103.2% from 107.9% in 2011; catastrophe related losses declined slightly to \$43 billion in 2012, down from \$44 billion in 2011.
- Commercial lines net premiums written grew 5.0% during 2012.
 - Commercial lines of business combined ratio deteriorated 2.3 percentage points to 109.0% in 2012 compared to 106.7% in 2011.
- Personal lines net premiums written grew 4.5% during 2012.
 - Personal lines of business combined ratio improved 1.1 percentage points to 105.0% in 2012 compared to 106.1% in 2011.
- The industry's overall net investment gains declined approximately 2% in 2012.

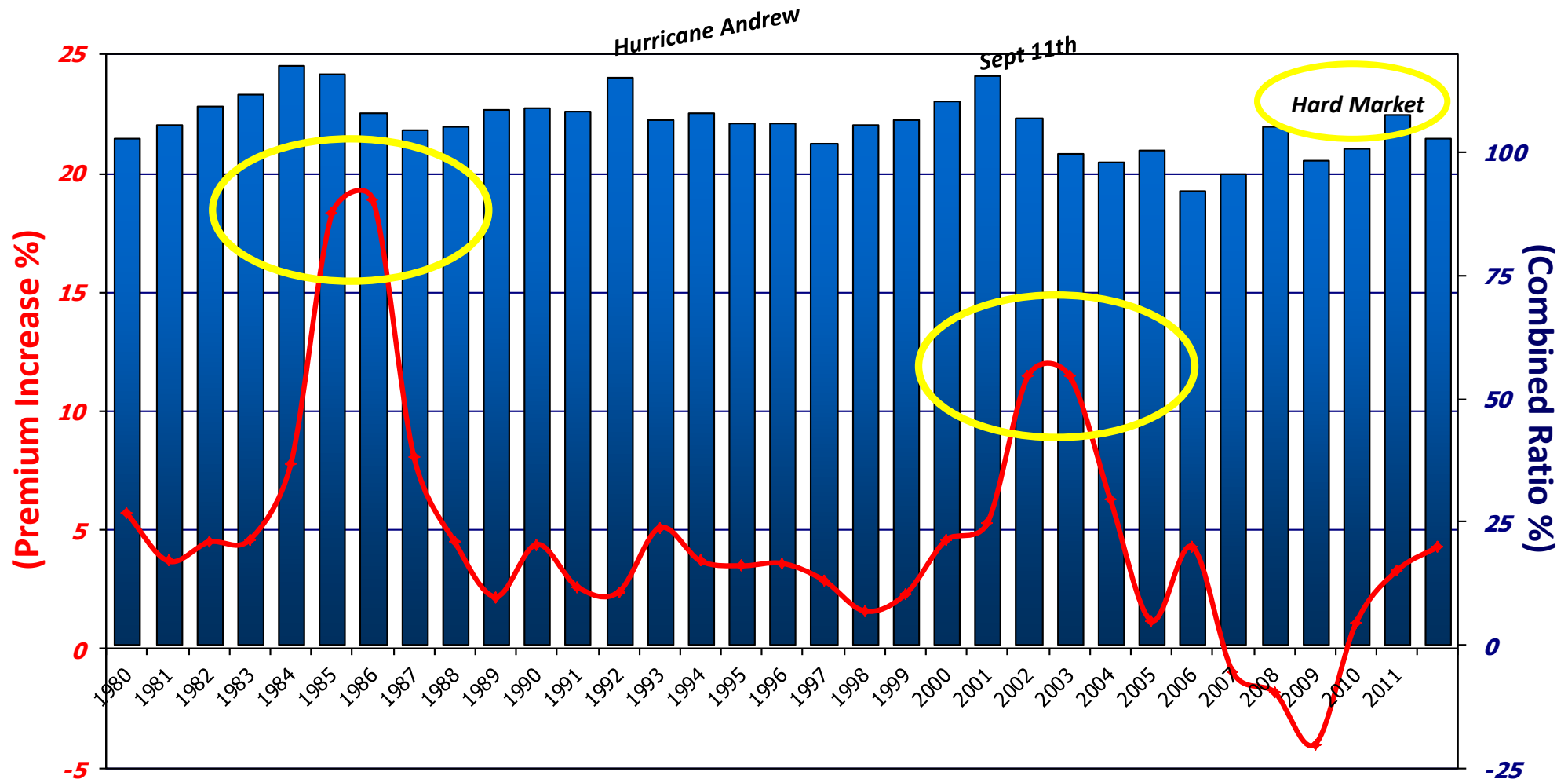
P&C Industry Capital & Surplus

U.S. P&C Surplus as of December 31, 2012 was \$606 billion, up from \$469 billion during the 2008 financial crisis and up 6% from prior year.



P&C Industry Operating Results

After September 11, 2001, the P&C industry premium benefited from a strong hard market cycle. Since 2003 premium growth has been impacted by softening rates, coupled with the contraction in the economy beginning in 2008. However, the market cycle appears to have turned beginning in 2011.





Strategic Overview

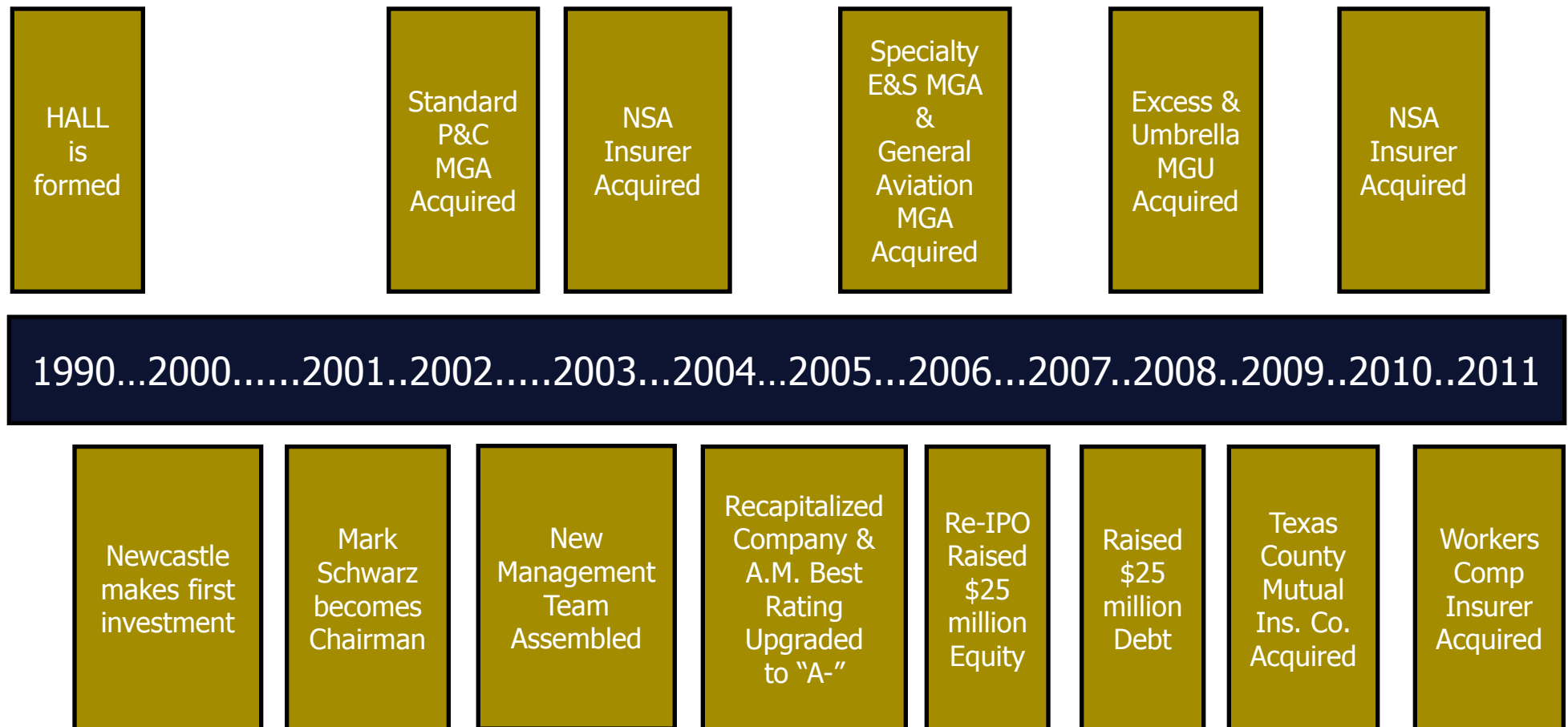


Who We Are

- ✓ Diversified specialty property/casualty insurer with Business Units in Dallas-Fort Worth, Austin and San Antonio, Texas
- ✓ Market, underwrite and service approximately \$400 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
- ✓ Consolidated Shareholders' Equity of \$227 million as of March 2013
- ✓ "A-" (Excellent) A.M. Best Financial Strength Rating

How We Got to Where We Are Today

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



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
- ✓ Maintain a Balance Sheet based on strong investment, reinsurance and reserving practices
- ✓ Performance measurement based on long-term growth in book value per share

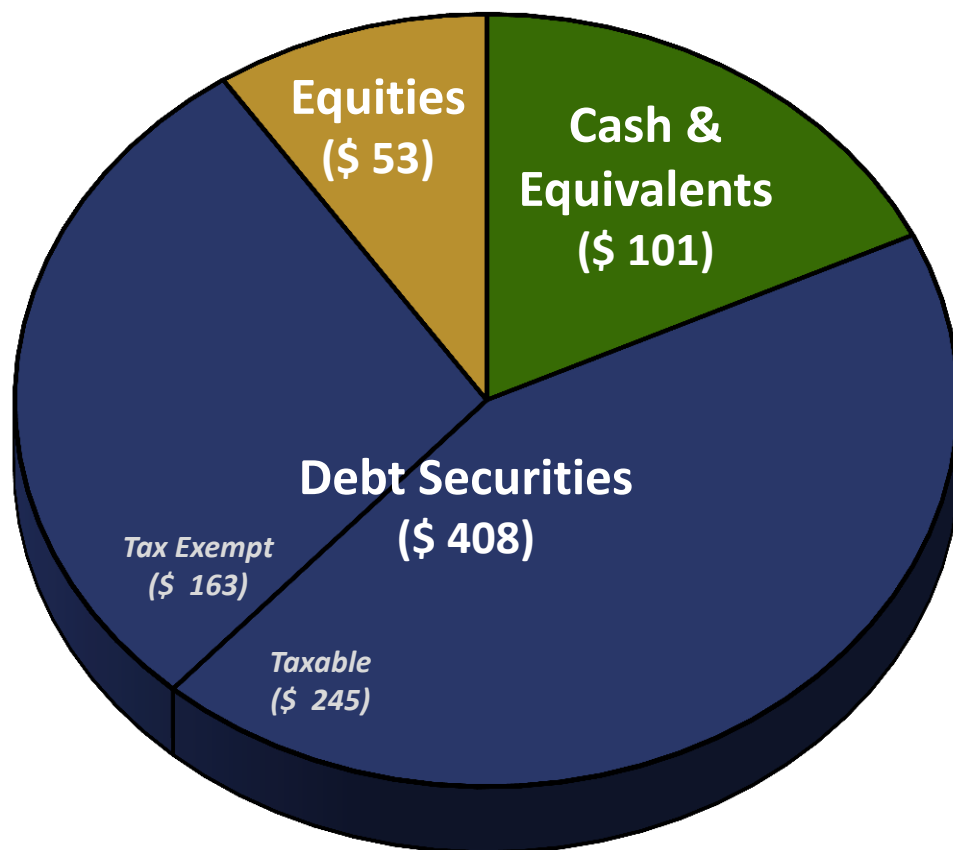
Investment Strategy

***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 March 31, 2013
(\$ in millions)



Total Cash & Investments \$561 million, or Approximately \$29 per Share.

- ✓ Cash \$101 million
- ✓ Total Investments \$461 million
- ✓ Investment grade portfolio, marketable securities
- ✓ No hedge fund or private equity investments
- ✓ 12% invested in equities
- ✓ Book tax equivalent yield of approximately 4.2%
- ✓ Weighted-average duration of 2.5 years

The Hallmark Track Record

Aggregates & Averages Through 2012 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	
			(1)(3)	(3)	ROAE	(2)(3)	% Chg	(2)	% 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	\$ 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	\$ 8,371	\$ 235,278	3%	\$ 11.69	4%	\$ 9.10	14%
2011	\$ 344,379	\$ 15,880	\$ (19,787)	\$ 215,572	-7%	\$ 11.19	-4%	\$ 6.99	-23%
2012	\$ 384,231	\$ 15,293	\$ 3,374	\$ 220,537	2%	\$ 11.45	2%	\$ 9.39	34%

Last 9 Years (2004-2012).....

TOTAL \$ 2,447,577 \$ 105,881 \$ 134,128

CAGR	16%	35%	NM	27%	10%	3%
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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.

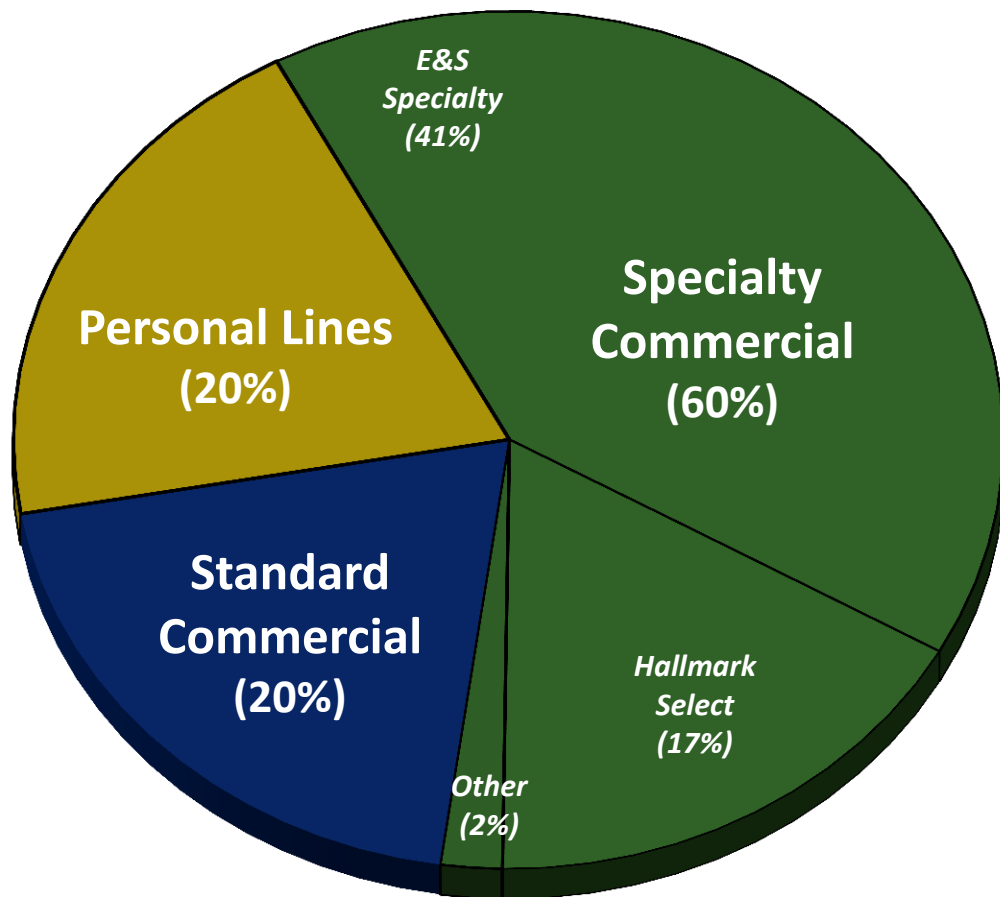


Operational Overview



Hallmark Operations Overview

Gross Premiums Produced *By Operating Unit*



FY2012 Gross Premium Produced of \$384 million

Three Reporting Segments:

■ Specialty Commercial:

- ✓ E&S Specialty: Difficult-to-place accounts, primarily commercial auto and small, stand-alone general liability policies.
- ✓ Hallmark Select: Excess middle market, mostly transportation fleet accounts, small airports, small planes focused on new/old/transitional pilots and older aircraft, and professional liability.

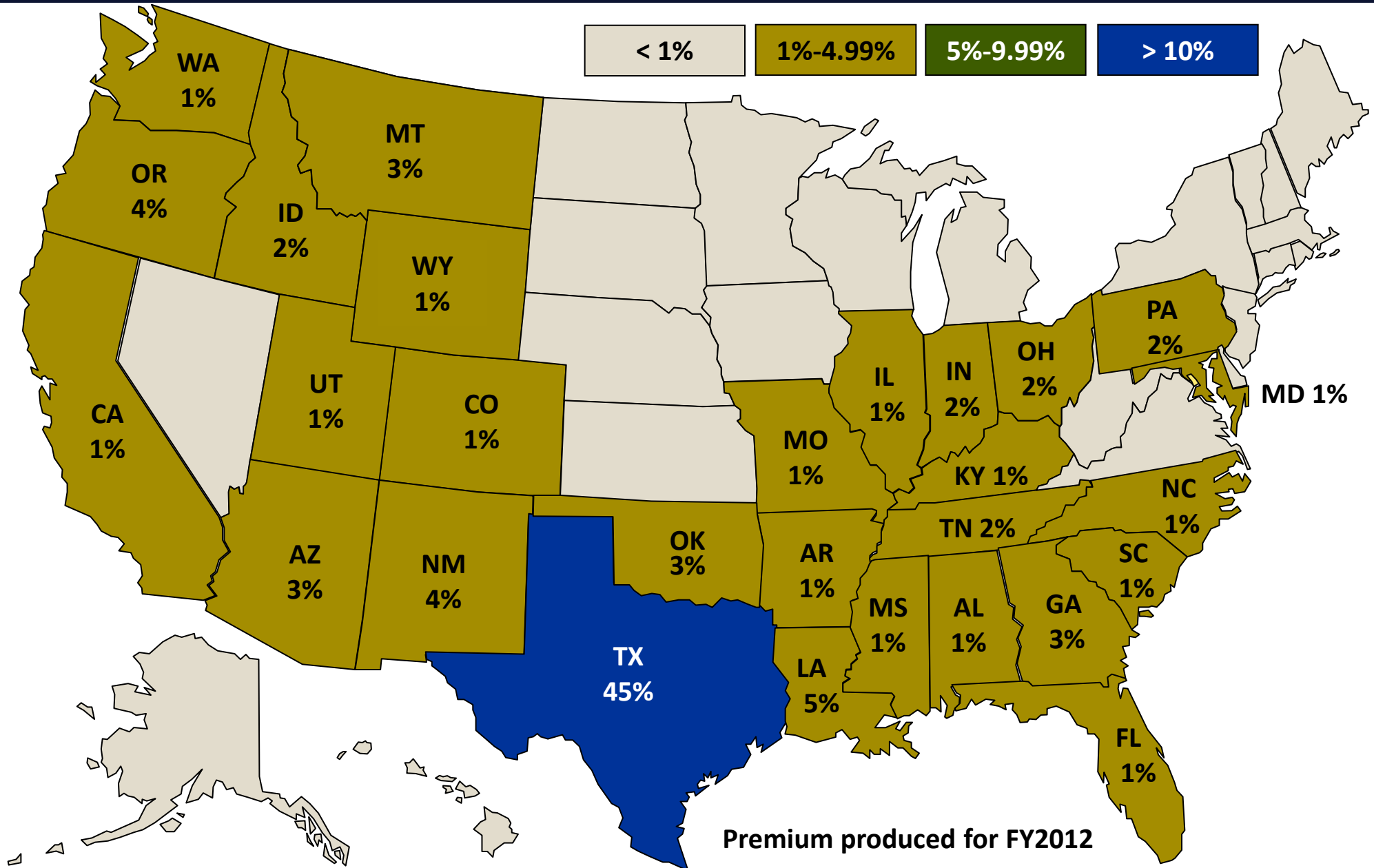
■ Standard Commercial:

- ✓ Small accounts, low hazard standard commercial package policies.
- ✓ Since 2011, Workers Comp and A&H coverages added through independent agents in Texas.

■ Personal Lines:

- ✓ Non-standard automobile coupled with other niche personal line products.

Geographic Spread of Premium





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 CAGR	Three Months Ended March 31		
	2008		2009		2010		2011		2012			2012	2013	
Gross Premiums Written	↓	243,849	↑	287,558	↑	320,973	↑	354,881	↑	389,842	12%	97,395	↑	108,147
Net Premiums Earned	↑	236,320	↑	251,072	↑	278,271	↑	293,041	↑	319,436	8%	77,208	↑	86,488
Total Revenues	↓	268,690	↑	287,039	↑	307,060	↑	322,771	↑	341,800	6%	82,986	↑	93,141
Net Earnings ⁽¹⁾	↓	12,899	↑	24,575	↓	7,403	↓	(10,891)	↑	3,524	-28%	171	↑	1,694
Loss Ratio (GAAP)	↑	61.0%	↑	61.2%	↑	72.8%	↑	81.6%	↓	70.9%		71.0%	↑	71.4%
Expense Ratio (GAAP)	↑	30.6%	↓	30.5%	↓	29.6%	↑	30.8%	↔	30.8%		31.4%	↓	30.2%
Combined Ratio (GAAP)	↑	91.6%	↑	91.7%	↑	102.4%	↑	112.4%	↓	101.7%		102.4%	↓	101.6%
EPS - Basic	↓	\$ 0.62	↑	\$ 1.19	↓	\$ 0.37	↓	\$ (0.55)	↑	\$ 0.18	NM	\$ 0.01	↑	\$ 0.09
EPS - Diluted	↓	\$ 0.62	↑	\$ 1.19	↓	\$ 0.37	↓	\$ (0.55)	↑	\$ 0.18	NM	\$ 0.01	↑	\$ 0.09
Return on Average Equity	↓	7%	↑	12%	↓	3%	↓	-5%		2%		0%	↑	3%
Book Value Per Share	↓	\$ 8.61	↑	\$ 11.26	↑	\$ 11.69	↓	\$ 11.19	↑	\$ 11.45	7%	\$ 11.28	↑	\$ 11.80

(1) Net earnings is defined as net income attributable to Hallmark Financial Services, Inc. as reported in our consolidated statements of operations. FY2010 and FY2011 net earnings, EPS and book value per share were restated for a change in accounting principal related to deferred acquisition costs.



NASDAQ: HALL

For more information, visit www.hallmarkgrp.com.