




HALLMARK
FINANCIAL SERVICES, INC.

Specialty Insurance Solutions

2017 Annual Shareholders Meeting

May 25, 2017

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

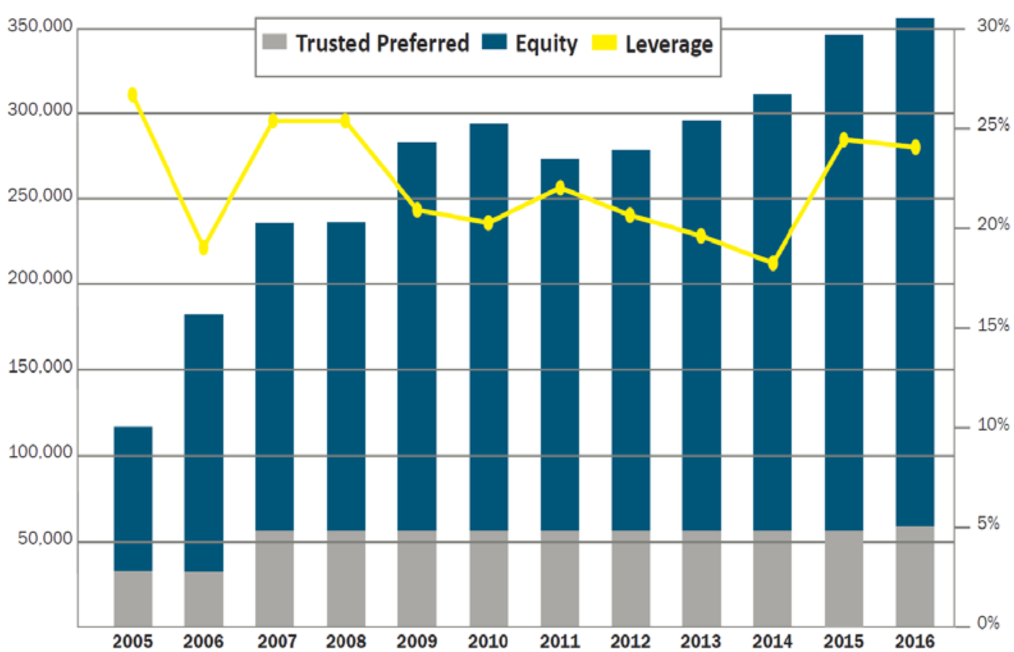


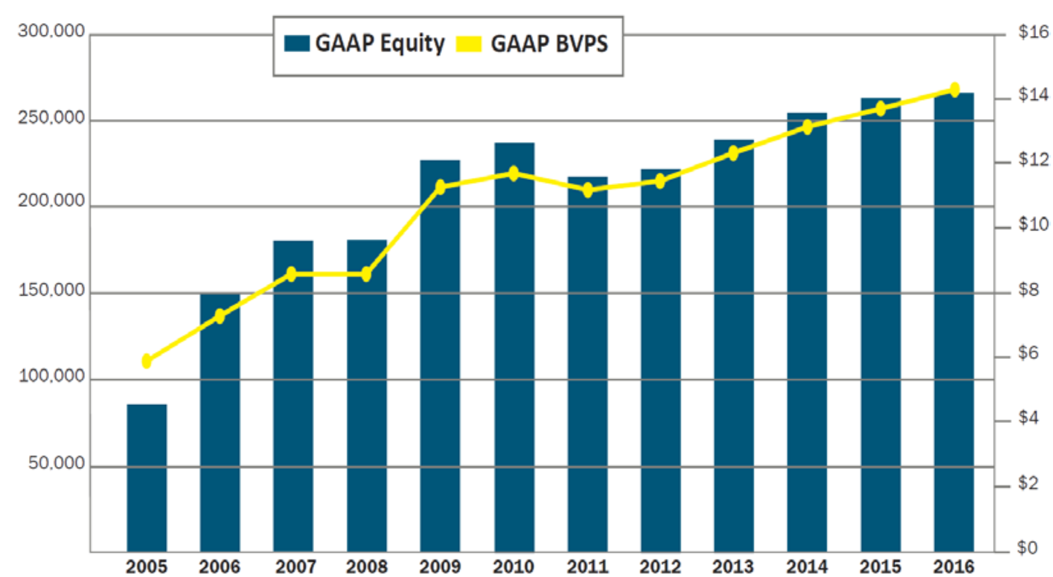
Hallmark Financial Services (NASDAQ: HALL)

- **Expertise-driven, 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**
  - Targeting U.S. focused, technical and SME risks
  - Focused on underserved sectors, mostly short-tailed lines
  - Operate in sustainable admitted and non-admitted niche markets
  - Diversification through multiple lines of business
- **Deep distribution relationships, exquisite execution and scalable platform**
- **Demonstrated ability to identify and acquire profitable, niche businesses**
- **"A-" (Excellent) with a Stable Outlook - A.M. Best Financial Strength Rating.**
- **Combined Statutory Surplus of $248 million as of 12/31/16.**

Hallmark Financial Services (NASDAQ: HALL)

- **Market capitalization of $216.5 million**, with 18.6 million shares outstanding ($11.63 market value per share) as of December 31, 2016.
- **Consolidated Shareholders' Equity of $265.7 million** as of December 31, 2016
- **Total capitalization of $351.4 million** as of December 31, 2016, including $55.7 million of subordinated trust preferred debt securities that mature beginning in 2035.
- **Book value per share of $14.28** as of December 31, 2016.





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

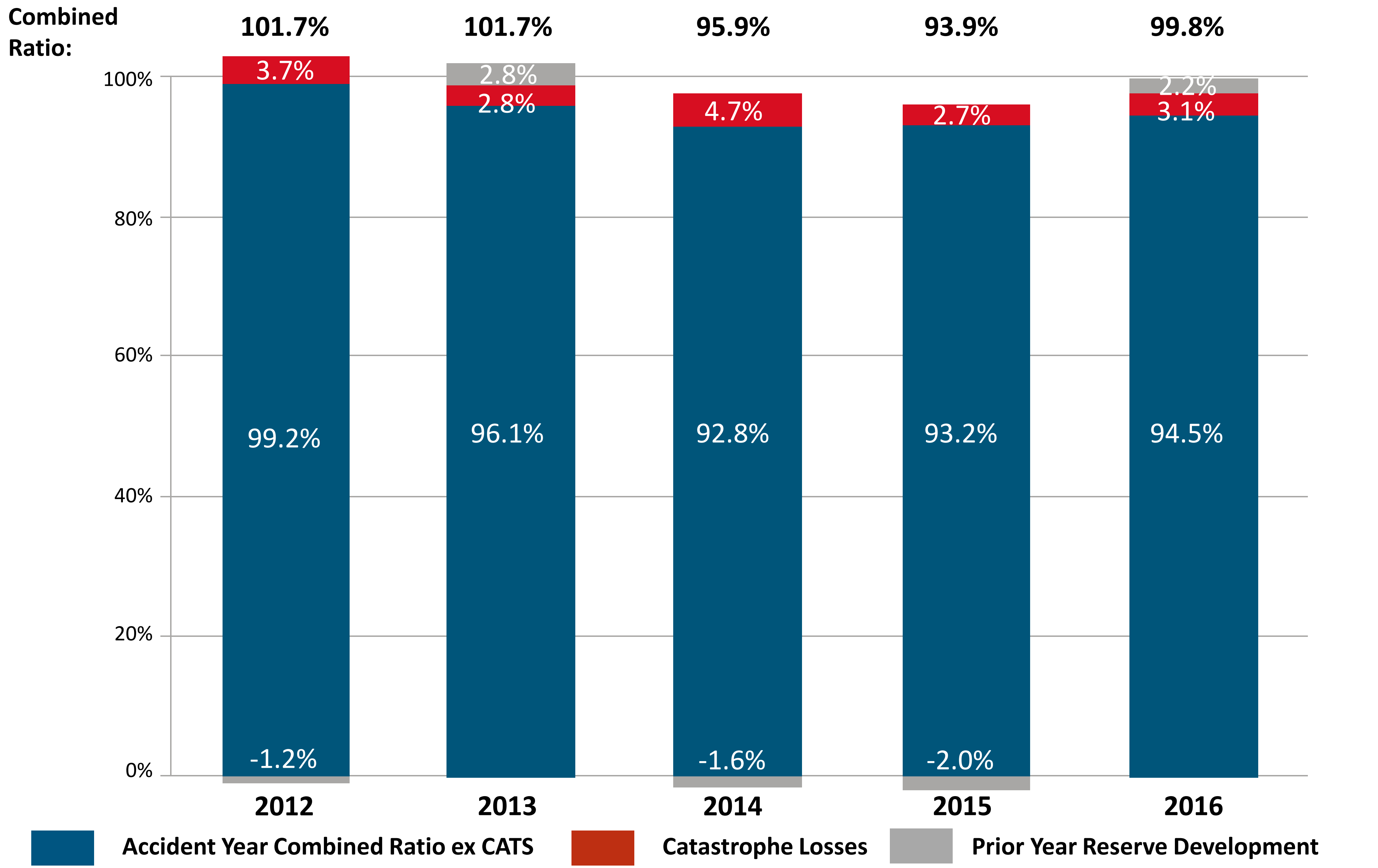
Strategic Initiatives

- **Investment in Talent**
- **Develop and Diversify Specialty Product Offerings**
- **Refocus Strategy for Standard Commercial P&C and Personal Lines Segments**
- **Grow and Diversify Geographic Reach**
- **Deepen Key Distribution Relationships**
- **Technology Upgrades**
- **Sharpen Pricing Tools and Capital Allocation Focus**
- **Improve Data and Analytics at the Point of Sale (POS)**
- **Strengthen Our Control Environment**
    - Claims, Operations, IT, Actuarial Departments
- **Engage External Capital Providers to support Product Expansion**

2016 Highlights

- **Increasing automobile (personal and commercial) loss costs** in both current and prior years as well as catastrophe losses from hail events impacting 2016 performance
- **94.5% Accident year Combined Ratio** excluding prior year development and catastrophe losses
- **Execution of strategic initiatives on pace to diversify and balance portfolio**
- **Continue to strengthen management team** and functional control environment with key hires in various positions across the organization
- **Strong reinsurance support** and continued affirmation of underwriting quality by reinsurers
- **Achieving expected results from our 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

Combined Loss Ratio Comparison



The Hallmark Track Record

Aggregates & Averages Through 2016 Highlight Hallmark's Successful Expansion and Diversification into Specialty Lines of Business.

	Gross Premiums Produced	Investment Income	Operating Income (1)(3)	Operating Cash Flow	GAAP Equity (3)	GAAP Equity ROAE	GAAP BVPS (2)(3)	GAAP BVPS % Chg	Year-End Stock Price (2)	Year-End Stock Price % Chg
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%
2016	$ 544,968	$ 16,342	$ 8,478	$ 30,854	$ 265,736	2%	$ 14.28	4%	$11.63	-1%
TOTAL	**$ 4,425,156**	**$ 161,459**	**$ 204,354**	**$ 589,513**						

Last 12 Years (2005-2016)

	Gross Premiums Produced	Investment Income	Operating Income	Operating Cash Flow	GAAP Equity	GAAP BVPS	Year-End Stock Price
CAGR	*15%*	*14%*	*(4%)*	*0%*	*11%*	*8%*	*3%*

(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.

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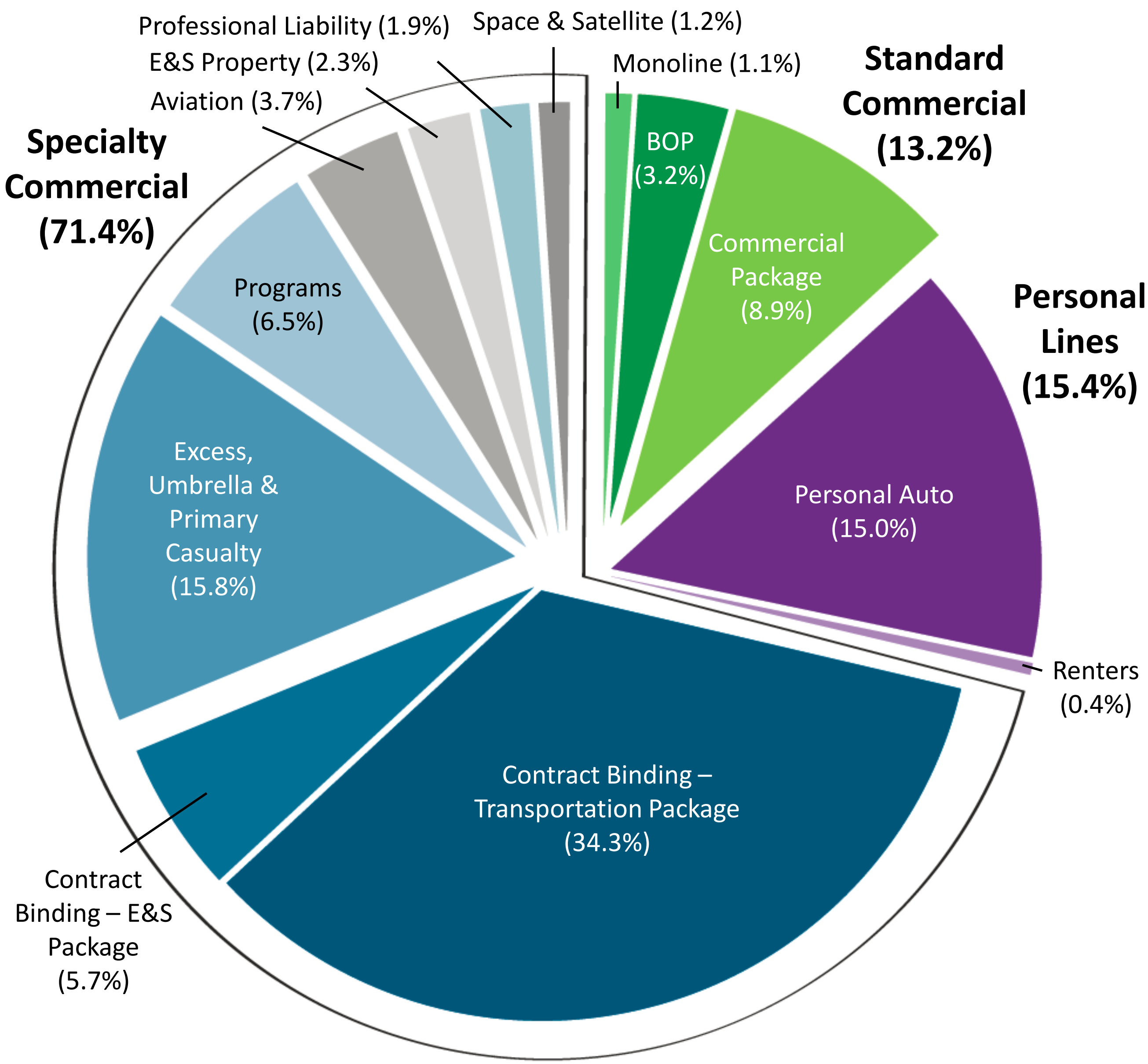
Operational Overview

Hallmark Operations Overview

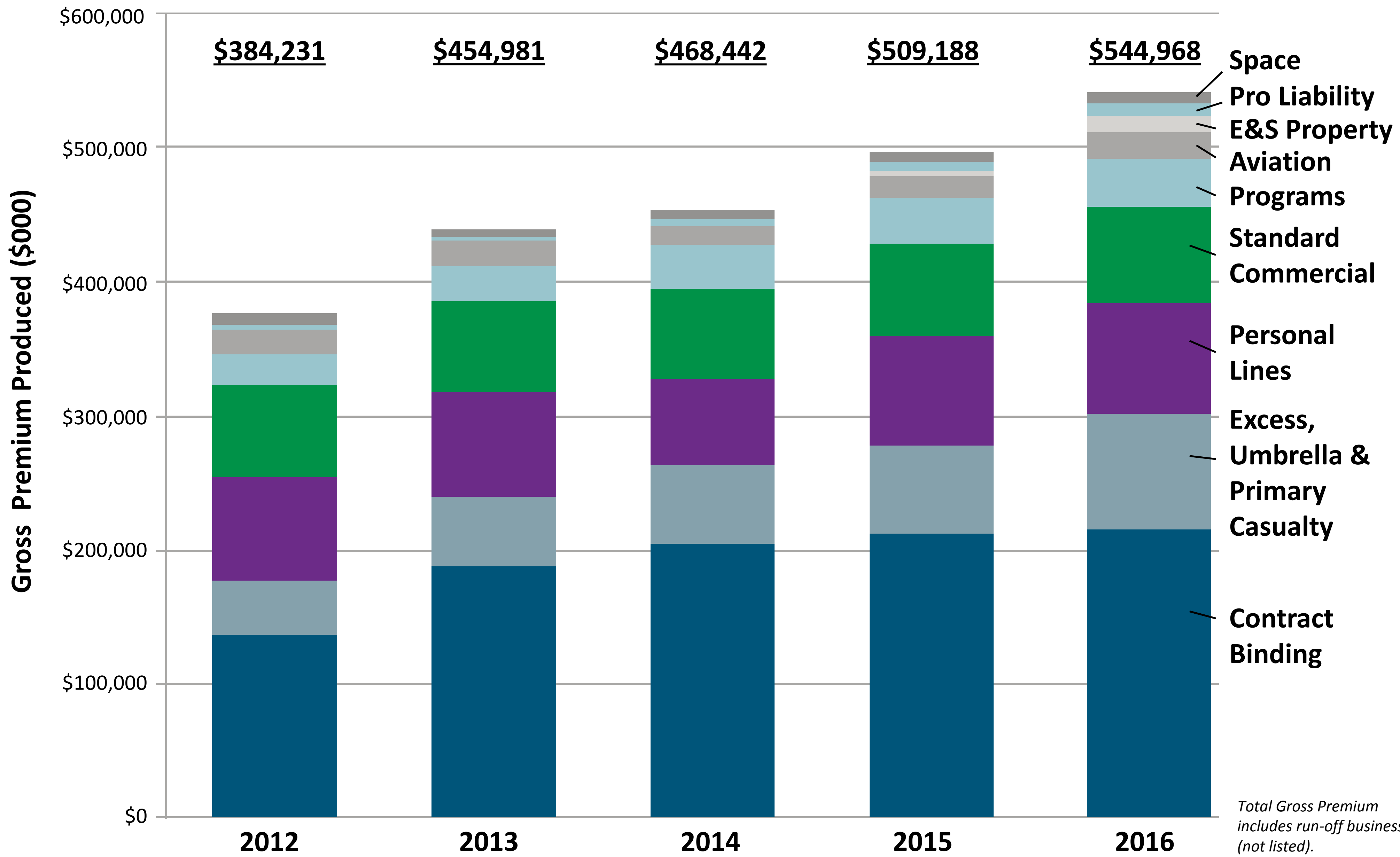


2016 Gross Premium Produced of $544,968 million as of 12/31/16 including runoff lines.

Three Reporting Segments:

- **Specialty Commercial:**
  - **Contract Binding Business:** Small E&S package policies; Commercial Auto with select group of general agents
  - **Specialty Brokerage Business**: E&S Primary and Excess Casualty; General Aviation risks, Satellite launch and Orbit; E&S Property, Professional Liability for medical and executive risks
- **Standard Commercial:**
  - Small accounts, low hazard standard Commercial Package policies
- **Personal Lines:**
  - Non-standard Automobile and Renters package

Specialty Product Mix & Geographic Expansion driving growth



Total Gross Premium includes run-off business (not listed).

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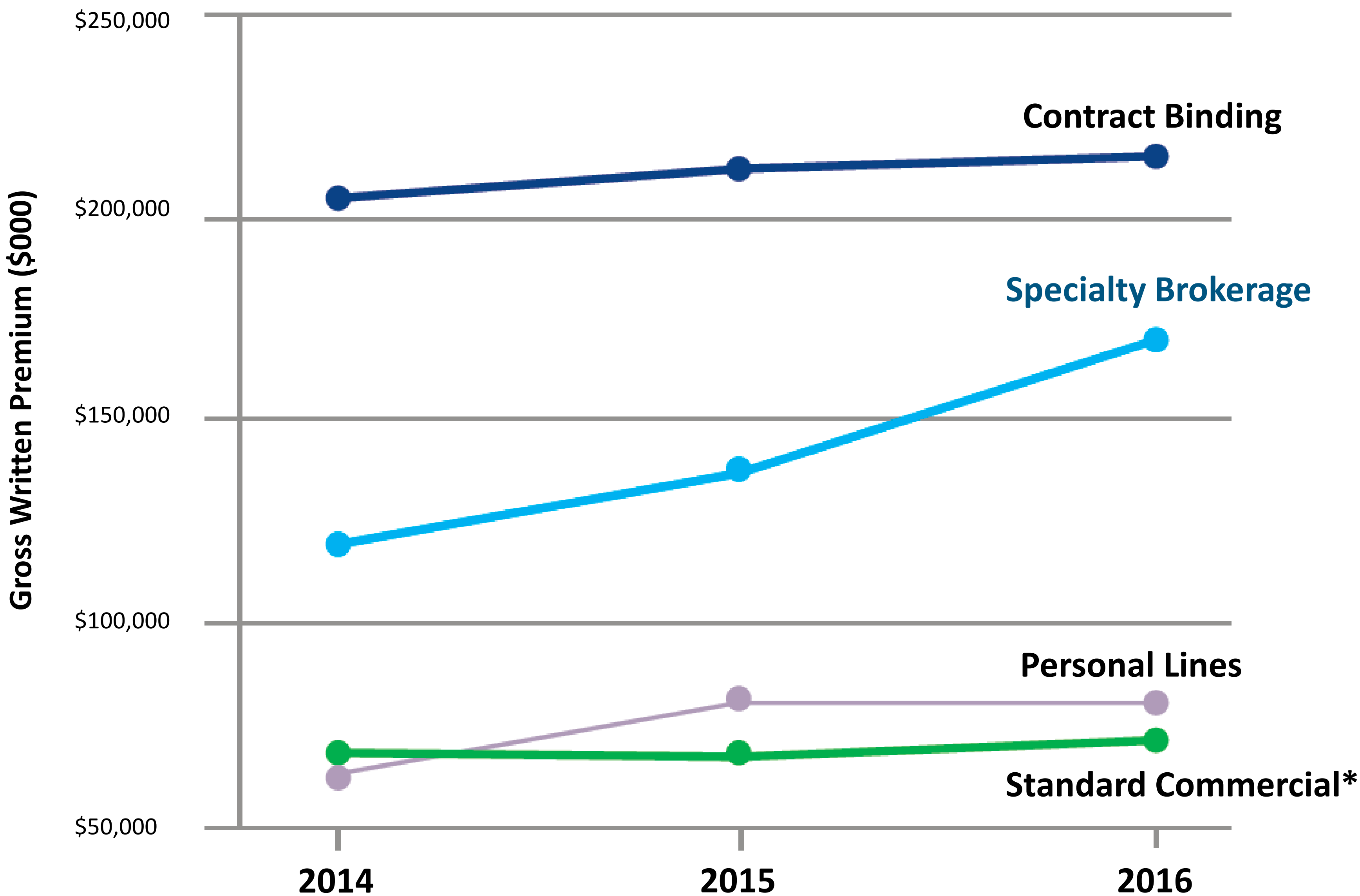
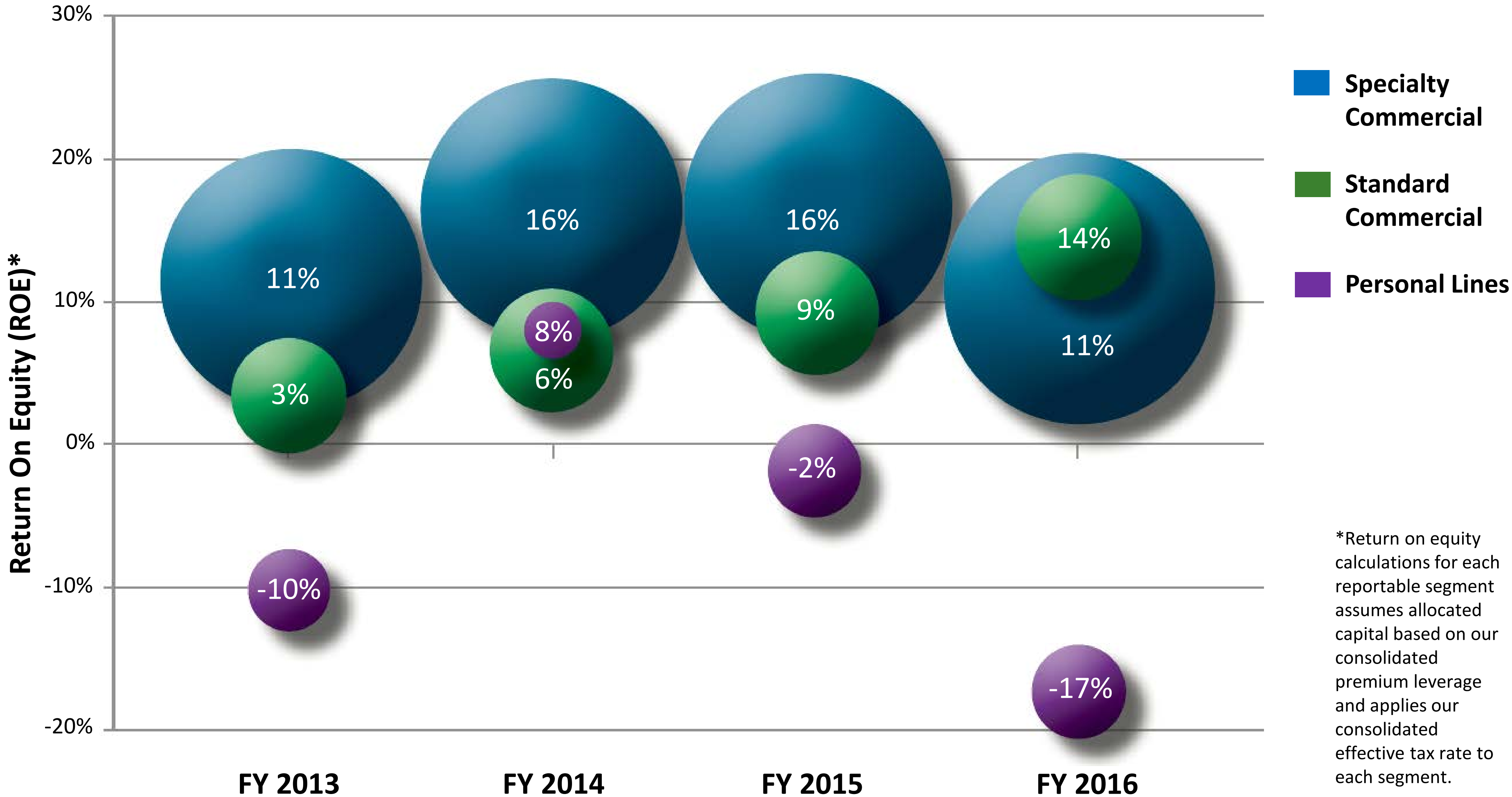
2017 Growth Focused on Specialty Brokerage Business



*Standard Commercial excludes workers' compensation and non-subscription business that is in runoff.

ROE By Segment and Capital Allocation

- Capital is primarily allocated for the Specialty Commercial Segment which has produced consistently positive ROE for the past five years.



*Return on equity calculations for each reportable segment assumes allocated capital based on our consolidated premium leverage and applies our consolidated effective tax rate to each segment.

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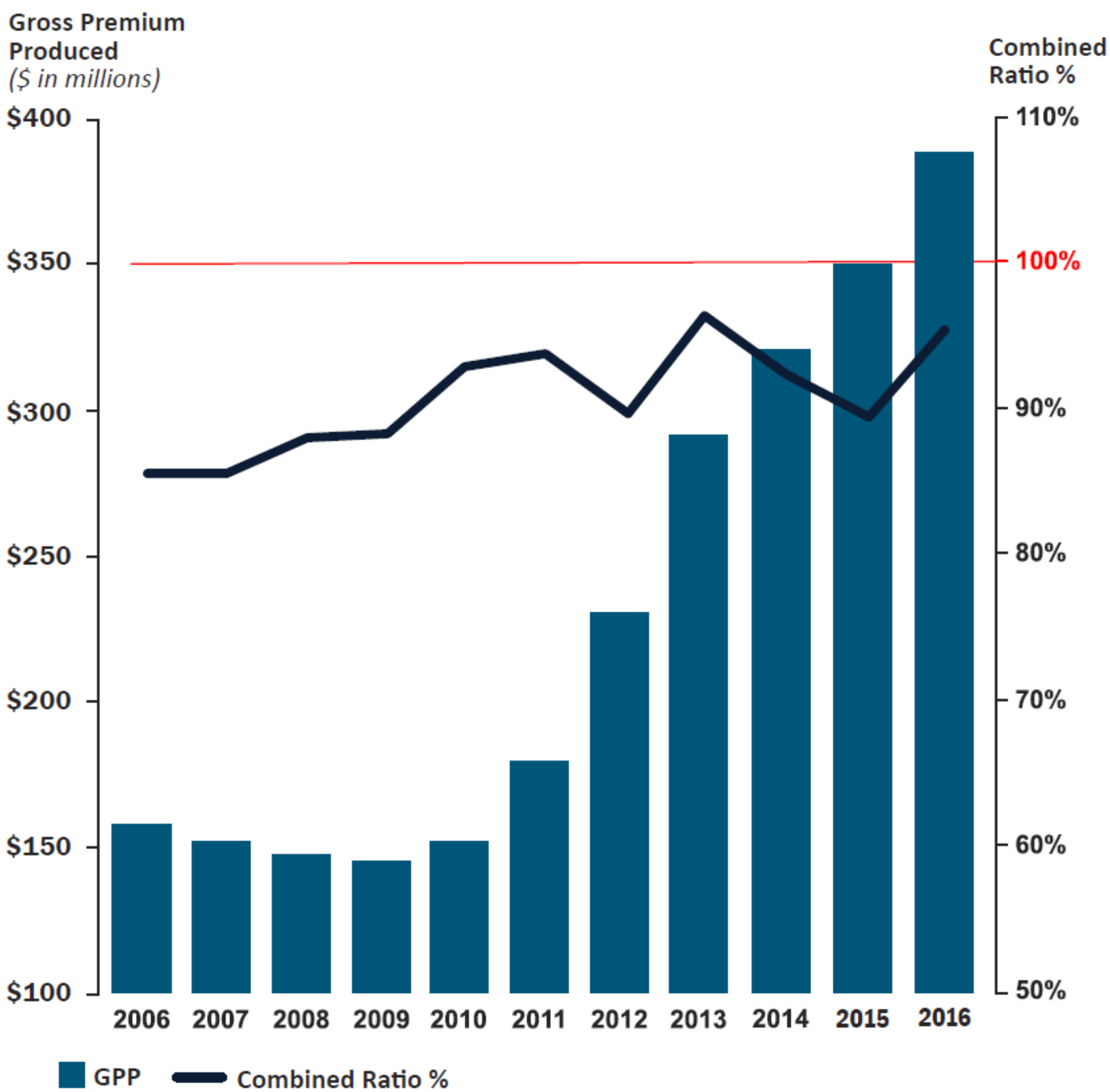
Specialty Commercial Operating Trends



Contract Binding Business:

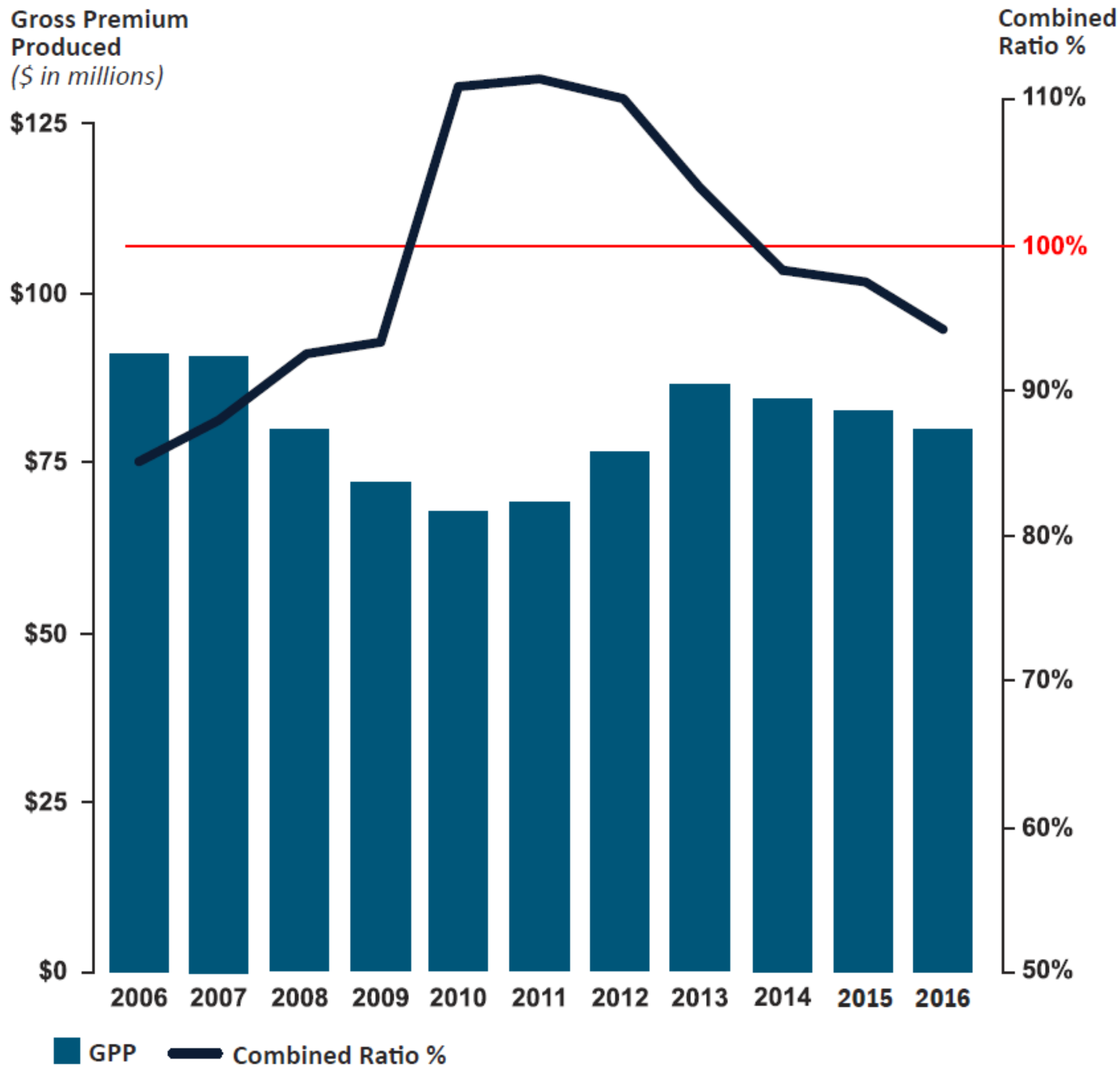
MGA Commercial focused on

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

Specialty Brokerage:

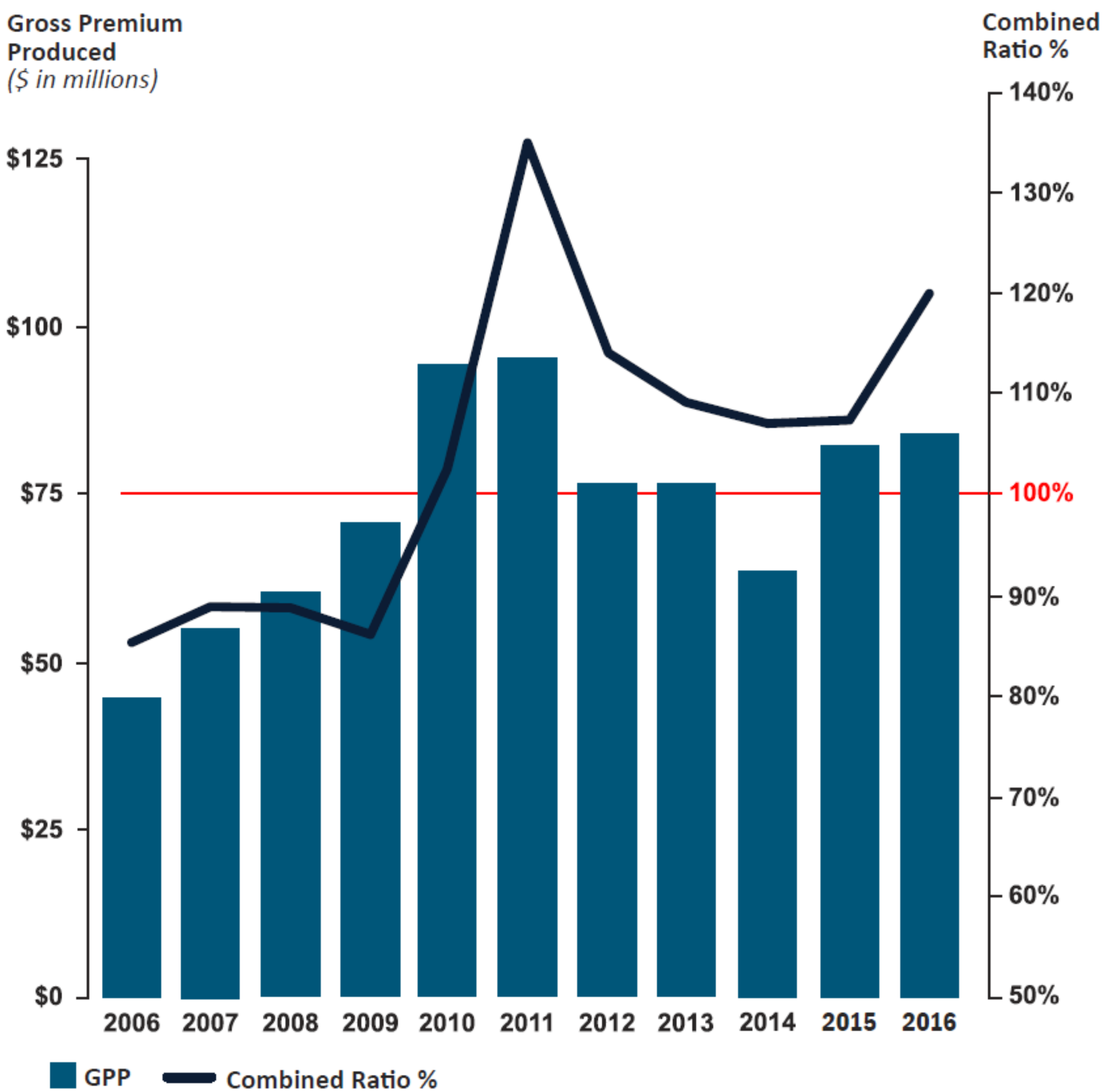
- Umbrella Excess Liability
  - Targeted Excess & Surplus lines
  - Public Entities
- Primary General Liability
  - E&S Lines Focused Monoline Primary GL
- Professional Liability
  - Medical Professional Liability
  - Management & Professional Liability
- E&S Property
  - Primary & Excess Property
  - Shared & Layered Programs
- Aviation
  - Aviation Risks
  - Transition Pilots
- Space & Satellite
  - Launch Exposure & Short-term Orbit

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
- ✓ Aggressively addressed unprofitable segments and geographies leading to significantly improved results
- ✓ Sold non-core Mono-line WC business in 2015, Run-off non-subscription business
- ✓ YOY Rate increases achieved through 2016

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 14 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 2016 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**
  - 54 rate revisions implemented during 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

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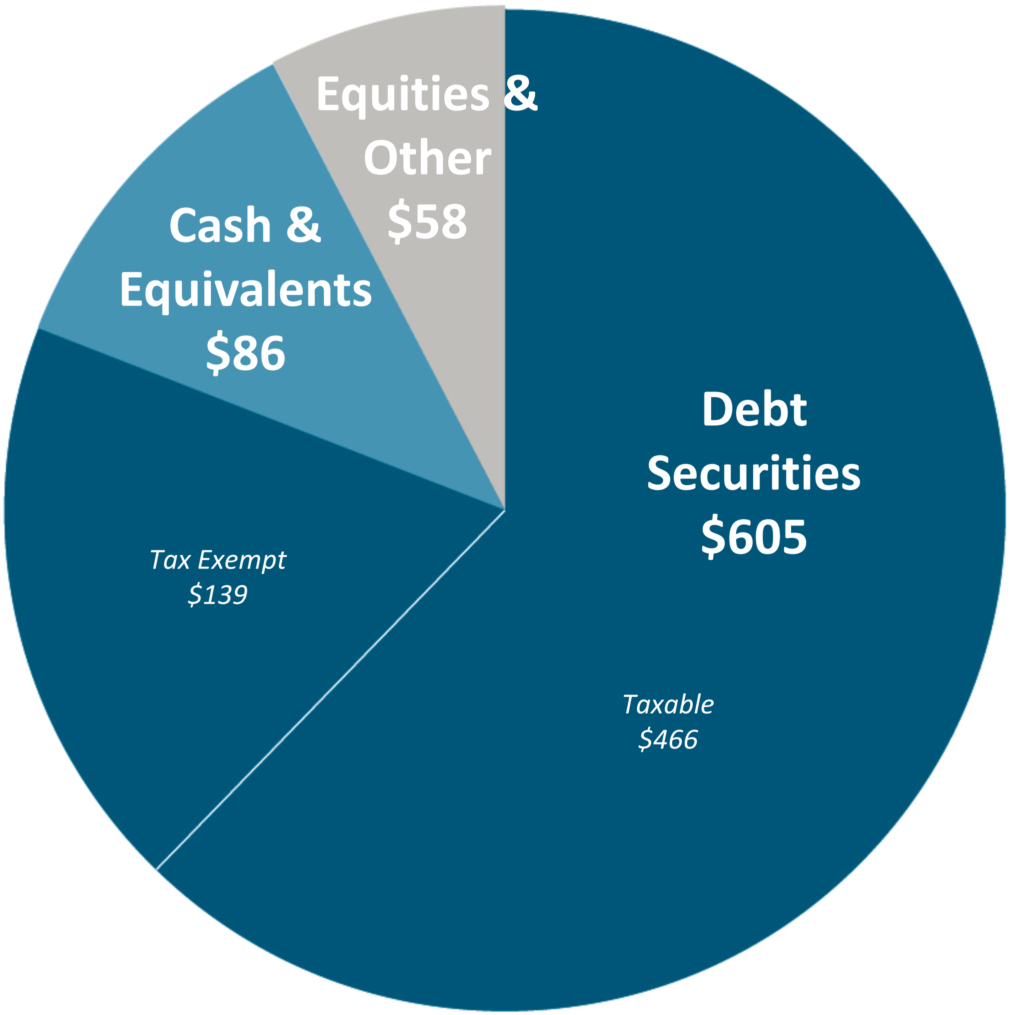
Investment Overview

Mark Schwarz

Executive Chairman

Investment Portfolio

As of March 31, 2017
($ in millions)



Total Cash & Investments of $749 million, or approximately $40.33 per share.

- Investment portfolio of $663 million
- 8% invested in equities
- Annualized tax equivalent yield of approximately 3.2%
- Weighted-average duration of 1.8 years
- Weighted-average credit rating of "BBB+"

Key Characteristics of Hallmark Investment Portfolio

- Hallmark portfolio has significant liquidity
- $136 million total liquidity:
  - $223 million cash flow from operations produced in past 5 years
  - $86 million cash and cash equivalents
  - $42 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 1.8 years vs. 6 years Barclay's U.S. Aggregate Index
  - Only $69 million of maturities greater than 10 years – many of these have an expected maturity less than 10 years
  - $132 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 3.2% vs. 2.6% for Barclays Muni
    - Weighted average duration of 1.8 vs. 6.0 for Barclays Aggregate

In conclusion

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

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NASDAQ: HALL

For more information, visit www.hallmarkgrp.com.