

**HALLMARK FINANCIAL SERVICES, INC.  
AMENDED AND RESTATED  
AUDIT COMMITTEE CHARTER**

September 1, 2010

The Board of Directors (the “Board”) of Hallmark Financial Services, Inc. (the “Company”) has adopted the following Amended and Restated Audit Committee Charter for the governance of the Audit Committee of the Board.

**Purposes**

The purposes of the Audit Committee are to serve as an independent and objective party to:

- Oversee the quality and integrity of the financial statements and other financial information the Company provides to any governmental body or the public;
- Oversee the independent auditors’ qualifications and independence;
- Oversee the performance of the Company’s independent auditors;
- Oversee the performance of the Company’s internal audit function;
- Oversee the Company’s accounting and financial reporting processes and the audits of the Company’s financial statements;
- Oversee the Company’s systems of disclosure controls and procedures, internal controls over financial reporting, and compliance with ethics standards established by the Board, its committees and management of the Company;
- Provide a means for open communication among the independent auditors, internal auditors and financial and senior management and the Board; and
- Perform such other duties as are directed by the Board.

The Audit Committee shall prepare annually a report meeting the requirements of any applicable regulations of the Securities and Exchange Commission (the “SEC”) to be included in the Company’s proxy statement relating to its annual meeting of stockholders.

**Membership**

The Audit Committee shall be comprised of three or more directors, as determined by the Board, none of whom shall be an affiliate of the Company or any of its subsidiaries or an employee or a person who receives any compensation from the Company or any of its subsidiaries other than fees paid for service as a director. The members of the Audit Committee shall be elected by the Board annually and shall serve until their successors shall be duly elected and qualified. Unless the Board otherwise determines in accordance with the listing standards of the NASDAQ Stock Market LLC (“Nasdaq”) and applicable rules and regulations of the SEC, each member shall be “independent” as defined from time to time by the listing standards of Nasdaq and by applicable rules and regulations of the SEC. No member of the Audit Committee shall have participated in the preparation of the financial statements of the Company or any of

its subsidiaries at any time during the past three years. No member may accept, directly or indirectly, any consulting, advisory, or other compensatory fees from the Company or any of its subsidiaries other than director or committee fees. No member shall serve on the audit committee of more than three public companies unless the Board determines that such simultaneous service would not impair the ability of such director to effectively serve on the Audit Committee.

Each member of the Audit Committee shall be able to read and understand fundamental financial statements at the time of his or her appointment. The Company shall appoint at least one member who is “financially sophisticated” as defined under the applicable Nasdaq listing standards and shall use its reasonable efforts to appoint at least one member who qualifies as an “audit committee financial expert” as defined by applicable rules and regulations of the SEC.

An audit committee financial expert shall not be deemed an “expert” for any purpose, including for purposes of Section 11 of the Securities Act of 1933. The designation of an Audit Committee member as an audit committee financial expert does not impose any duties, obligations or liability on the audit committee financial expert that are greater than those imposed on other Audit Committee members, nor does it affect the duties, obligations or liability of any other Audit Committee member.

The Board shall annually review and determine the qualifications of each member of the Audit Committee. Notwithstanding the foregoing membership requirements, no action of the Audit Committee shall be invalid by reason of any such requirement not being met at the time such action is taken.

### **Structure and Meetings**

The Board shall appoint one member of the Audit Committee as chairperson. The chairperson shall be responsible for leadership of the Audit Committee and reporting to the Board. The Audit Committee shall meet as many times per year as the members deem necessary, but in any event at least quarterly. Each regularly scheduled meeting of the Audit Committee shall include an executive session of the members without the participation of management. At least annually, the Audit Committee shall meet separately with management, the internal auditors and the independent auditors to discuss any matters that the Audit Committee or any of these groups believes should be discussed privately.

### **Accountability of the Independent Auditors**

The independent auditors shall be accountable to and report directly to the Audit Committee. The Audit Committee shall have the sole authority and responsibility with respect to the selection, engagement, compensation, oversight, evaluation and, where appropriate, dismissal of the Company’s independent auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company. The Audit Committee shall annually select and engage the Company’s independent auditors retained to audit the financial statements of the Company. The Audit Committee, or a member thereof, must approve in advance any service, whether an audit or a non-audit service, provided to the Company by the Company’s independent auditors, including the plan and scope of any such service and related fees.

### **Committee Authority and Responsibilities**

The Audit Committee shall have the authority to take all actions it deems advisable to fulfill its responsibilities and duties. The Audit Committee has the authority to retain, at the Company’s expense and on such terms as the Audit Committee deems necessary or advisable, professional advisors (including, without limitation, special legal counsel, accounting experts, or other consultants) to advise the Audit Committee in connection with the exercise of its powers and responsibilities as set forth in this

Charter. Such professional advisors may be the same as or different from the Company's primary legal counsel, accounting experts and other consultants. The Company shall provide for appropriate funding, as determined by the Audit Committee, for payment of: (i) compensation to the independent auditors employed by the Company for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attest services; (ii) compensation to any special legal counsel, accounting experts or other consultants employed by the Audit Committee; and (iii) ordinary administrative expenses of the Audit Committee.

In connection with its purposes, powers and responsibilities, the Audit Committee shall:

#### Oversee Independent Auditors

- Annually review the performance, experience and qualifications of the independent auditors, the lead audit partner, and the independent audit team;
- Annually obtain and review a report by the independent auditor describing: (i) its internal quality control procedures; (ii) any material issues raised by its most recent internal quality control review or peer review; and (iii) any material issues raised by any inquiry or investigation conducted by any governmental or professional authorities within the preceding five years with respect to audits conducted by the independent auditors.
- Review the disclosures in the Company's periodic reports filed with the SEC regarding any approved non-audit services provided or to be provided by the independent auditors;
- Periodically obtain and review a formal written statement from the independent auditors delineating all relationships between the independent auditors and the Company that may impact the independence of the independent auditors, and discuss with the independent auditors any disclosed relationships or services that may impact the objectivity and independence of the independent auditors. The Audit Committee shall also take, or recommend that the Board take, appropriate action to oversee the independence of the independent auditors;
- Ensure the rotation, at least every five years, of the lead audit partner having responsibility for the audit and the concurring review partner responsible for reviewing the audit in accordance with applicable Nasdaq listing standards and applicable laws, rules and regulations;
- Set, review and modify as appropriate, policies in accordance with the Nasdaq listing standards and applicable laws, rules and regulations for hiring employees or former employees of the Company's independent auditors;

#### Review Financial Information and Processes

- Review with management and the independent auditors the Company's quarterly or annual financial information, including matters required to be reviewed under applicable legal, regulatory or Nasdaq requirements, prior to the release of earnings and prior to the filing of the Company's Quarterly Report on Form 10-Q or Annual Report on Form 10-K, as the case may be;
- Review and, as appropriate, discuss with management and the independent auditors the Company's earnings releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance, if any, provided to analysts or rating agencies;

- Upon completion of any annual audit, meet separately with the independent auditors and management and review the Company's financial statements and related notes, the results of the audit, any report or opinion rendered in connection therewith, any significant difficulties encountered during the course of the audit (including any restrictions on the scope of work or access to required information), any significant disagreements between the independent auditors and management concerning accounting or disclosure matters, any significant adjustment proposed by the independent auditors, the adequacy and integrity of the Company's internal accounting controls, and the extent to which major recommendations made by the independent auditors have been implemented or resolved;
- Regularly review with the Company's independent auditors any audit problems or difficulties and management's response;
- Resolve any disagreements between the independent auditors and management regarding the Company's accounting or financial reporting practices;
- Review and consider with the independent auditors and management the matters required to be discussed by Statement of Auditing Standards Nos. 89, 90 and 114. These discussions shall include consideration of the quality of the Company's accounting principles as applied in its financial reporting, including review of estimates, reserves and accruals, review of areas requiring judgment, review of audit adjustments (whether or not recorded) and such other inquiries as may be appropriate. These discussions shall also include the review of reports from the independent auditors that include: (i) all critical accounting policies and practices used; (ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, their ramifications and the preferences of the independent auditors; and (iii) other material written communications between the independent auditors and management. Based on the foregoing review, the Audit Committee shall make its recommendation to the Board as to the inclusion of the Company's audited financial statements in the Company's Annual Report on Form 10-K;
- Review the independent auditor's report on the Company's assessment of internal control over financial reporting (if any);
- Review any disclosures provided by the Chief Executive Officer, the Chief Financial Officer, or the independent auditors to the Audit Committee regarding significant deficiencies in the design or operation of internal control over financial reporting which could adversely affect the Company's ability to record, process, summarize, and report financial data;
- Review with management and the independent auditors any significant transactions that are not a normal part of the Company's operations and changes, if any, in the Company's accounting principles or their application;

#### Oversee the Internal Audit Function

- Review and approve the selection or removal of any Company employee charged with primary responsibility for performing the internal audit function;
- Review and approve the selection, engagement, scope of services and, where appropriate, removal of any third party retained by the Company to perform the internal audit function;

- Periodically review the activities and organizational structure of the internal audit function, as well as the performance, experience and qualifications of the internal audit team;
- Periodically review with the person primarily responsible for the internal audit function any significant difficulties, disagreements with management or scope restrictions encountered in the course of any internal audit;
- Periodically review with a representative of the internal audit team and management the results of each internal audit, any recommendations by the internal audit team and management's response to such recommendations;
- Periodically review with the independent auditor the responsibilities, budget and staffing of the internal audit function;

#### Process Improvement

- Consider and approve, if appropriate, major changes to the Company's accounting principles and practices as suggested by the independent auditors, internal auditors or management;
- Regularly apprise the Board, through minutes and special presentations as necessary, of significant developments in the course of performing the Audit Committee's duties;
- Conduct an annual evaluation with the Board regarding the performance of the Audit Committee.

#### Ethical and Legal Compliance

- Review any disclosures provided by the Chief Executive Officer or the Chief Financial Officer to the Audit Committee regarding (i) significant deficiencies or weaknesses in the design or operation of internal control over financial reporting which could adversely affect the Company's ability to record, process, summarize, and report financial data; and (ii) any fraud, including that which involves management or other employees who have a significant role in the Company's internal control over financial reporting;
- Review with the Company's in-house or outside legal counsel any legal matter that could have a significant effect on the Company's financial statements, including the status of pending litigation and other areas of oversight to the legal and compliance area as may be appropriate;
- Review with management, the internal auditors and the independent auditors the Company's policies and procedures regarding compliance with its internal policies as well as applicable laws and regulations, including without limitation with respect to maintaining books, records and accounts and a system of internal accounting controls in accordance with Section 13(b)(2) of the Securities Exchange Act of 1934;

#### General

- Review and approve all related-party transactions;
- Review the Company's risk assessment and risk management policies, as well as its material risk exposures, the potential impact of such exposures and the efforts of management to mitigate the identified risks.

- Perform any other activities consistent with this Charter, the Company's Articles of Incorporation and Bylaws, the rules of Nasdaq applicable to its listed companies, and governing law as the Audit Committee or the Board deems necessary or appropriate; and
- Establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal controls, and other auditing matters and for the confidential, anonymous submission by Company employees of concerns regarding questionable accounting or auditing practices.

### **Review of Committee Charter**

At least annually, the Audit Committee shall review and reassess the adequacy of this Charter. The Audit Committee shall report the results of the review to the Board and, if necessary, make recommendations to the Board to amend this Charter.

### **Limitations**

The Audit Committee has the responsibilities and powers set forth in this Charter, and management and the independent auditors for the Company are accountable to the Audit Committee. Management, not the Audit Committee, is responsible for the preparation in accordance with GAAP, and the completeness and accuracy, of the Company's financial statements. The independent auditors, not the Audit Committee, are responsible for the planning and conduct of audits of the Company's financial statements and reviews of the Company's quarterly financial statements prior to the filing of each Quarterly Report on Form 10-Q.