



Hallmark Financial Services, Inc.

presentation for

2014 Annual Shareholder Meeting

May 30, 2014

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

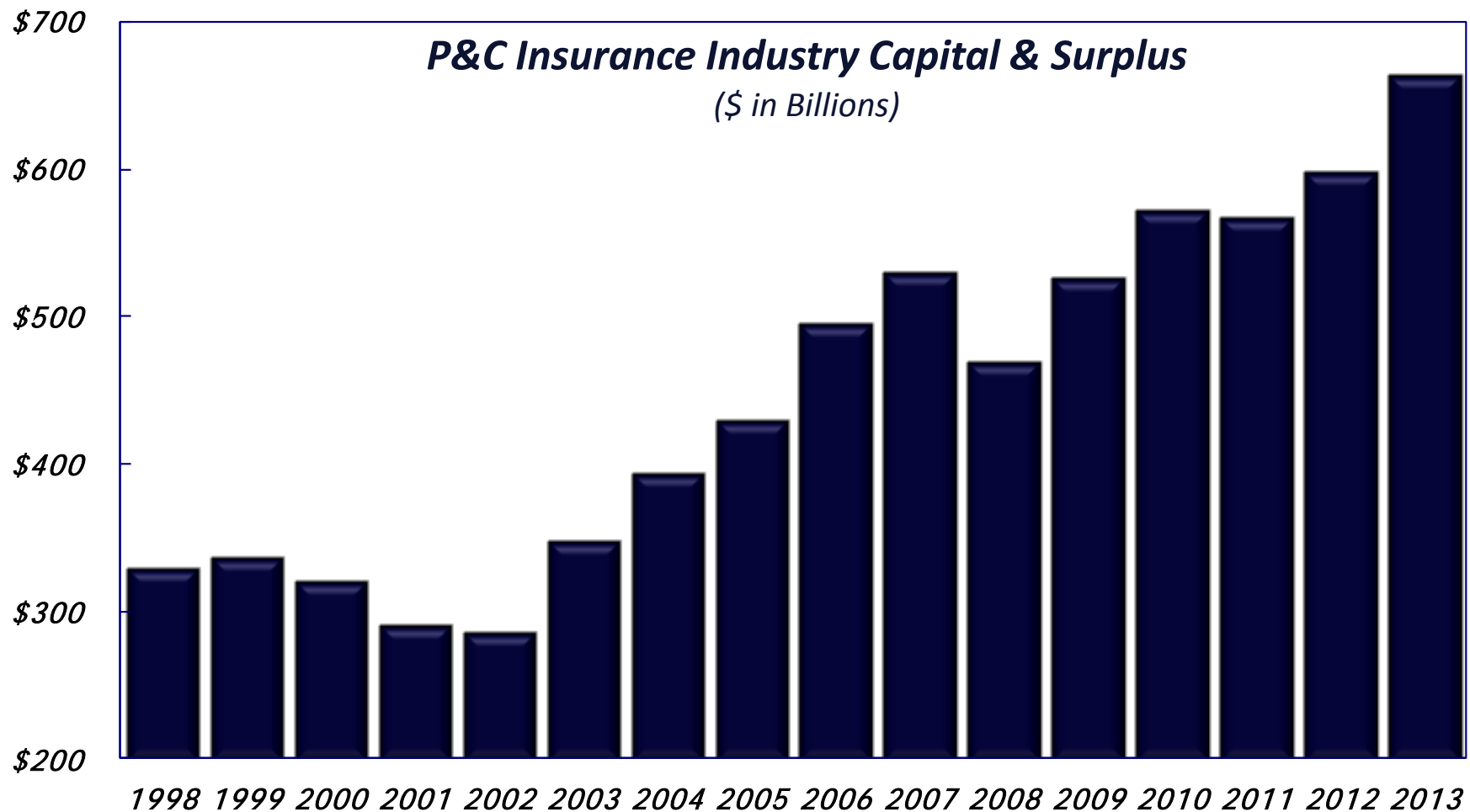


Property & Casualty Industry Update

- Industry net premiums written grew 4.7% during 2013; benefiting from a competitive reinsurance market, light catastrophe losses, and favorable pricing trends.
- The industry combined ratio improved 6.3 percentage points to 96.2% from 102.5% in 2012; catastrophe related losses dropped to \$18 billion in 2013 – the lowest level since 2009, declining for the second straight year from the record \$49 billion in 2011.
- **Commercial lines** net premiums written grew 4.8% during 2013.
 - ✓ Commercial lines of business combined ratio improved 8.5 percentage points to 96.3% in 2013 compared to 104.8% in 2012.
- **Personal lines** net premiums written grew 5.4% during 2013.
 - ✓ Personal lines of business combined ratio improved 4.1 percentage points to 97.5% in 2013 compared to 101.6% in 2012.
- The industry's overall net investment income grew 1.8% in 2013, primarily as a result of a 7% increase in cash and invested assets as the industry's net investment yield declined to 3.2% from 3.3% in 2012.

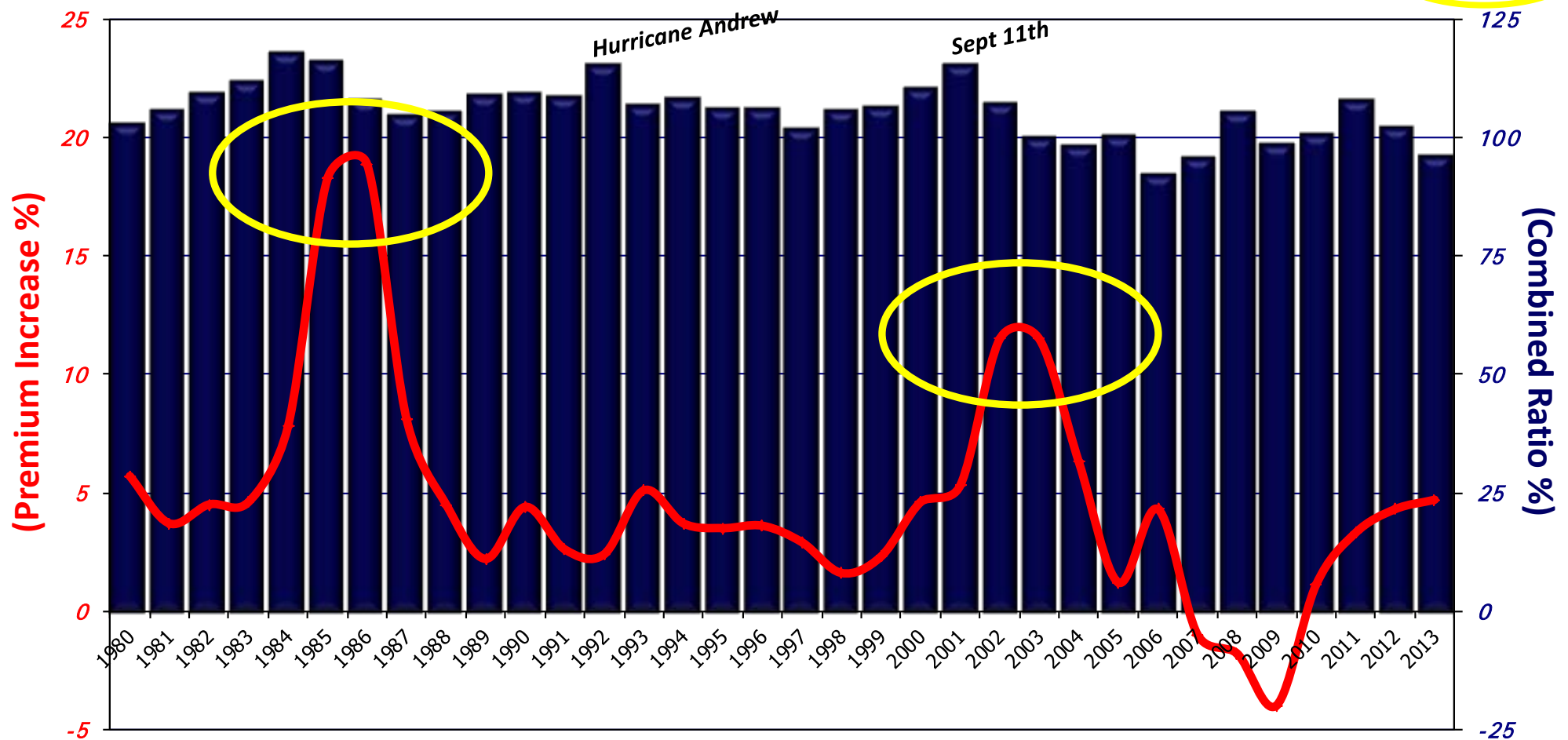
P&C Industry Capital & Surplus

U.S. P&C Surplus set a new record as of December 31, 2013 at \$663 billion, up from \$469 billion during the 2008 financial crisis and up 11% 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. The market cycle began to turn in 2011 and the industry has seen modest premium growth each year since.





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 \$450 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 \$242 million as of March 2014
- ✓ "A-" (Excellent) A.M. Best Financial Strength Rating



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

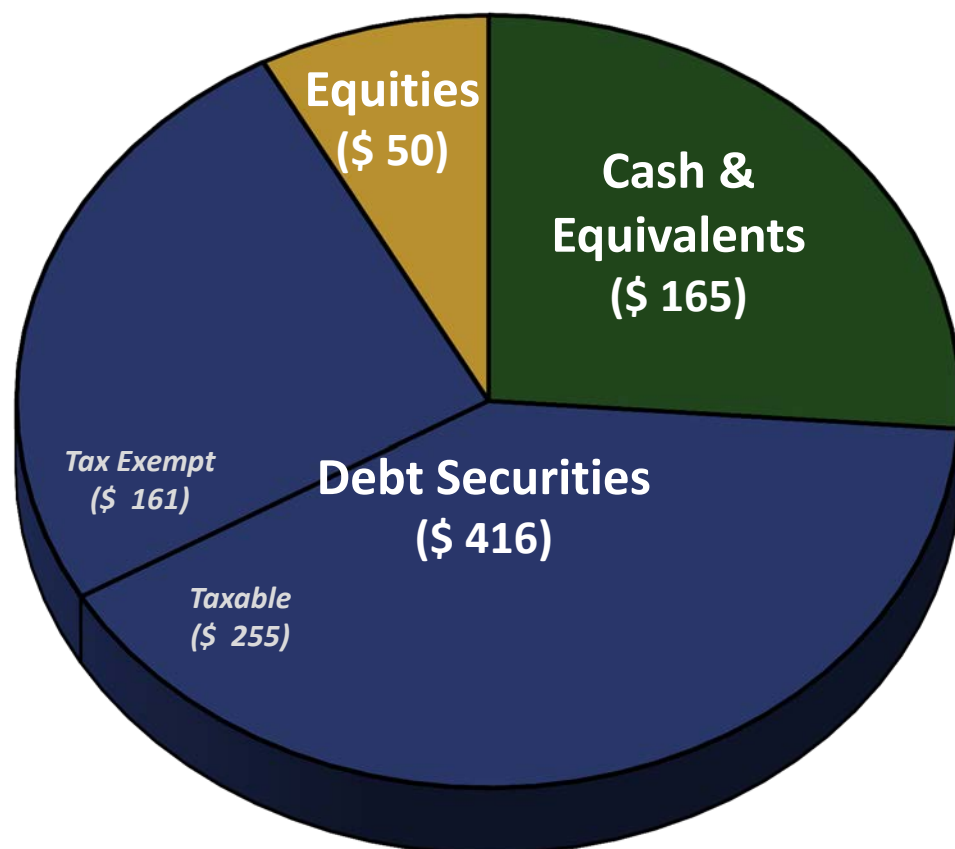
***Hallmark views Investment Operations as a Core Competency.
Hallmark has achieved above average results and expense savings
through internal management of its investments.***

- ✓ 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, 2014

(\$ in millions)



***Total Cash & Investments \$631 million,
or Approximately \$33 per Share.***

- ✓ Cash \$165 million
- ✓ Total Investments \$466 million
- ✓ Investment grade portfolio, marketable securities
- ✓ No hedge fund or private equity investments
- ✓ 11% invested in equities
- ✓ Book tax equivalent yield of approximately 3.7%
- ✓ Weighted-average duration of 2.8 years

The Hallmark Track Record

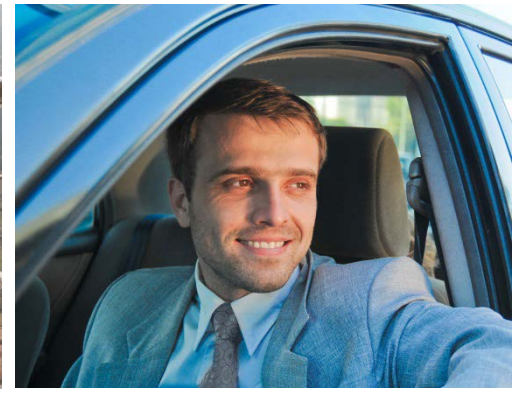
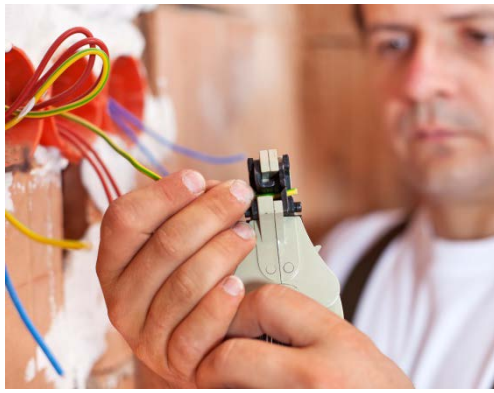
Aggregates & Averages Through 2013 Highlight Hallmark's Successful Expansion and Diversification into Specialty Lines of Business.

	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%
2013	\$ 454,981	\$ 12,884	\$ 11,080	\$ 238,118	4%	\$ 12.36	8%	\$ 8.89	-5%
Last 10 Years (2004-2013).....									
TOTAL	\$ 2,902,558	\$ 118,765	\$ 145,208						
CAGR	16%	28%	NM	25%		10%		2%	

(1) Operating income is income before noncash interest expense from amortization of deemed discount on convertible notes, income tax & 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 & FY2011 Operating income, equity and BVPS have been restated for change in accounting principal related to deferred acquisition costs.

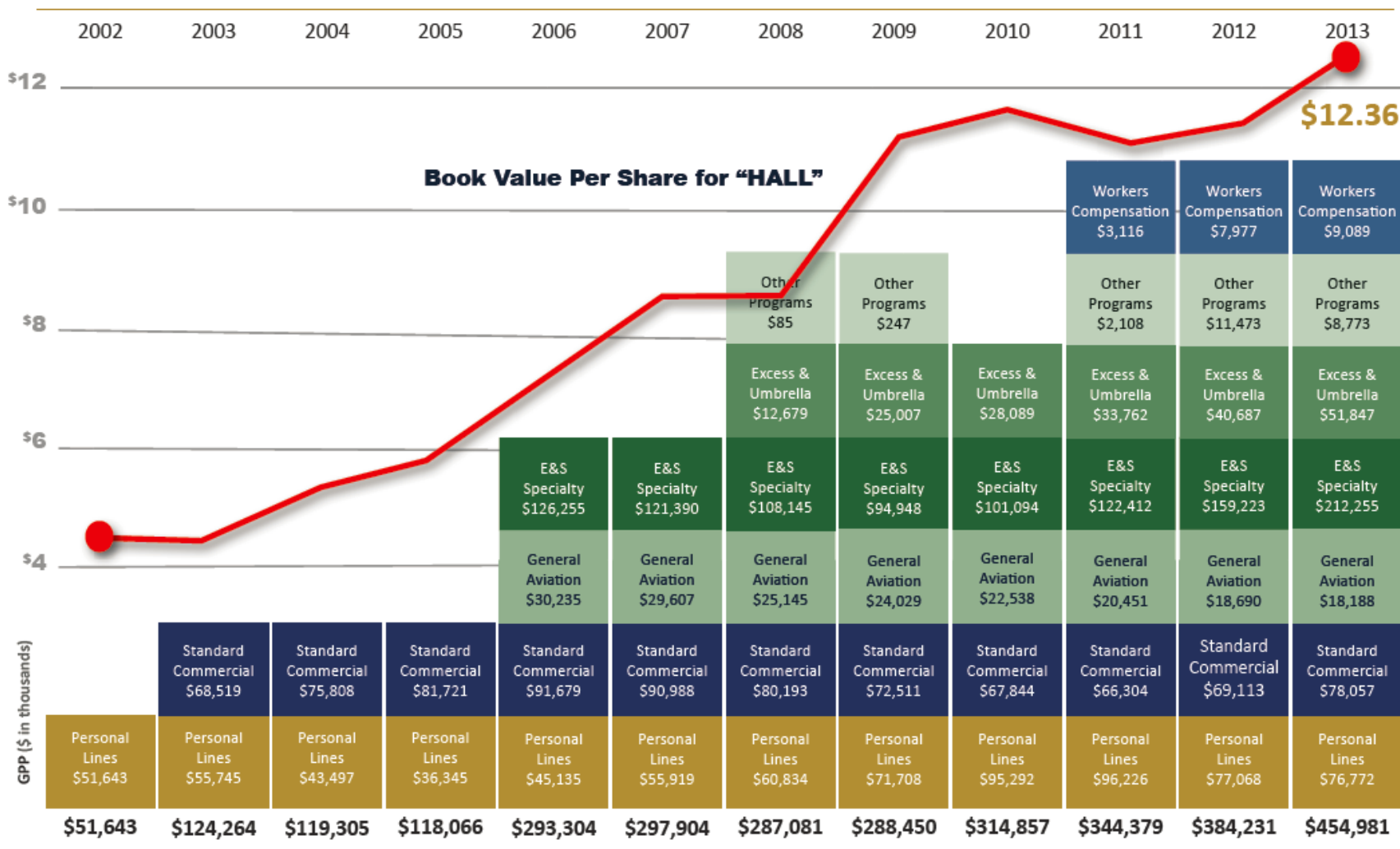


Operational Overview



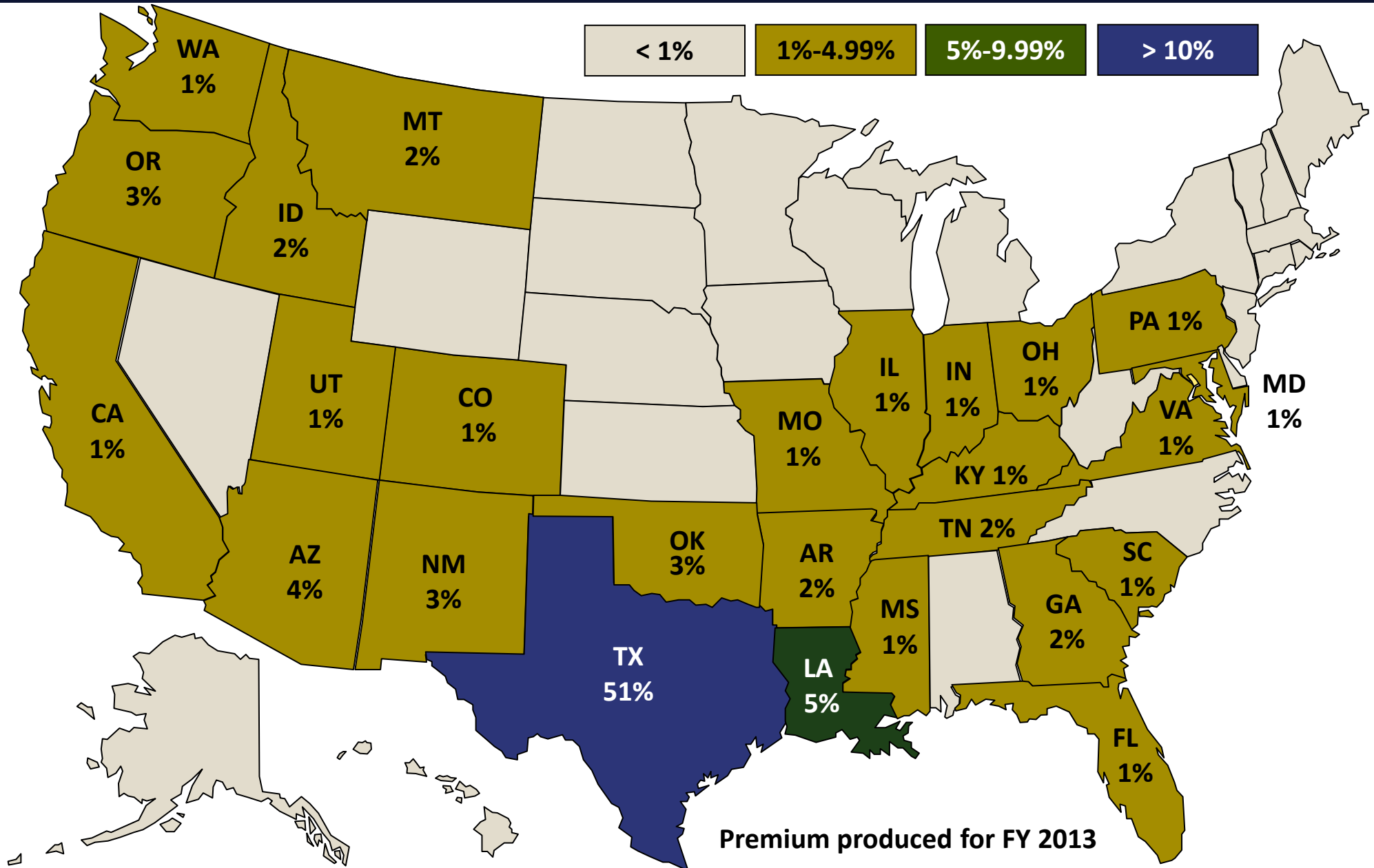
Building Premium Diversity Step-by-Step

Successful Acquisition Strategy has enabled us to Diversify & Grow our Premium Base in the Soft Market while Building Book Value per share.



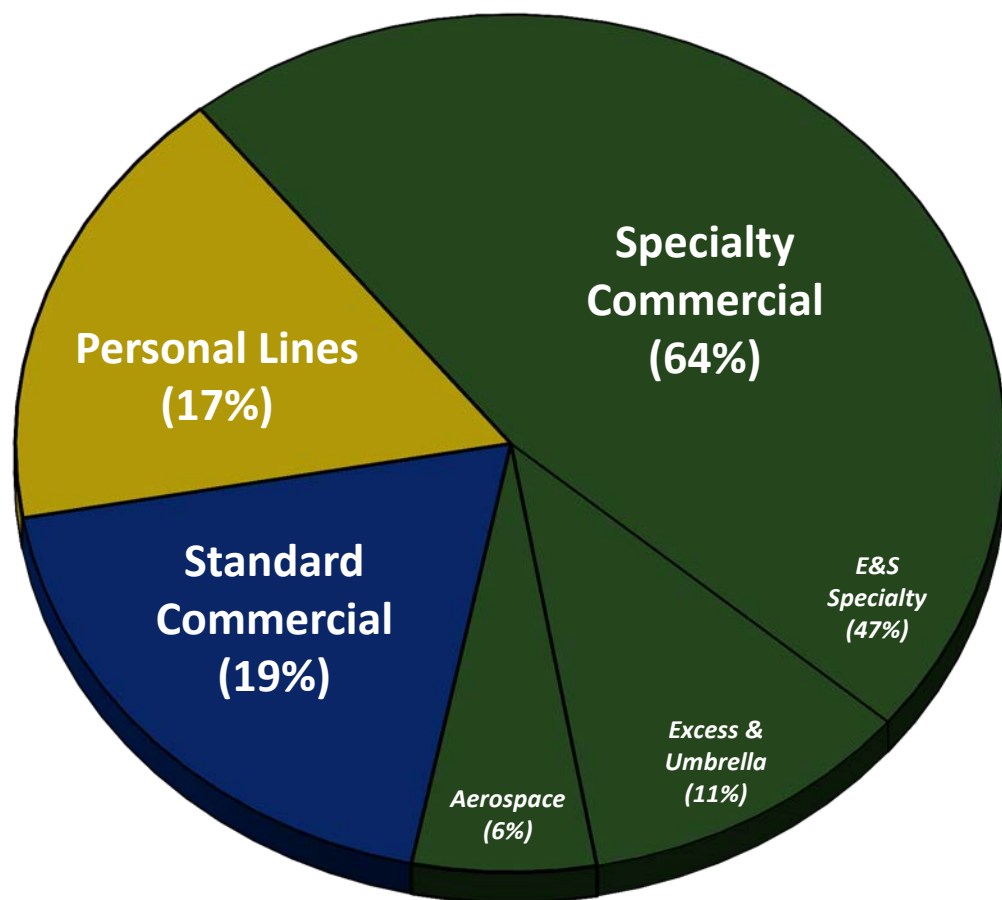
Premium Breakdown by Hallmark Business Units

Geographic Spread of Premium



Hallmark Operations Overview

Gross Premiums Produced *By Operating Unit*



FY 2013 Gross Premium Produced of \$455 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 accounts; small airports, small planes focused on non-standard pilots and older aircraft; space & satellites; 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.

▪ **Personal Lines:**

- ✓ Non-standard automobile coupled with other niche personal line 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 the 2010-2012 Results.

												Three Months Ended March 31			
Year Ended December 31												4-YR			
												CAGR			
												2013		2014	
Gross Premiums Written	↑	287,558	↑	320,973	↑	354,881	↑	389,842	↑	460,027	12%	108,147	↑	116,082	
Net Premiums Earned	↑	251,072	↑	278,271	↑	293,041	↑	319,436	↑	360,541	9%	86,488	↓	82,577	
Total Revenues	↑	287,039	↑	307,060	↑	322,771	↑	341,800	↑	389,428	8%	93,141	↓	87,109	
Net Earnings	↑	24,575	↓	7,403	↓	(10,891)	↑	3,524	↑	8,245	-24%	1,694	↑	4,548	
Loss Ratio (GAAP)	↑	61.2%	↑	72.8%	↑	81.6%	↓	70.9%	↑	72.5%		71.4%	↓	63.9%	
Expense Ratio (GAAP)	↓	30.5%	↓	29.6%	↑	30.8%	↔	30.8%	↓	29.2%		30.2%	↑	30.4%	
Combined Ratio (GAAP)	↑	91.7%	↑	102.4%	↑	112.4%	↓	101.7%	↔	101.7%		101.6%	↓	94.3%	
EPS - Basic	↑	\$ 1.19	↓	\$ 0.37	↓	\$ (0.55)	↑	\$ 0.18	↑	\$ 0.43	NM	\$ 0.09	↑	\$ 0.24	
EPS - Diluted	↑	\$ 1.19	↓	\$ 0.37	↓	\$ (0.55)	↑	\$ 0.18	↑	\$ 0.43	NM	\$ 0.09	↑	\$ 0.23	
Return on Average Equity	↑	12%	↓	3%	↓	-5%	↑	2%	↑	4%					
Book Value Per Share	↑	\$ 11.26	↑	\$ 11.69	↓	\$ 11.19	↑	\$ 11.45	↑	\$ 12.36	2%	\$ 11.80	↑	\$ 12.54	

(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.