

2017 ANNUAL SHAREHOLDERS' MEETING

MAY 19, 2017
ELBA, ALABAMA



Insuring your world.

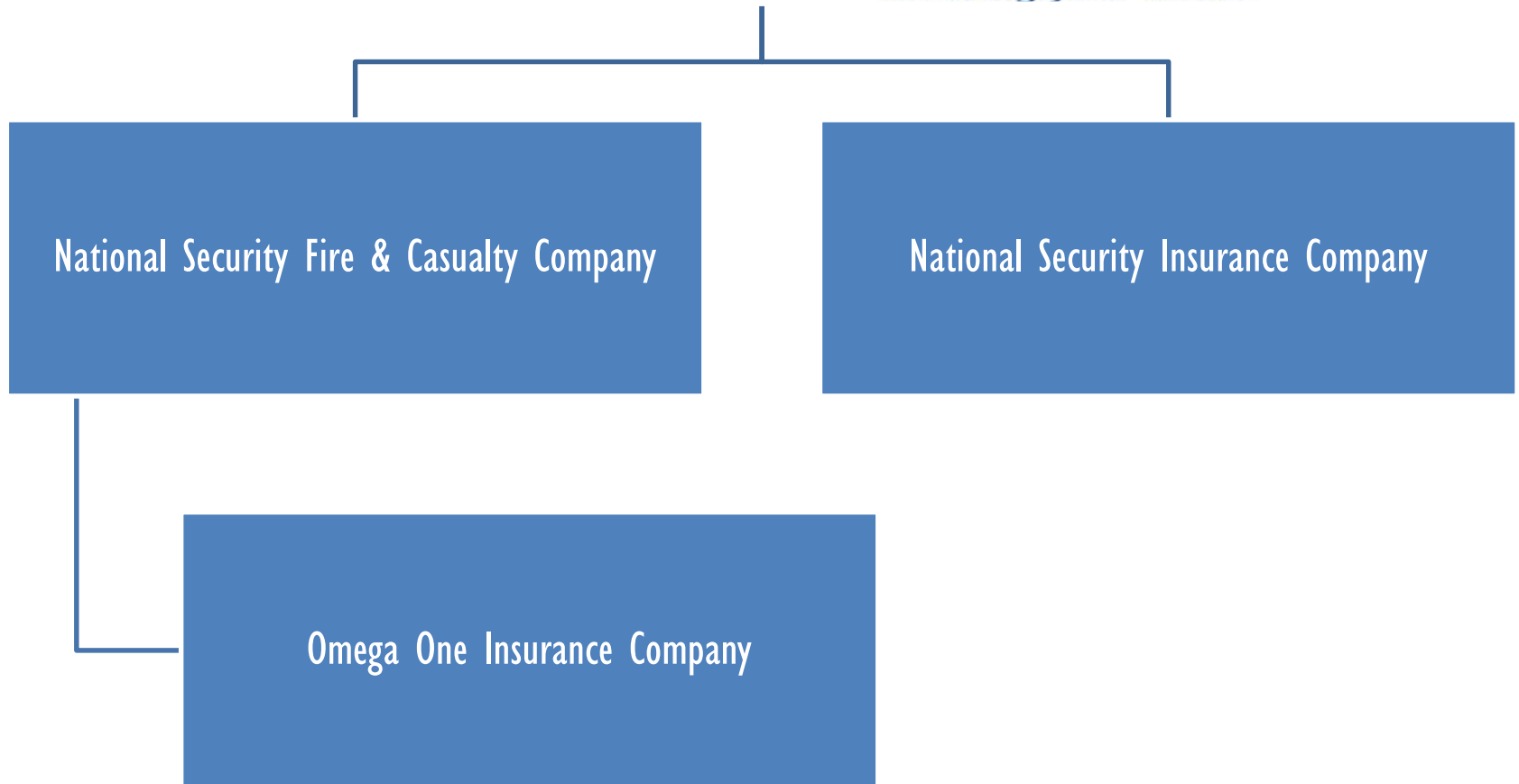
Information About Forward-Looking Statements

Any statement contained in this report which is not a historical fact, or which might otherwise be considered an opinion or projection concerning the Company or its business, whether expressed or implied, is meant as and should be considered a forward-looking statement as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on assumptions and opinions concerning a variety of known and unknown risks, including but not limited to changes in market conditions, natural disasters and other catastrophic events, increased competition, changes in availability and cost of reinsurance, changes in governmental regulations, technological changes, political and legal contingencies and general economic conditions, as well as other risks and uncertainties more completely described in the Company's filings with the Securities and Exchange Commission. If any of these assumptions or opinions proves incorrect, any forward-looking statements made on the basis of such assumptions or opinions may also prove materially incorrect in one or more respects and may cause future results to differ materially from those contemplated, projected, estimated or budgeted in such forward-looking statements.



The National Security Group

Insuring your world.



2016 — Challenging Year for P&C Industry

- Industry underwriting loss of \$4.7bn
 - 100.7% combined ratio following three consecutive years of underwriting profitability
- Premium growth slowed to 2.7%
- \$21.6bn in catastrophe losses
 - 43 catastrophe events in 2016 which is the most since 1980
- Auto frequency and severity trends outpaced premium increases
- Net investment income at lowest levels in decades due to persistent low interest rates

Source: ISO/PCI

NSG Major Objectives of the Last Five Years

- Focus on rate adequacy and underwriting margins
 - Improve risk adjusted returns on catastrophe exposed P&C business
 - Improve operational efficiency
 - Better utilization of technology in pricing of risk
- Growth and protection of capital
- Debt reduction
- Minimize adverse impact on earnings of adverse events
 - Protect capital position
 - Maintain ability to generate net income with significant catastrophe losses

NSG - TWO YEAR FINANCIAL SNAPSHOT

	2016	2015
Gross Premiums Written	\$67,424,000	\$66,809,000
Ceded Premiums	<u>\$(5,899,000)</u>	<u>\$(6,420,000)</u>
Net Premiums Written	<u>\$61,525,000</u>	<u>\$60,389,000</u>
Net Premiums Earned	\$61,398,000	\$59,462,000
Policyholder Benefits and Settlement Expenses	\$38,847,000	\$34,148,000
Net Income	\$3,063,000	\$4,697,000
Earnings Per Share	\$1.22	\$1.87
Return on Equity	6.59%	10.72%
Invested Assets	\$113,156,000	\$112,557,000
Total Assets	\$148,579,000	\$147,841,000
Total Equity	\$48,052,000	\$44,883,000
Book Value Per Share	\$19.09	\$17.87
Year End Closing Market Price	\$17.75	\$15.25

NSG Pre-Tax Income from Operations (AMOUNTS IN THOUSANDS)

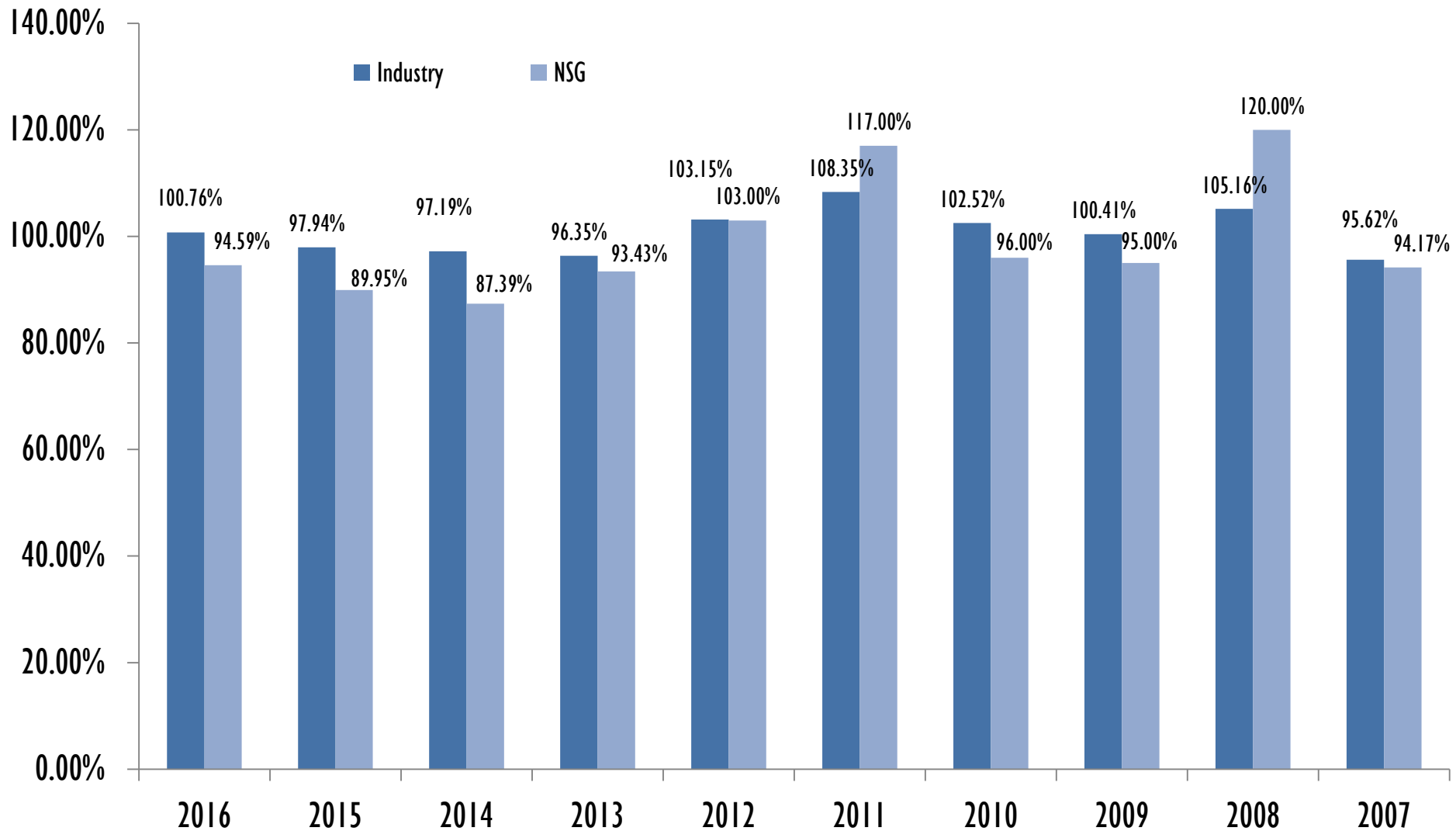
YEAR ENDED DECEMBER 31,	2016	2015	2014	2013	2012
Net Income (Loss)	\$ 3,063	\$ 4,697	\$ 7,616	\$ 5,658	\$ (6,671)
Plus: Federal Income Tax Expense (Benefit)	1,031	1,650	1,759	1,665	(4,393)
Plus: Non-Insurance Litigation Expense	-	-	-	-	13,328
Less: Net Realized Capital (Gains) Losses	(998)	(503)	(100)	(4,439)	(2,790)
Less: Gain on COLI	-	-	(3,256)	-	-
Pre-Tax Income from Operations	\$ 3,096	\$ 5,844	\$ 6,019	\$ 2,884	\$ (526)
Net Cat Loss Summary:					
Hurricane Catastrophe Losses	\$ 4,000	\$ -	\$ -	\$ -	\$ 3,609
Non-Hurricane Catastrophe Losses	5,742	5,373	2,628	4,364	906
Total Catastrophe Losses	\$ 9,742	\$ 5,373	\$ 2,628	\$ 4,364	\$ 4,515

- Fourth consecutive year of P&C underwriting profitability
- First time in over 30 years
- Underwriting profitability despite \$9.7 million in catastrophe losses

NSG comparisons to P&C Industry

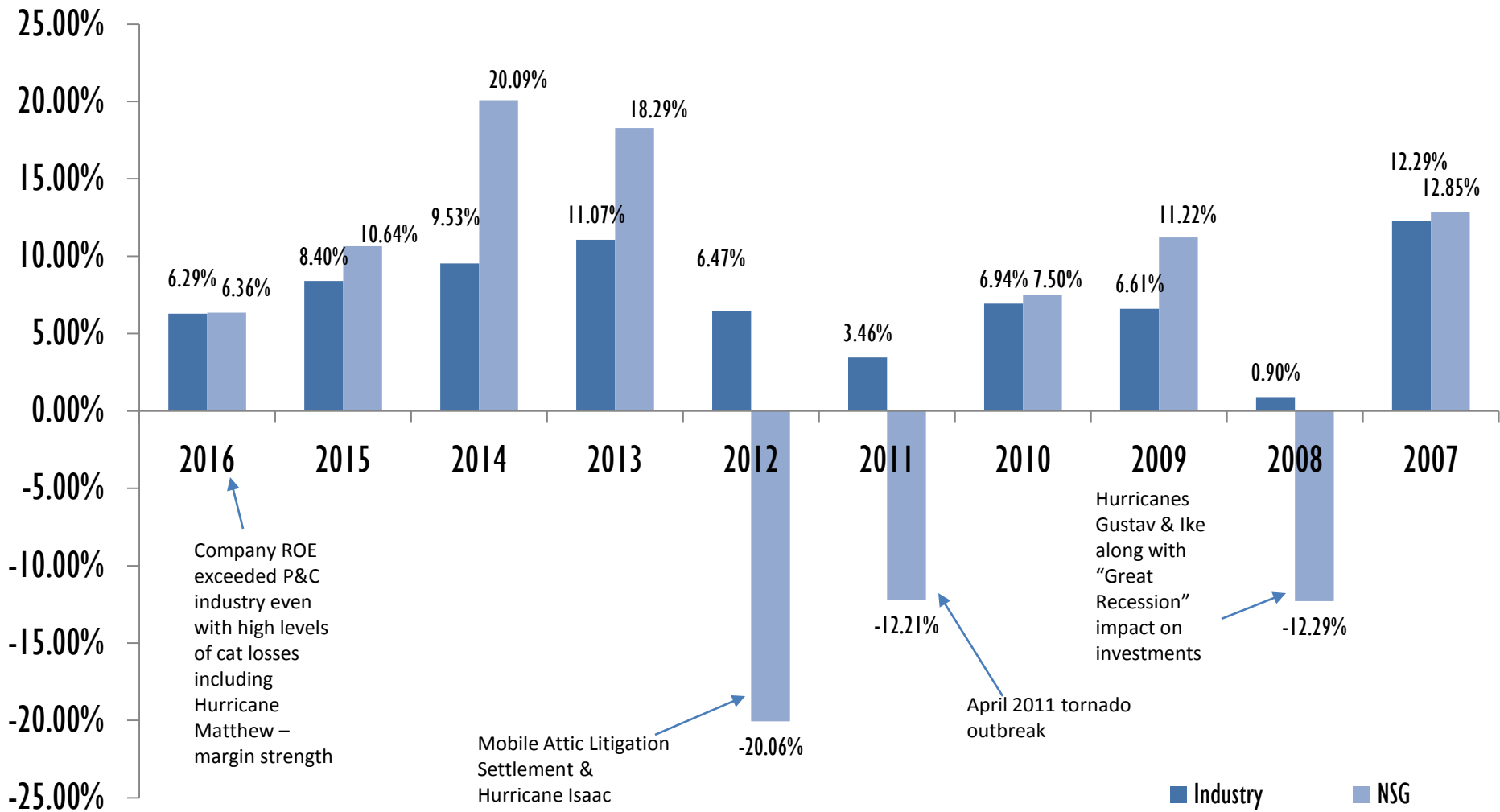
NSG:P&C Industry - Combined Ratio (GAAP)

Source: SNL/S&P Global



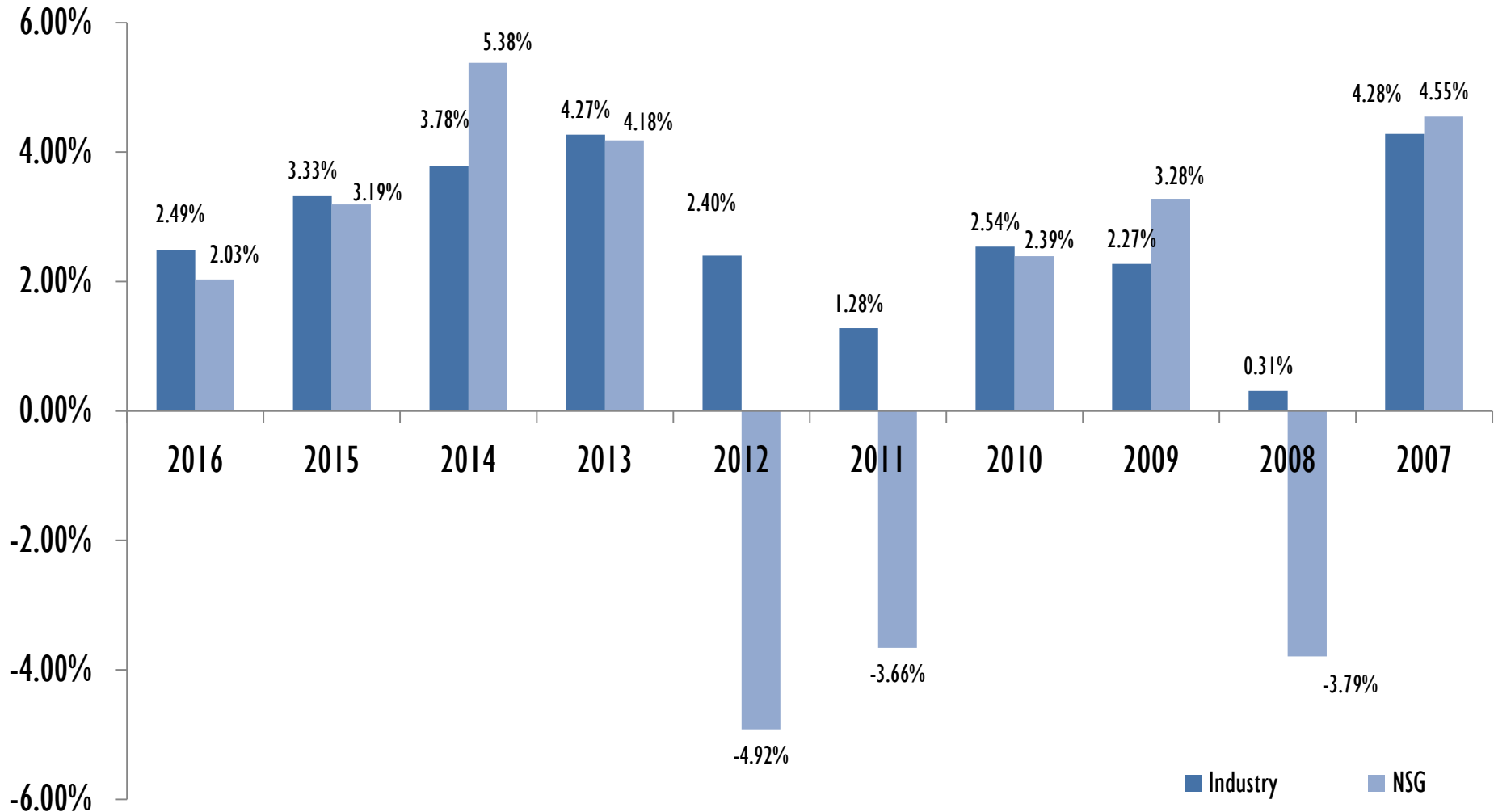
NSG:P&C Industry - Return on Equity

Source: SNL/S&P Global



NSG:P&C Industry - Return on Assets

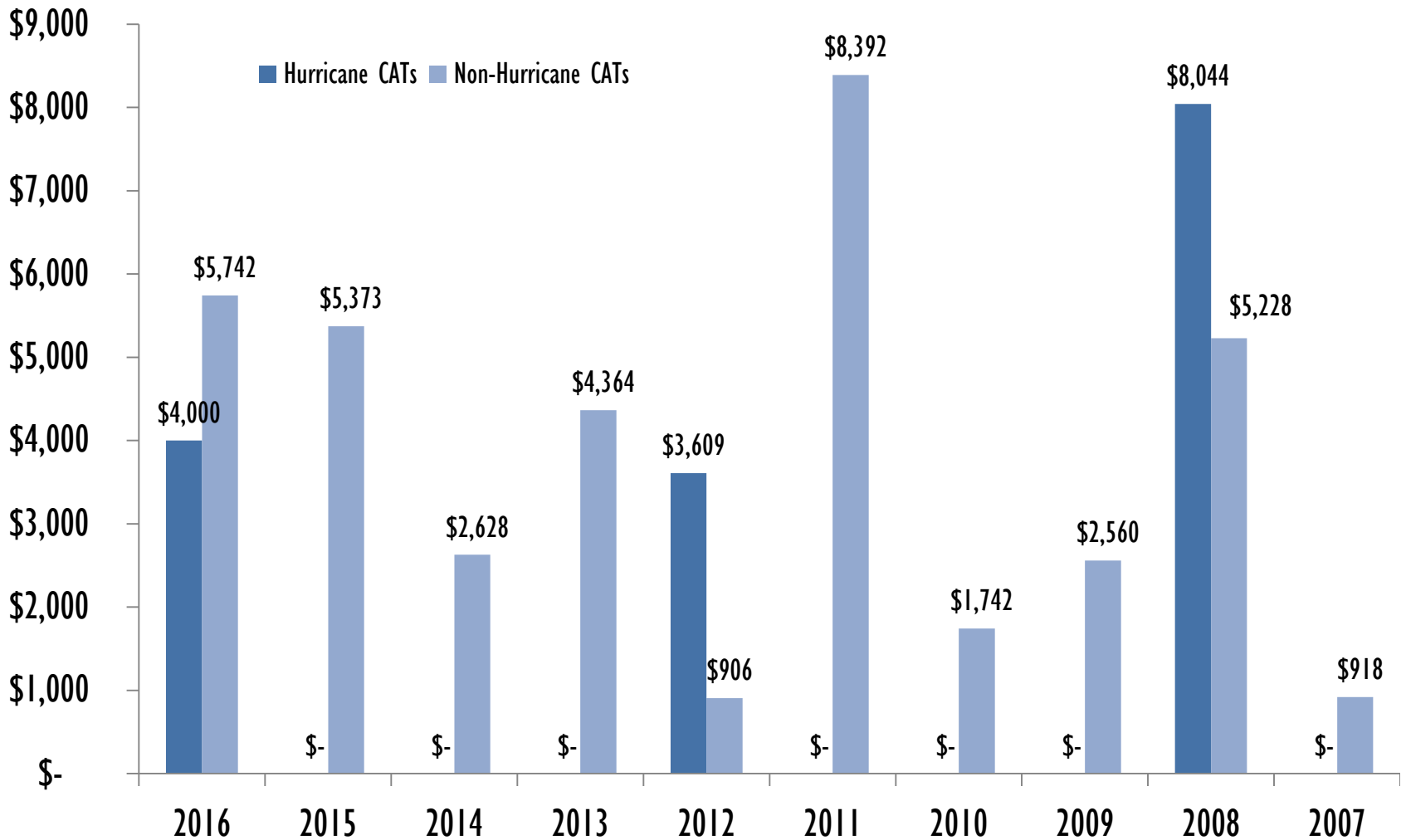
Source: SNL/S&P Global



**Weather — Persistent source of variability in
financial results**

NET CATASTROPHE LOSS HISTORY

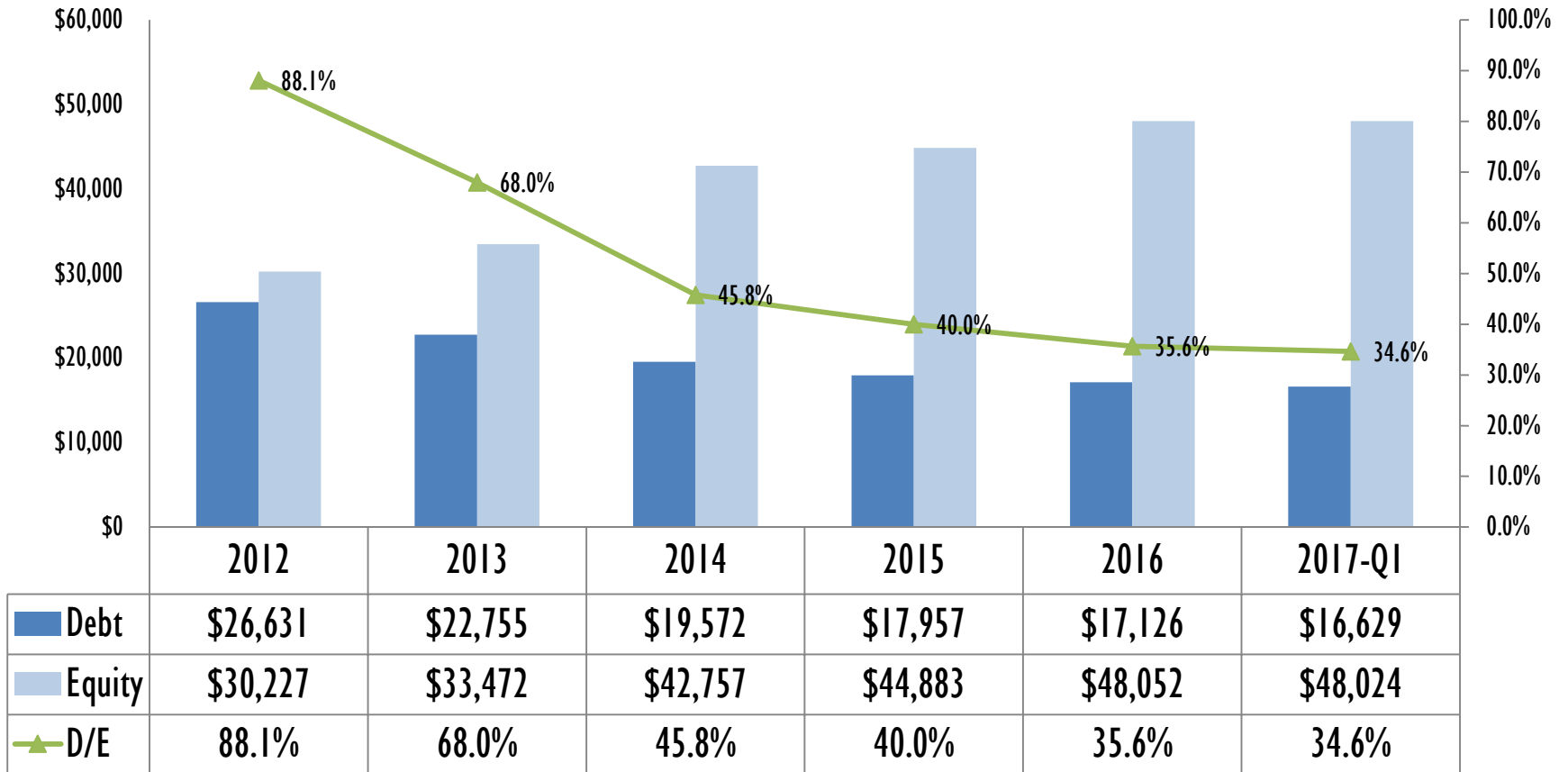
(AMOUNTS IN THOUSANDS)



Building Financial Strength & Shareholder Value

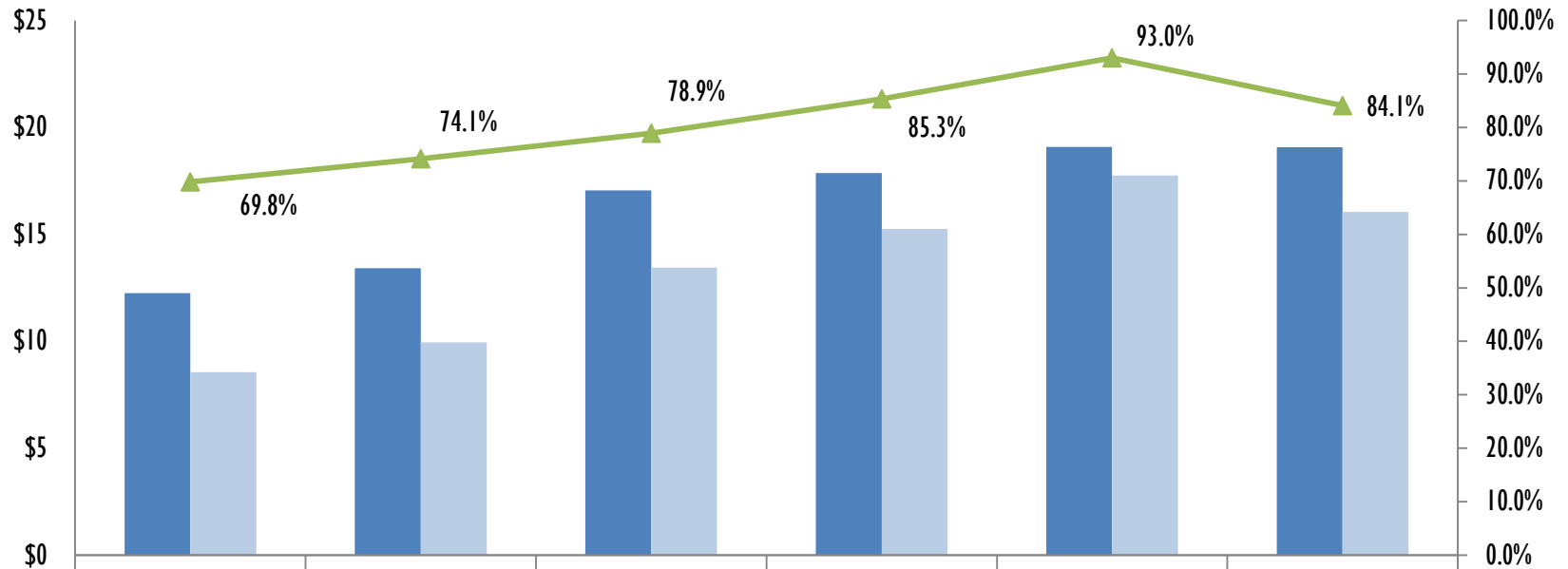
Debt/Equity Trends

(\$ AMOUNTS IN THOUSANDS)



- Debt reduced over \$10 Million since 12/31/2012
- 58% growth in Shareholders' Equity since 12/31/2012
 - 12.3% compound growth rate in equity over last four years

Book Value/Market Price per share



Book Value	\$12.25	\$13.42	\$17.05	\$17.87	\$19.09	\$19.08
Market Value	\$8.55	\$9.95	\$13.45	\$15.25	\$17.75	\$16.04
P/B	69.8%	74.1%	78.9%	85.3%	93.0%	84.1%

- 11.73% compound annual growth in book value from yearend 2012 to yearend 2016
- 20.03% compound annual growth in share price from yearend 2012 to yearend 2016

MARCH 31, 2017

FIRST QUARTER RESULTS

First Four Months of 2017 In One Picture



Worst first quarter in 20 years for the US
P&C industry

Dow Jones News Service/Wall Street Journal - 5/1/2017

- 425 Tornadoes
 - Previous three year avg. of 93
- \$7 billion in industry losses
 - Most expensive Q1 on record

NSG - Financial Snapshot

	For the Three Months Ended March 31,	
	2017	2016
Net Premiums Written	\$16,038,000	\$15,937,000
Net Premiums Earned	\$15,040,000	\$15,165,000
Net Income (Loss)	\$(316,000)	\$941,000
Earnings (Loss) Per Share	\$(0.13)	\$0.37
	At March 31, 2017	At December 31, 2016
Invested Assets	\$112,500,000	\$113,156,000
Total Assets	\$148,942,000	\$148,579,000
Total Equity	\$48,024,000	\$48,052,000
Book Value Per Share	\$19.08	\$19.09
Closing Market Price	\$16.04	\$17.75

Shareholders' Equity and book value per share held steady despite significant increase in catastrophe losses and quarterly net loss

Pre-Tax Income (Loss) from Operations (AMOUNTS IN THOUSANDS)

QUARTER ENDED MARCH 31,	2017	2016	2015	2014	2013
Net Income (Loss)	\$ (316)	\$ 941	\$ 1,308	\$ 999	\$ (409)
Plus: Federal Income Tax Expense (Benefit)	(399)	360	478	284	(619)
Less: Net Realized Capital (Gains) Losses	<u>(160)</u>	<u>(7)</u>	<u>(142)</u>	<u>(88)</u>	<u>(27)</u>
Pre-Tax Income (Loss) from Operations	<u>\$ (875)</u>	<u>\$ 1,294</u>	<u>\$ 1,644</u>	<u>\$ 1,195</u>	<u>\$ (1,055)</u>
Net Cat Loss Summary:					
Hurricane Catastrophe Losses	\$ -	\$ -	\$ -	\$ -	\$ -
Non-Hurricane Catastrophe Losses	<u>3,521</u>	<u>1,447</u>	<u>511</u>	<u>602</u>	<u>1,788</u>
Total Catastrophe Losses	\$ 3,521	\$ 1,447	\$ 511	\$ 602	\$ 1,788

- 2017 -
 - Highest level of first quarter catastrophe losses in company history
 - High levels of catastrophe losses extend into second quarter with Q2 cat losses approaching \$3 million as of 5/18/2017

Weathering The Storm

- Thus far in 2017, significantly higher storm losses have been material to earnings but have had virtually no impact on our capital position (earnings event but not capital event)
- Rates are fundamentally sound and can help drive a recovery at conclusion of spring storm season
- Even with these early adverse weather patterns, we believe we are well positioned to work through the challenges to date without a material impact on capital and can gain ground quickly once calmer weather patterns prevail
- Caveats:
 - We are approaching our budgeted amount for catastrophe losses for 2017 with seven months remaining (non-hurricane catastrophe losses are front loaded to the spring storm season)
 - Hurricane season is still to come
 - Impact of weather is highly variable from quarter to quarter and year to year

2017 Challenges and Opportunities

- As discussed, we have to push through the challenges of the early year setback due to significantly higher storm losses in first five months of 2017
- Continue to plan for implementation of a new AM Best capital adequacy model in 2017
- Continue to work toward the goal of an upgrade in our AM Best rating
- Enhance Enterprise Risk Management plan to meet increased regulatory and rating agency requirements
- Explore opportunities to increase premium revenue without sacrificing underwriting profits
 - Weaker carriers could be forced to pull back due to increased storm activity
 - Expand coverage offerings in existing markets
 - Maintain balance between rate adequacy and competitiveness
- Continue to reduce debt with the goal of eliminating remaining \$4 million of Mobile Attic litigation related debt within next two years
 - Expect to repay \$1.5 million in 2017 due to realization of litigation related deferred tax asset
- Navigate the impact of significant political and economic policy uncertainty
 - Tax reform
 - Interest rates and investments
 - General economy
- Remain nimble as industry evolves through changes driven by technology
- **Maintain culture of continuous improvement to build a resilient value creating organization!**



Enhanced Investor Website:

<http://investors.nationalsecuritygroup.com/>

Questions?