



FOR IMMEDIATE RELEASE

**Hallmark Financial Services, Inc.
To Acquire State Auto National Insurance Company**

FORT WORTH, Texas, (August 9, 2010) - Hallmark Financial Services, Inc. (NASDAQ: HALL) today announced the execution of an agreement for its wholly-owned subsidiary, Hallmark Insurance Company, to acquire State Auto National Insurance Company from State Auto Financial Corporation. State Auto National is an Ohio domiciled insurance company which annually writes approximately \$37 million in non-standard personal automobile policies through independent agents in 21 states. Closing of the acquisition is subject to regulatory approval and other customary closing conditions.

The purchase price for the acquisition will be \$14 million cash at closing plus an earn-out of up to \$2 million. Hallmark expects to fund the acquisition out of working capital. The cash portion of the purchase price is subject to post-closing adjustment to the extent the statutory capital and surplus of SAN is greater or less than \$10 million. The earn-out is payable quarterly in an amount equal to 2% of gross collected premiums on new or renewal personal lines insurance policies written by SAN agents during the three years following closing. In connection with the closing, State Auto National will enter into reinsurance agreements with an affiliate of the seller pursuant to which the affiliate will handle all claims and assume all liabilities arising under policies issued by State Auto National prior to the closing and during a transition period of up to six months following the closing.

Mark J. Morrison, President and Chief Executive Officer, said, "The purchase of State Auto National Insurance Company as a clean statutory entity, along with the policy renewals of its existing book of non-standard personal automobile business, will significantly expand our Personal Lines business unit into new states through an already existing agency distribution. The structure of the transaction allows us to realize immediately the benefit of our highly efficient personal lines platform that is tailor-made to meet the needs of the non-standard personal auto marketplace. Additionally, this transaction entails very little integration risk, as we will not be assuming any staff, operating platforms or run-off exposure from State Auto Financial Corporation's existing operations.

"This is an exciting opportunity for us to accelerate our organic personal lines expansion efforts in key markets not yet entered or which are in the early stages of development," said Brooks Davis, President of Hallmark's Personal Lines business unit. "Although the business is non-core to State Auto Financial Corporation, it is very complementary to Hallmark's personal lines portfolio from a product, distribution and geographic standpoint. Our strategy is to focus on specialty personal lines products, supported by the highest level of service at a competitive price. Our operational platform and use of technology are designed for efficiency which is expected to provide opportunities for margin improvement in the acquired book of business. We also expect to benefit from a significantly expanded agency network and intend to provide these agents with additional Hallmark personal lines specialty products."

Hallmark Financial Services, Inc. is an insurance holding company which, through its subsidiaries, engages in the sale of property/casualty insurance products to businesses and individuals. Hallmark's business involves marketing, distributing, underwriting and servicing commercial insurance, personal insurance and general aviation insurance, as well as providing other insurance related services. The

Company is headquartered in Fort Worth, Texas and its common stock is listed on NASDAQ under the symbol "HALL."

Forward-looking statements in this release are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that actual results may differ substantially from such forward-looking statements. Forward-looking statements involve risks and uncertainties including, but not limited to, continued acceptance of the Company's products and services in the marketplace, competitive factors, interest rate trends, general economic conditions, the availability of financing, underwriting loss experience and other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission.

For further information, please contact:
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