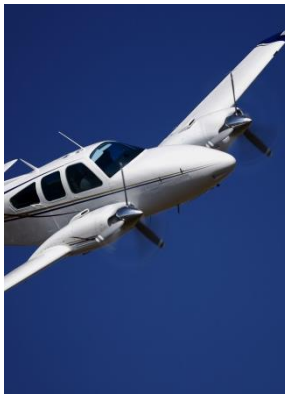
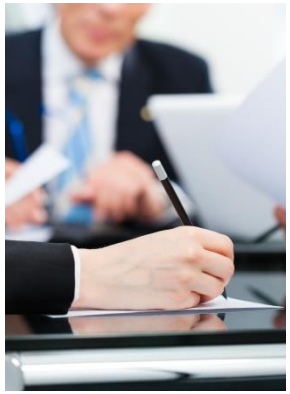
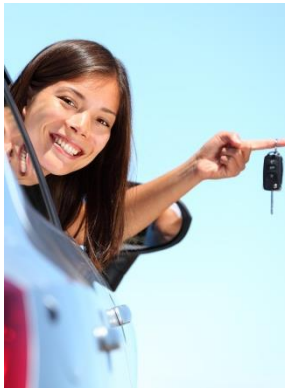
HALLMARK
FINANCIAL SERVICES, INC.




Hallmark Financial Services

December 2014 Investor Presentation

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.

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Strategic Overview

Naveen Anand

President and Chief Executive Officer





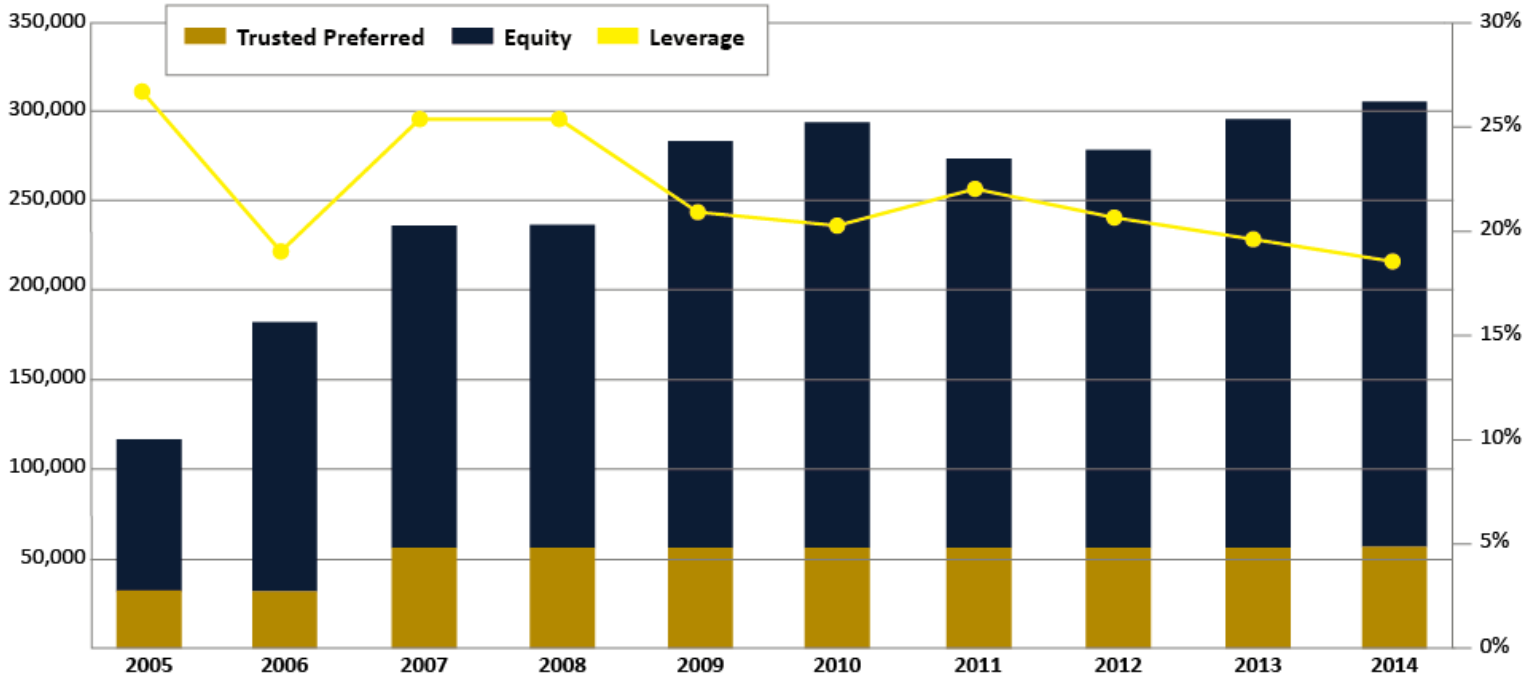

Hallmark Financial Services (NASDAQ: HALL)

- ✓ Diversified specialty property/casualty insurer with operating units based in Dallas-Fort Worth, Austin and San Antonio, Texas.
- ✓ Market, underwrite and service over $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.
- ✓ "A-" (Excellent) A.M. Best Financial Strength Rating.
- ✓ Combined Statutory Surplus of $204 million as of September 2014.



Hallmark Financial Services (NASDAQ: HALL)

- ✓ **Market capitalization of $229 million**, with 19.1 million shares outstanding ($11.98 market value per share) as of Dec. 9, 2014.
- ✓ **Consolidated Shareholders' Equity of $248 million** as of September 30, 2014 ($12.96 per share).
- ✓ **Total capitalization of $305 million** as of September 30, 2014, including $57 million of subordinated trust preferred debt securities that mature in 2035.



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

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

The Hallmark Track Record

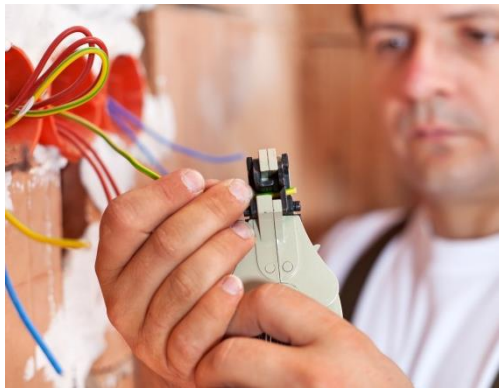
Aggregates & Averages Through 2013 Highlight Hallmark's Successful Expansion and Diversification into Specialty Lines of Business.

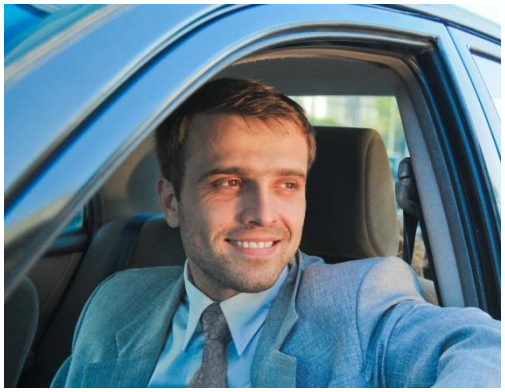
	Gross Premiums Produced	Investment Income	Operating Income (1)(3)	Operating Cash Flow	GAAP Equity (3)	ROAE	GAAP BVPS (2)(3)	% Chg	Year End Stock Price (2)	% Chg
2004	**$ 119,305**	**$ 1,386**	**$ 8,602**	**$ 7,339**	**$ 32,656**	*20%*	**$ 5.37**		**$ 7.20**	
2005	**$ 118,066**	**$ 3,836**	**$ 13,468**	**$ 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%*
YTD 2014	*$ 359,806*	*$ 9,139*	*$ 13,182*	*$ 21,710*	*$ 247,880*	*5%*	*$ 12.96*	*5%*	*$ 10.31*	*16%*
TOTAL	**$ 3,262,364**	**$ 127,904**	**$ 158,390**	**$ 493,749**						
Last 10 Years (2004-2013)										
CAGR	***16%***	***28%***	***NM***	***28%***	***25%***		***10%***		***2%***	

(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. YTD2014 stock price is as of September 30, 2014.
(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



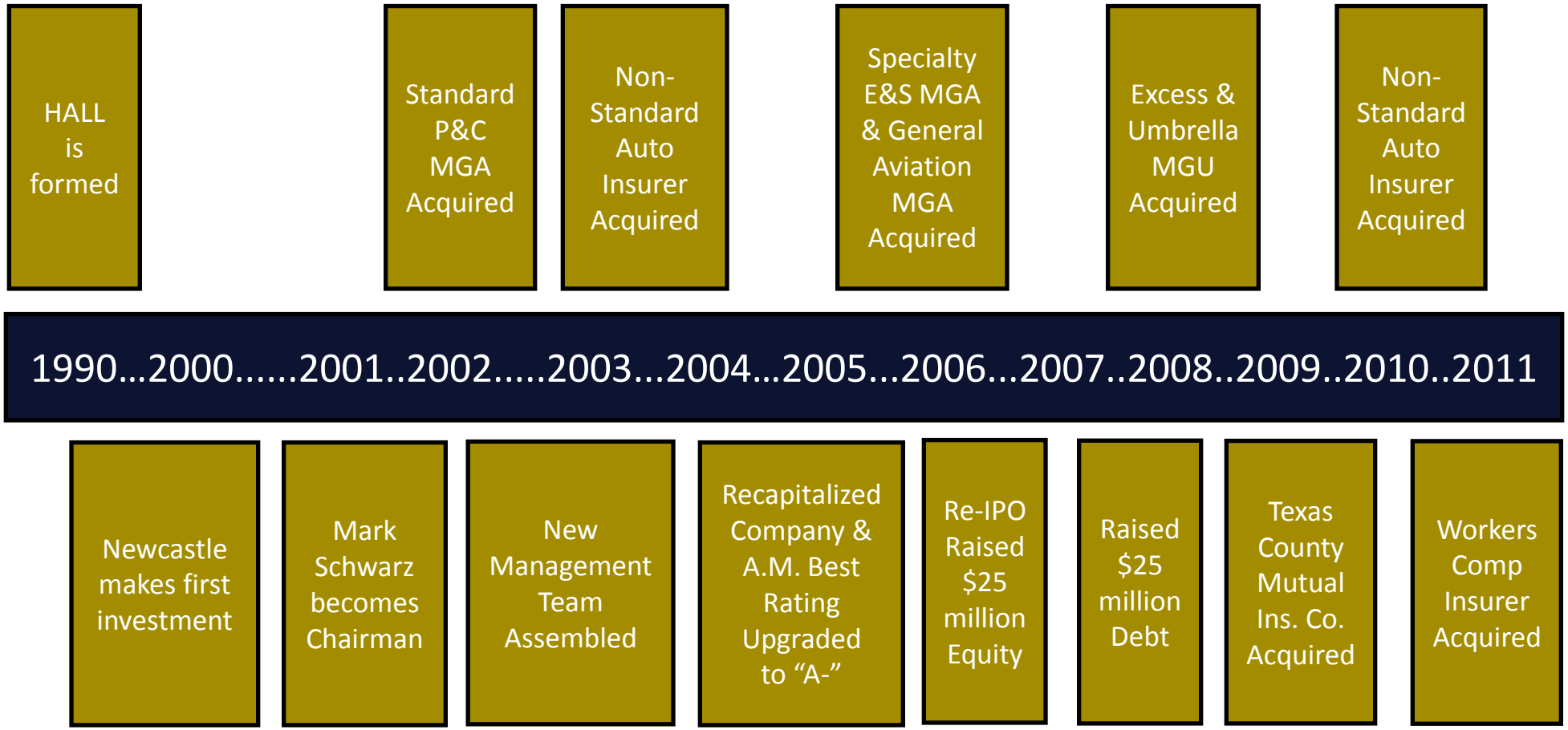
Underwriting Strategy

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

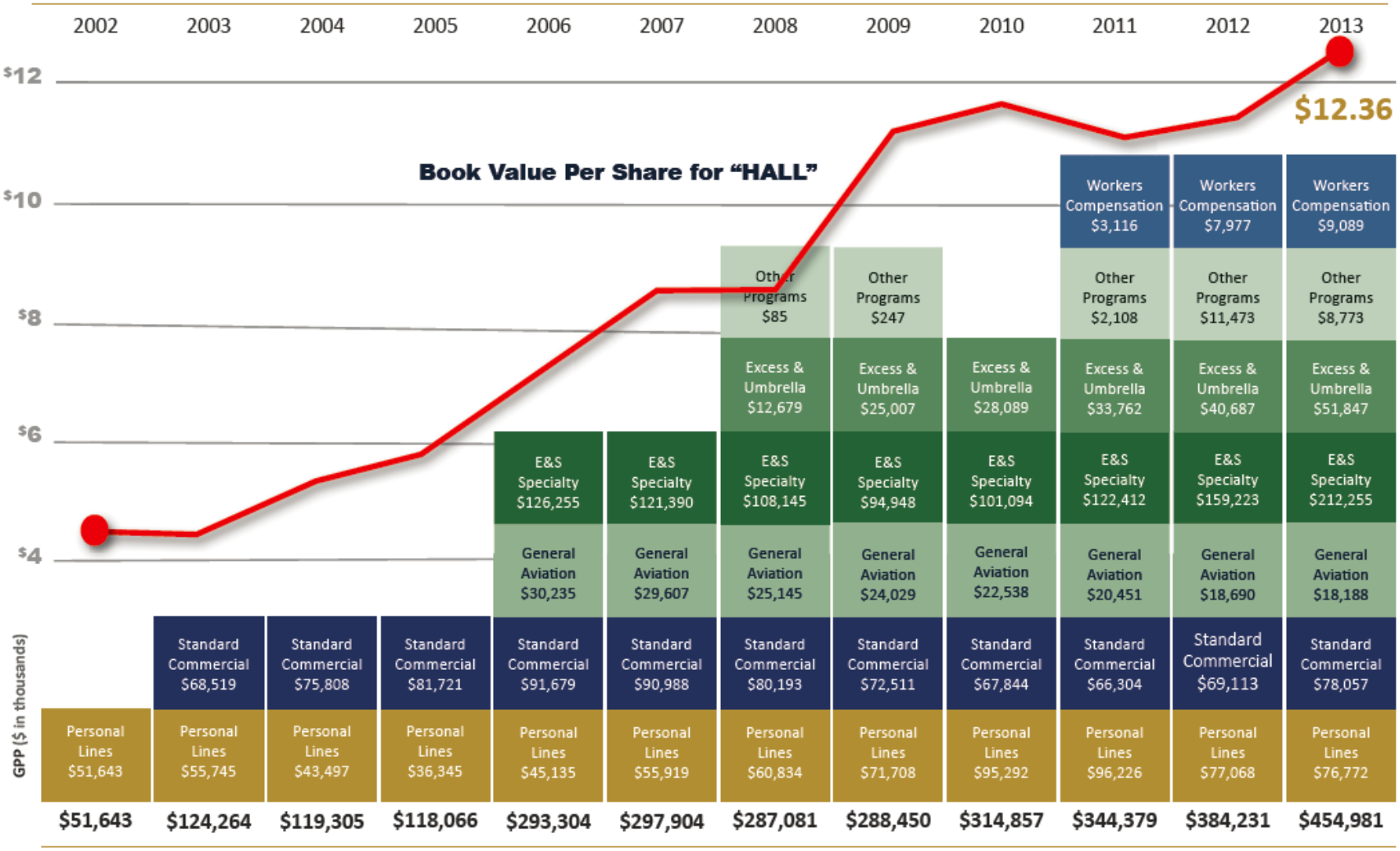
How We Got to Where We Are Today

Hallmark Began in 1990 as a Texas-only, Mono-line Company. In 2003, New Management Begins Transformation into a Diversified, Specialty Lines Focused Property/Casualty Insurer.



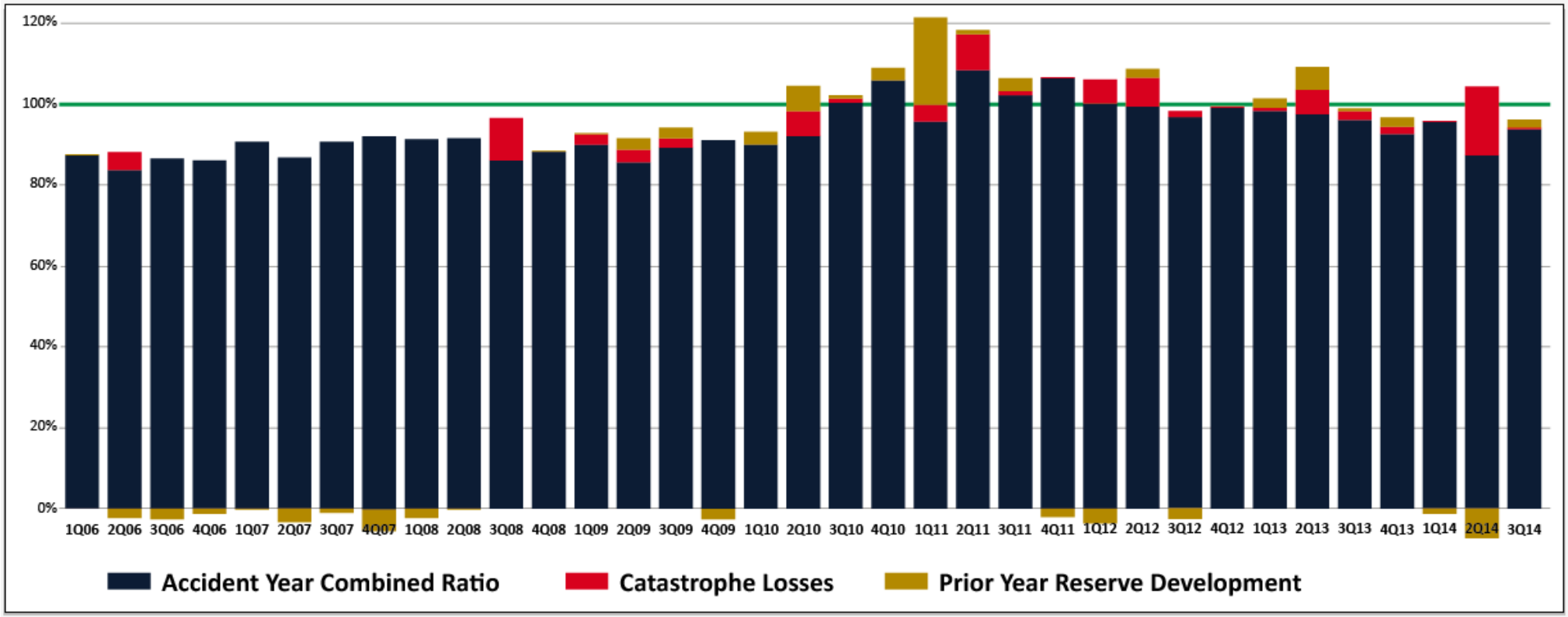
Building Premium Diversity Step-by-Step

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



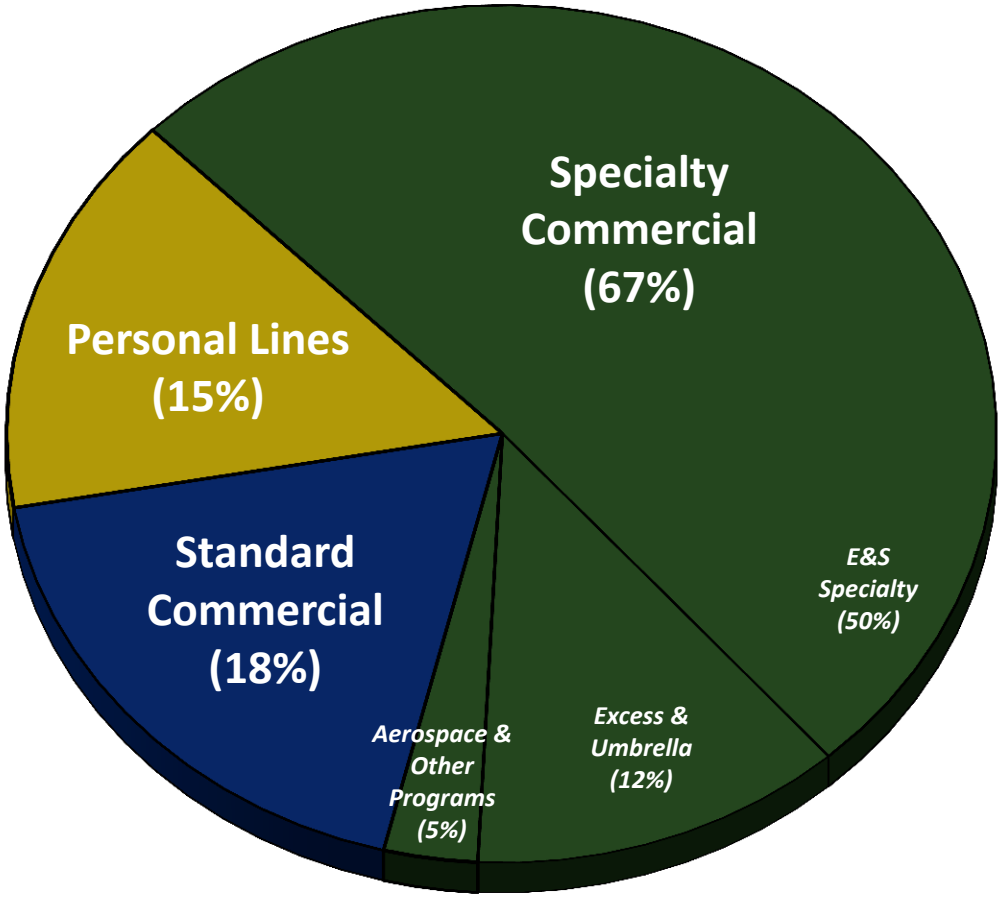
Hallmark's Combined Ratio Trend

Hallmark's net accident quarter combined ratio was consistently at, or below, 90%. 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 quarter ratios have trended downward, but have been more frequently affected by catastrophe losses from our Standard Commercial lines of business.



Hallmark Operations Overview

Gross Premiums Produced
By Operating Unit

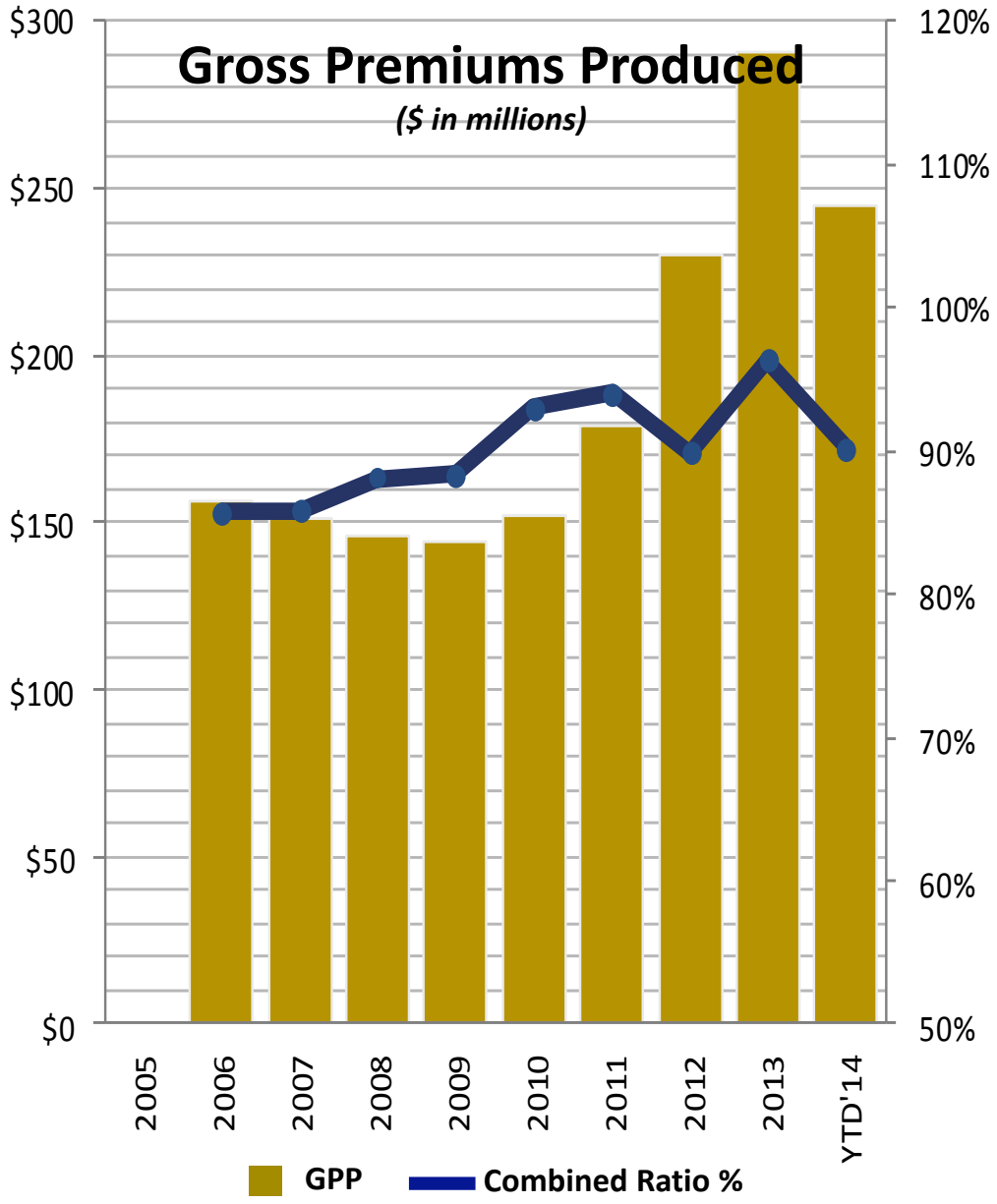


TTM 9/2014 Gross Premium Produced of $467 million

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.

Specialty Commercial Operating Trends



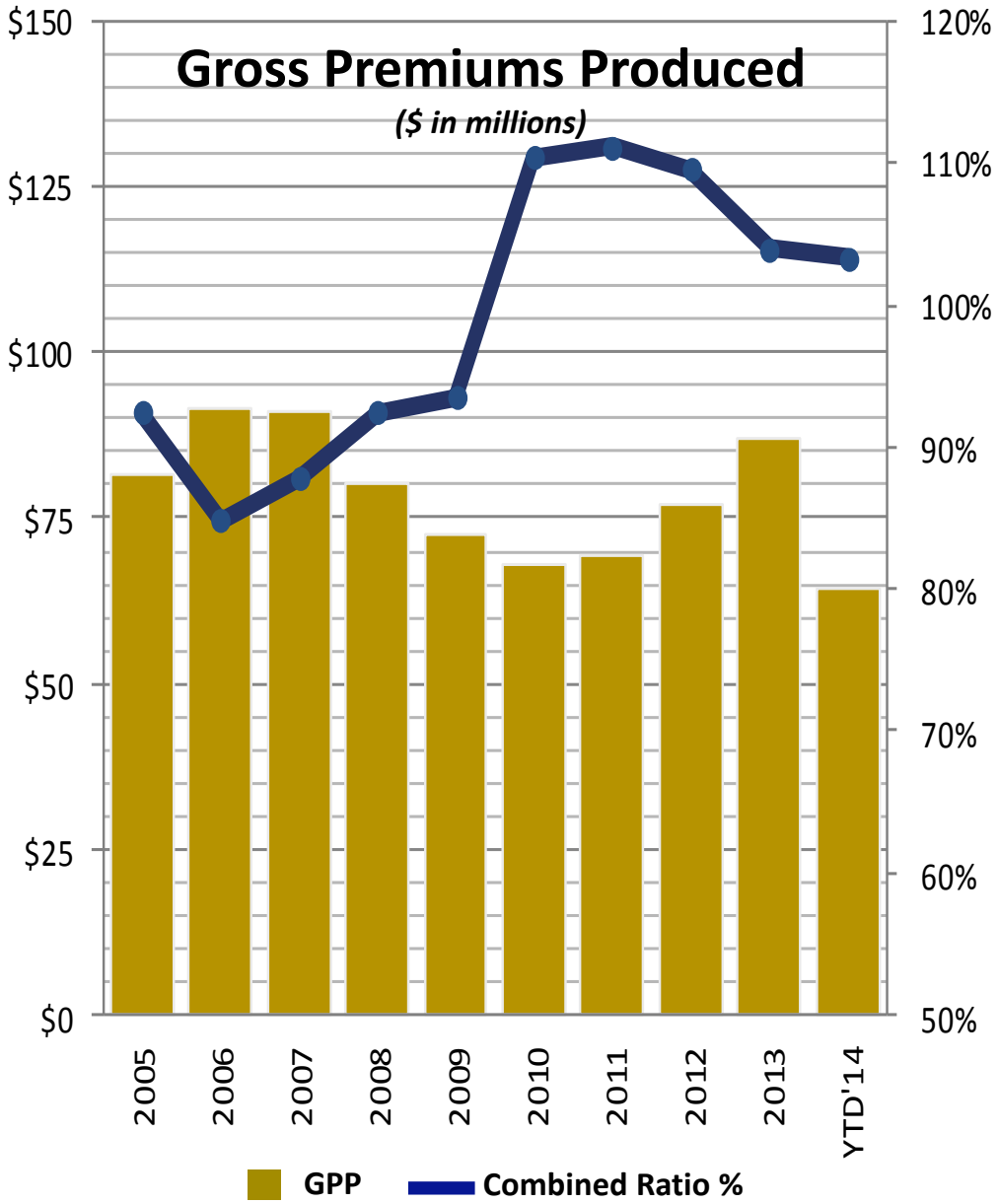
Starting in late 2011, market conditions began to improve, allowing for meaningful rate increases.

- ✓ Standard markets have become more selective in writing marginal risks and classes of business
- ✓ Increases in insured exposures suggest a stabilizing economy
- ✓ Trucking liability rates increased over 14% and non-trucking commercial auto liability rates increased over 10% for YTD 2014
- ✓ Excess & Umbrella rates increased 5% in 2014
- ✓ Aviation rates increased 7% in 2014

Recent additions of specialty underwriting teams to provide product expansion.

- ✓ Experienced underwriters in General Liability, Excess Liability, Medical Professional Liability, Space & Satellite, Oil & Gas and Occupational Accident added since 2010

Standard Commercial Operating Trends



Soft market conditions combined with the economic downturn resulting from the 2008 credit crisis had a negative effect on GWP through 2011.

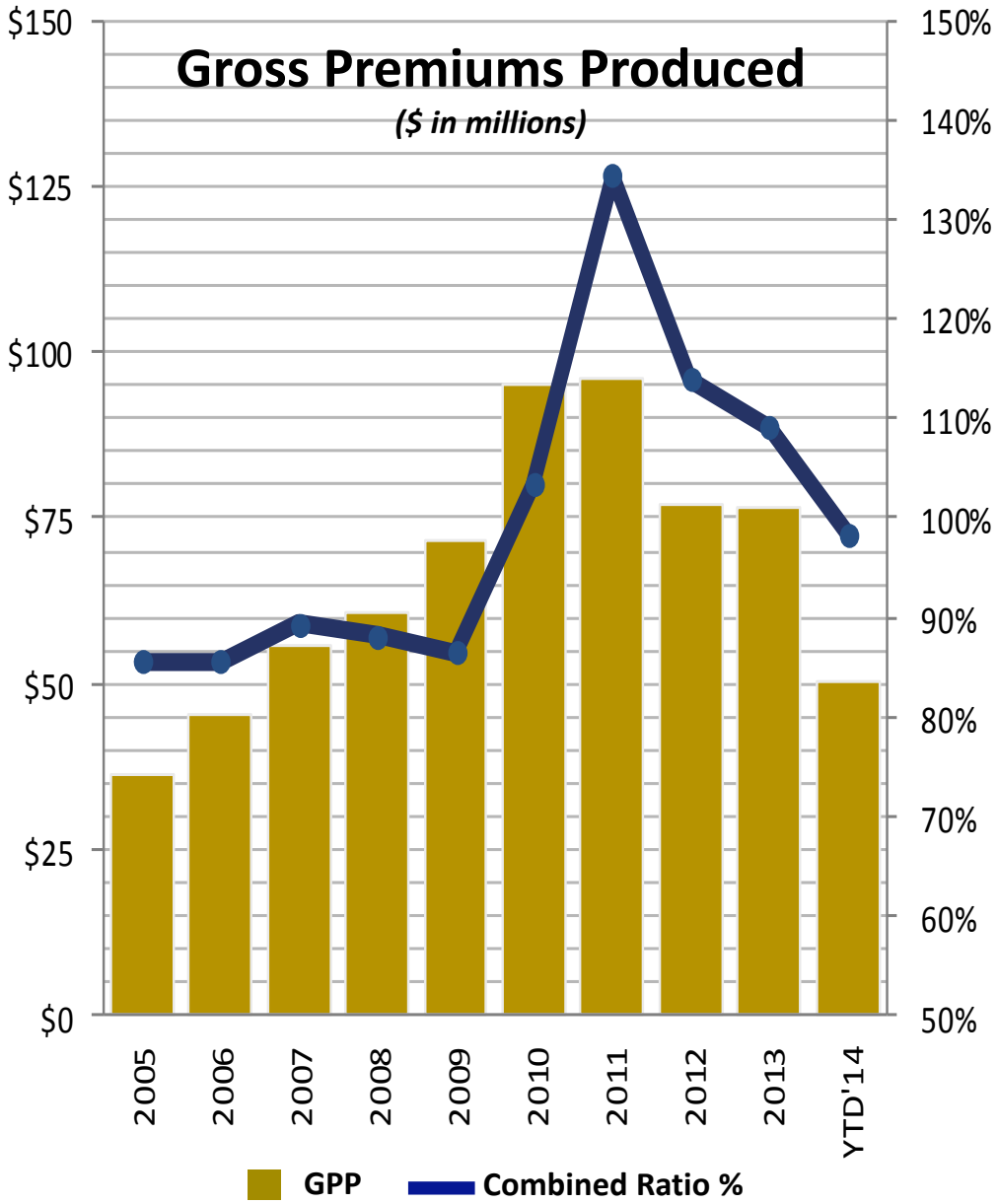
Results since 2010 have been adversely impacted by an increase in frequency and severity of catastrophe related losses

- ✓ Catastrophe losses (net) for YTD2014 was $12.5 million (21.4% LR%); in FY2013 was $6.0 million (7.6% LR%); FY2012 was $9.5 million (13.7% LR%)

Renewal Rates increased by 7% in 2012, and by another 8% in 2013. Rate increases in 2014 have been 4.5% through Q3.

- ✓ Expect increased price competition in 2015 will dampen ability to drive higher rate increases.

Personal Lines Operating Trends



Loss Ratio pressure caused by rapid Auto expansion in 2008 - 2010 has been mitigated.

- ✓ Inforce policies from worst performing states have been completely non-renewed
- ✓ Accident year loss results for core Auto business are at the lowest point since 2007

Aggressive execution to achieve short-term profitability.

- ✓ Achieved 7.5% auto rate increase through 3rd quarter of 2014
- ✓ Implementation of field appraiser claims strategy expected to drive significant indemnity and expense savings

Additional refinement of Business Strategy to ensure stable long-term results.

- ✓ Exited 19 unprofitable states and streamlined product offerings since 2010
- ✓ Focused resources on 14 ongoing Auto states and expansion of companion HO4/Renters programs
- ✓ Finalized technology investment roadmap to drive additional efficiencies and provide foundation for future growth

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Investment Overview





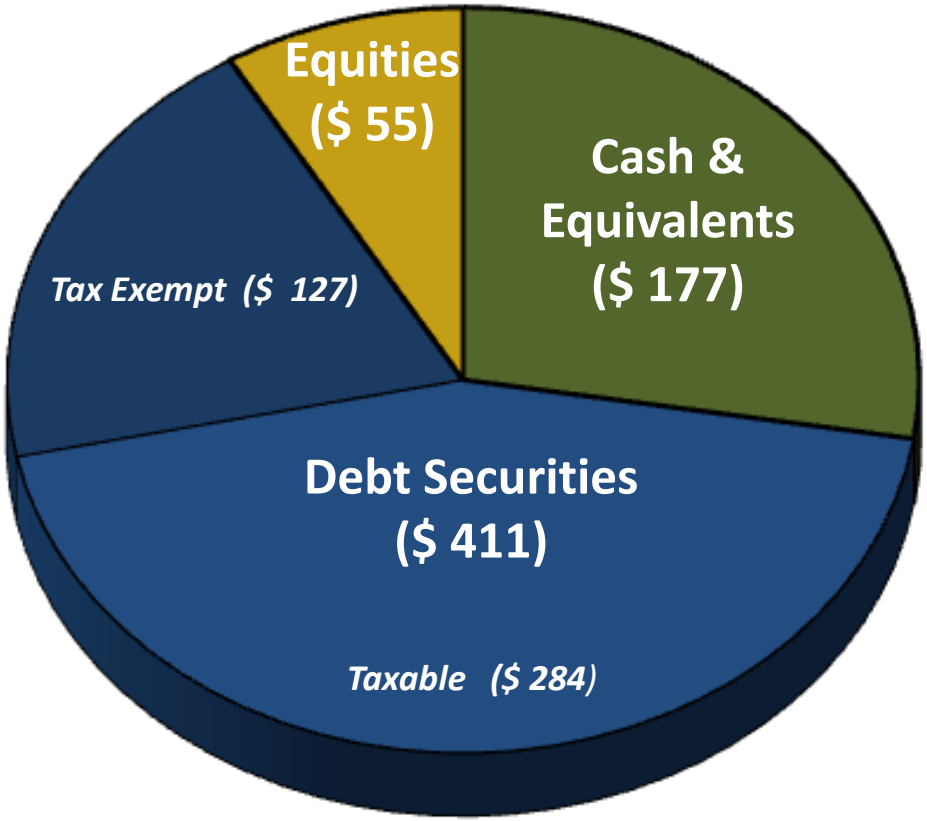

Investment Strategy

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 September 30, 2014
($ in millions)



Total Cash & Investments of $643 million, or approximately $34 per share.

- ✓ Investment portfolio of $466 million
- ✓ 12% invested in equities
- ✓ Annualized tax equivalent yield of approximately 3.4%
- ✓ Weighted-average duration of 2.9 years
- ✓ Weighted-average credit rating of "A-"



NASDAQ: HALL

For more information, visit www.hallmarkgrp.com.