



HALLMARK
FINANCIAL

PROPERTY & CASUALTY INSURANCE SOLUTIONS

3Q 2022

Investor Presentation

Safe Harbor

Risks Associated with Forward-Looking Statements Included in this Presentation:

This presentation contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which are intended to be covered by the safe harbors created thereby. Forward-looking statements include statements which are predictive in nature, which depend upon or refer to future events or conditions, or which include words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “estimate” or similar expressions. These statements may 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. Statements regarding the following subjects are forward-looking by their nature:

- our business and growth strategies;
- our performance goals;
- our projected financial condition and operating results;
- our understanding of our competition;
- industry and market trends;
- the impact of technology on our products, operations and business; and
- any other statements or assumptions that are not historical facts.

The forward-looking statements included in this presentation are based on current expectations that involve numerous risks and uncertainties. Assumptions relating to these forward-looking statements involve judgments with respect to, among other things, future economic, competitive and market conditions, legislative initiatives, 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. These forward-looking statements are not guarantees of future performance, and a variety of factors could cause our actual results to differ materially from the anticipated or expected results expressed in these forward-looking statements. Although we believe that the assumptions underlying these 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 these forward-looking statements, the inclusion of such information should not be regarded as a representation 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. The Company does not undertake to update the forward-looking statements to reflect the impact of circumstances or events that may arise after the date of the forward-looking statements.

Company Overview

Property/Casualty insurance holding company serving products to both businesses and individuals that offer an opportunity to achieve attractive returns on capital

- Solid foundation of experienced underwriting, actuarial and corporate leadership with proven track records to drive market access and bring industry experience to bear on risk selection and pricing



Business Mix & Targeted Growth

- Maintain a diversified portfolio of products to reduce risk to severity in any one line of business, better weather market cycles, be flexible, and be able to react to favorable rate environments

- Realigned our underwriting portfolio; exited program business, discontinued binding commercial auto, divested of most E&S casualty lines
- Strengthened the Claims, IT, Actuarial functions and the control environment



Underwriting Excellence

- Technical underwriting and pricing expertise allows the Company to be selective on the risks it chooses to write, and enables pricing adequacy over the underwriting cycle

- Deploy a disciplined investment approach to maintain a conservative investment risk profile while maximizing long-term after-tax total returns
- Manage and maintain a competitive expense ratio, which is an advantage when pricing risks and scaling the business



Technology

- Utilize technology to enhance knowledge of our insureds to better price risks through more effective use of internal and external data; and to provide better service to agents and brokers

Company Overview

Company Overview

- **Commercial/Personal** lines insurance company headquartered in Dallas, TX with **250+ employees**
- Targeting primarily small to mid-sized enterprise (SME) risks in niche markets where there is an opportunity to achieve attractive returns on capital
- Operating through several unique strategies and organized by product line, the Company is well-positioned to take advantage of the current market opportunities

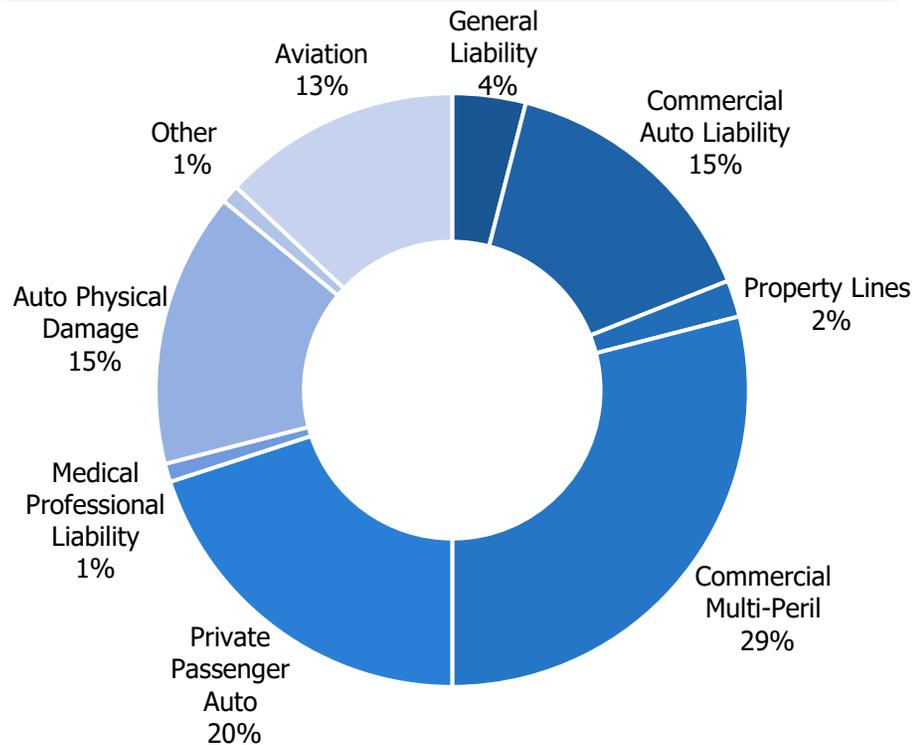
Business Strategy

- Maintain a **diversified portfolio** of products to reduce risk to severity in any one line of business, better weather market cycles, and be flexible and able to adjust capacity to positive rate environments
- Invest in **talent and expertise** with proven track records to drive market access and bring industry experience to bear on risk selection and pricing
- **Utilize technology** to enhance knowledge of insureds (our customers) to better price risks, and to provide better service to agents and brokers (our clients)
- Deploy a **disciplined investment approach** to maintain a conservative investment risk profile while maximizing long-term after-tax total returns
- Manage and maintain a **low expense ratio** as a competitive advantage when pricing risks and scaling the business

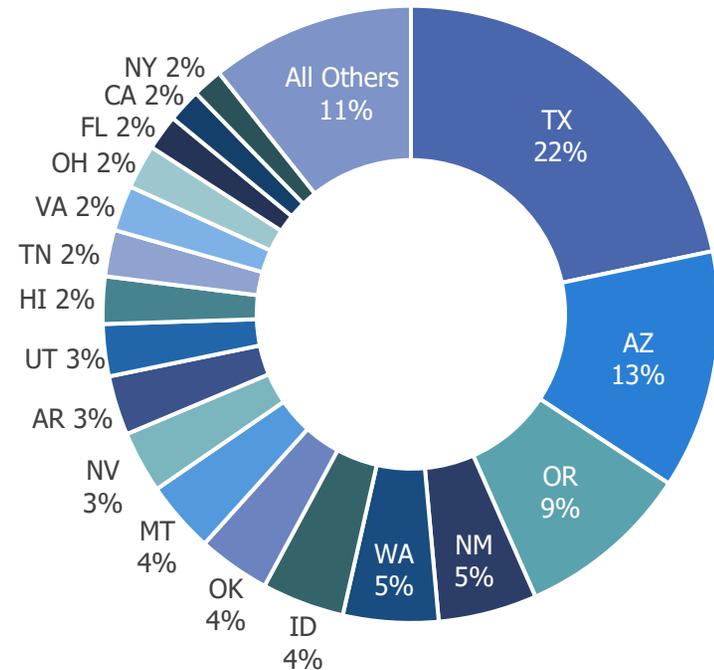
Business Profile

Hallmark Financial seeks to diversify its portfolio in a manner that achieves a balanced risk profile

Lines of Business



Geography



We write business in 49 states, and will seek to capitalize on new opportunities and improve our geographic spread of risk

Product Groups

Our **Product Groups** are organized by products and distribution channel, led by experienced underwriting teams and supported by actuaries and data scientists

- The Company **targets small to mid-sized enterprise (“SME”) risks** in niche markets where there is an opportunity for **attractive returns on capital**
- The Company’s operations are **grouped into product-specific business units** that are **organized by product lines and distribution channels**. These business units are segregated into two industry segments
- Each product line is targeted based on profitability and market opportunity with a focus on underserved markets that require specialized underwriting skills

Note: The Company agreed to sell effective September 30, 2022 substantially all of its excess and surplus lines operations to a nonaffiliated entity.

Standard Commercial			Personal	
Commercial Accounts (CIS)	Aviation	Workers Compensation	Personal Lines	Runoff
Commercial Package for SME risks within targeted specialties	Personal & Small Aircraft; Airport Liability	Employee Worker Compensation for SME	Non-standard Auto & Renters	Binding Primary Auto; Hospitals; Business produced by MGAs
Retail Agents	Retail Agents	inactive	Retail Agents	inactive
Admitted	Admitted	Admitted	Admitted	Admitted & E&S

Q3 2022 Results

Q3 2022

Net Loss:	\$ (28.2) million or \$ (1.55) per share ¹
Operating Loss²:	\$ (20.6) million or \$ (1.13) per share ¹
Combined Ratio:	177.1%
Gross Premiums Written:	-4.7%
Net Premiums Written:	9.2%

Impacting Q2 Results:

- Combined Ratio was 177.1 points (inclusive of 4.9 points from catastrophe losses)
- Unfavorable PYD of \$20.6 M (impacted combined ratio by 56.7 points)
- Unfavorable PYD driven largely by \$13.2 M from exited contract binding line of business

Year-to-Date

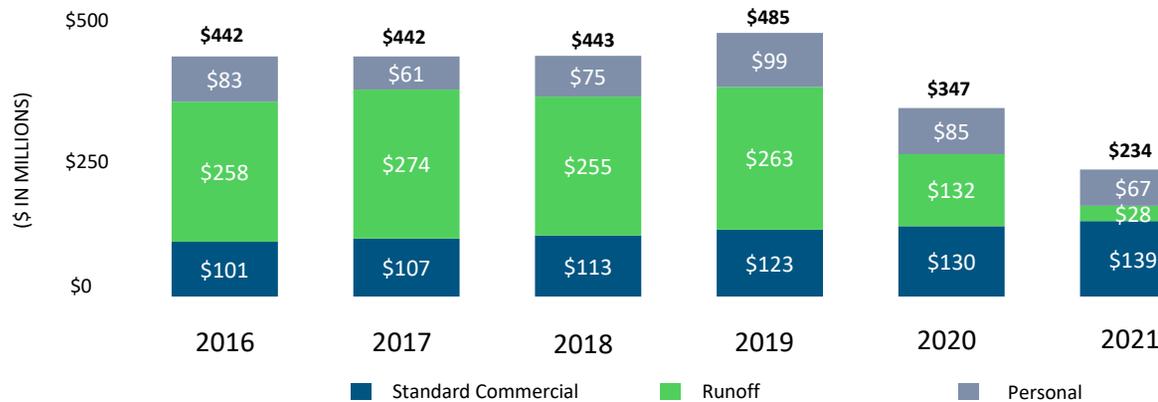
Net Loss:	\$ (100.8) million or \$ (5.54) per share ¹
Operating Loss²:	\$ (69.2) million or \$ (3.81) per share ¹
Combined Ratio:	184.1%
Gross Premiums Written:	-9.6%
Net Premiums Written:	-7.5%
Book Value Per Share	\$3.62

Impacting Year-to-Date Results:

- Combined Ratio was 184.1 points (inclusive of 2.8 points from catastrophe losses)
- Unfavorable PYD of \$76M (impacted combined ratio by 67.3 points)

Gross and Net Premiums

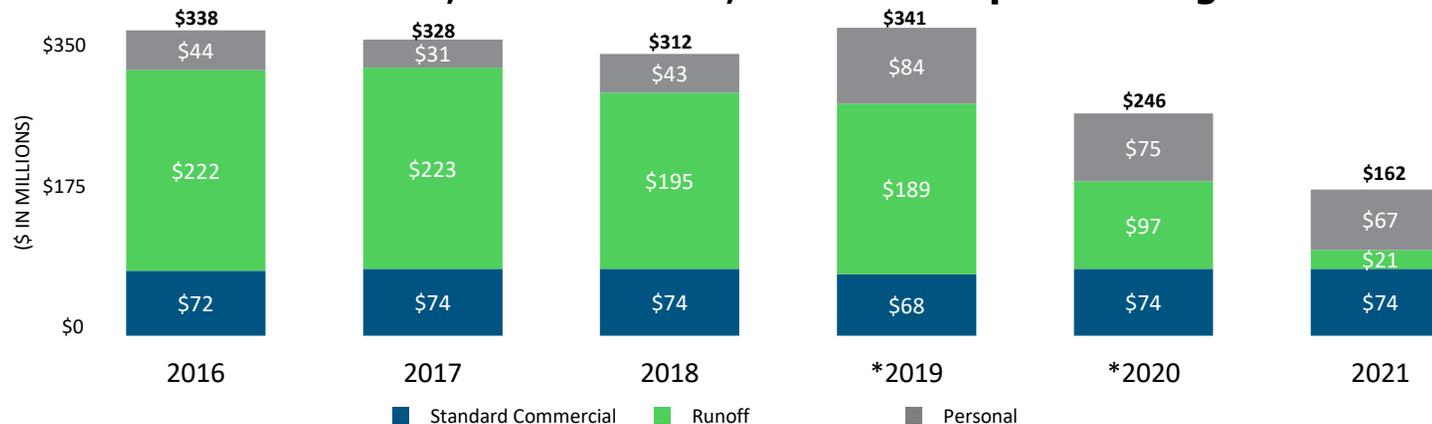
Gross Premiums Written



- 2021 Premiums reducing due to Binding Commercial Auto exit, exit of various Program business and overall recalibration to be more in line with capital base

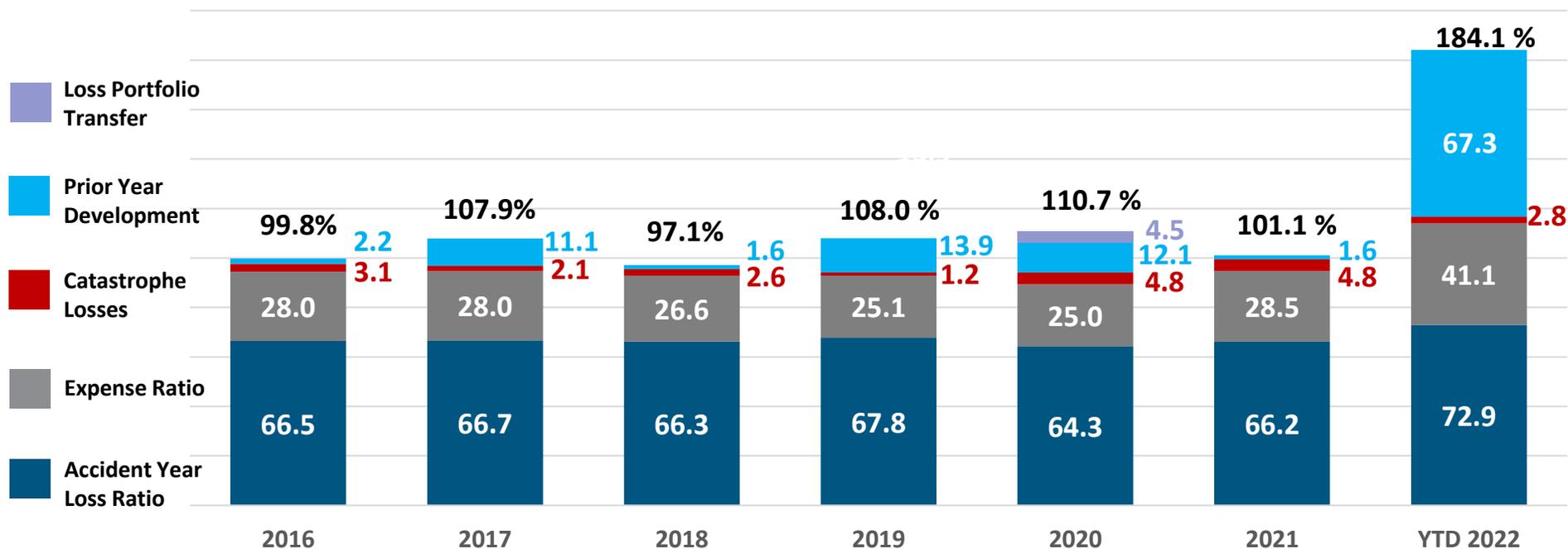
Net Premiums Written

The Company places reinsurance as appropriate to manage its capital base via the use of quota share, excess of loss, and Catastrophe coverage.



Operating Performance

Calendar Year Combined Ratio



Catastrophe Losses

YTD' 22 experienced \$3.2 million net CAT losses which contributed 2.8 points to the combined ratio. This is in line with the 2 – 3 points the Company typically experiences

Prior Year Development

Adverse Prior Year Reserve Development added \$76 million in net losses and contributed 67.3 points to the combined ratio in YTD'22 primarily driven by our exited contract binding business of which \$42.8 million exceeded the aggregate limit of the loss portfolio transfer agreement entered in fiscal 2020

Investment Highlights: Liquidity and Short Duration

Investment Highlights

- The portfolio has **significant liquidity** at **09/30/2022**
 - \$179 million in total cash and treasury bills
 - 85% of debt securities having maturities of five years or less
 - No illiquid hedge funds, private equity investments, private placements
- A short duration of **1.0 years** protects the balance sheet from the impact of interest rate increases

Total Cash & Investments

- Cash and invested assets reduced in 2020, due in part to the LPT transaction
- Cash and invested assets represented ~40% of total assets in Q3 2022



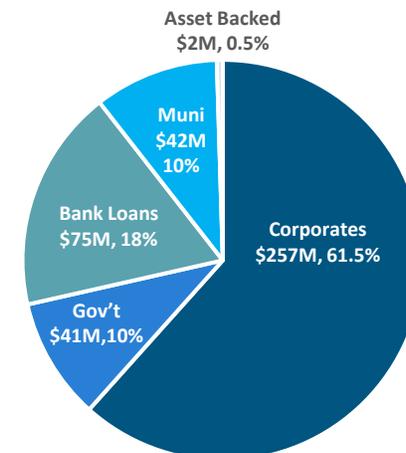
Debt Portfolio

As of 09/30/2022

Size:	\$417M
Duration:	1.0 yrs
Avg. Rating:	Baa1
Book Yield:	3.2%
Tax-Adj Yield:	3.3%

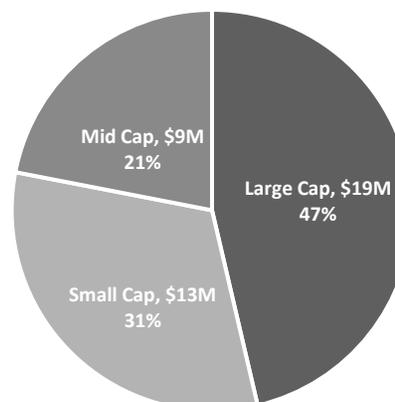
Debt By Classification

As of 09/30/2022



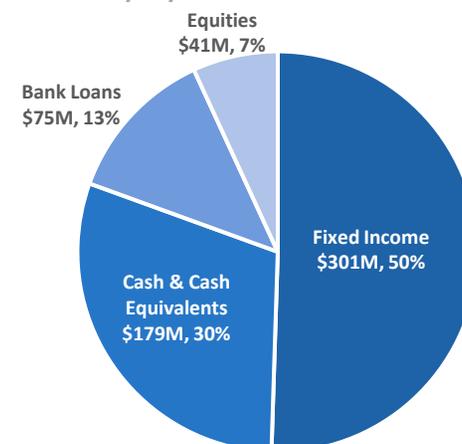
Equities By Type

As of 09/30/2022



Asset Allocation

As of 09/30/2022



Investment Strategy and Philosophy

Maximizing reported net investment income is secondary in importance to managing credit risk and optimizing after-tax total return through investments in tax-advantaged securities and securities with potential for significant capital appreciation

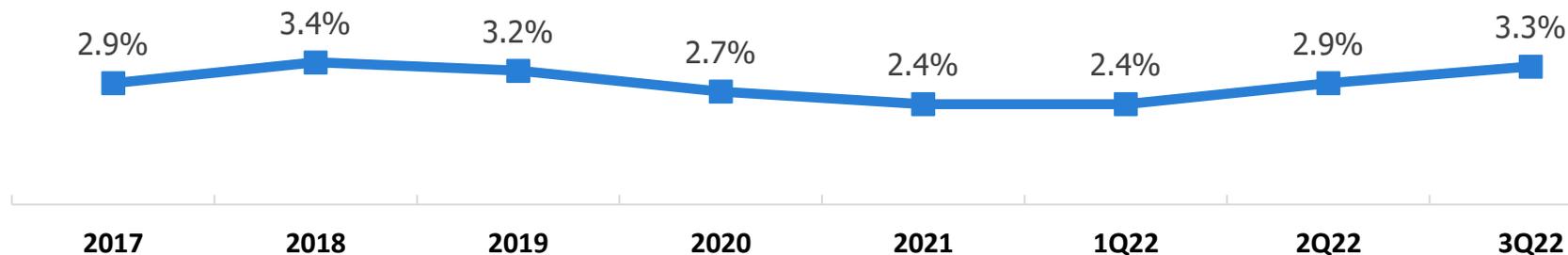
Debt Securities

- Broadly diversified selection of risks
- Primarily investment grade bonds; utilize tax-exempt securities to enhance after-tax returns
- Floating-rate bank loans provide protection against rising rates, first lien collateralization superior to unsecured senior bonds

Equity Securities

- Primarily long-term holdings with potential for significant capital appreciation
- Rigorous value-based investment discipline focused on individual security selection
- Opportunistic approach seeks to capture value resulting from market-related price dislocations and short-term orientation of market participants

Tax-Adjusted Yield



Book Value Per Share

Book Value Per Share



The 33% decline in Book Value Per Share from 2019 to 2021 was largely due to the write down of Goodwill and intangible assets in Q1 2020, which reduced Book Value Per Share by \$2.52. The 63% decline since year end 2021 was driven by adverse prior year reserve development and an allowance recorded on our deferred tax asset.

Tangible Book Value Per Share¹



Tangible Book Value Per Share decreased \$4.35 per share or 45% from year-end 2021. This reduction was driven by adverse prior year reserve development and an allowance against our deferred tax asset.



HALLMARK
FINANCIAL

Supplemental Information

Historical Data

(\$ 000s)

	Gross Premiums Written	Investment Income	Net Income (2) (3)	Operating Cash Flow	GAAP Equity (2) (3)	GAAP BVPS (1) (2) (3)		Period-end Stock Price (1)	
							% Chg		% Chg
2004	\$ 33,389	\$ 1,386	\$ 5,849	\$ 7,339	\$ 32,656	\$ 5.37	% Chg	\$7.20	% Chg
2005	\$ 89,467	\$ 3,836	\$ 9,186	\$ 29,654	\$ 85,188	\$ 5.89	10%	\$8.16	13%
2006	\$ 213,945	\$ 10,461	\$ 9,191	\$ 75,962	\$ 150,731	\$ 7.26	23%	\$9.91	21%
2007	\$ 249,472	\$ 13,180	\$ 27,863	\$ 85,684	\$ 179,621	\$ 8.65	19%	\$15.86	60%
2008	\$ 243,849	\$ 16,049	\$ 12,899	\$ 48,712	\$ 179,412	\$ 8.61	0%	\$8.77	-45%
2009	\$ 287,558	\$ 14,947	\$ 24,575	\$ 61,698	\$ 226,517	\$ 11.26	31%	\$7.96	-9%
2010	\$ 320,973	\$ 14,849	\$ 7,403	\$ 36,360	\$ 235,278	\$ 11.69	4%	\$9.10	14%
2011	\$ 354,881	\$ 15,880	\$ (10,891)	\$ 24,610	\$ 215,572	\$ 11.19	-4%	\$6.99	-23%
2012	\$ 389,842	\$ 15,293	\$ 3,524	\$ 33,682	\$ 220,537	\$ 11.45	2%	\$9.39	34%
2013	\$ 460,027	\$ 12,884	\$ 8,245	\$ 68,338	\$ 238,118	\$ 12.36	8%	\$8.89	-5%
2014	\$ 473,218	\$ 12,383	\$ 13,429	\$ 33,684	\$ 252,037	\$ 13.11	6%	\$12.09	36%
2015	\$ 514,223	\$ 13,969	\$ 21,863	\$ 52,936	\$ 262,026	\$ 13.72	5%	\$11.69	-3%
2016	\$ 549,077	\$ 16,342	\$ 6,526	\$ 30,854	\$ 265,736	\$ 14.28	4%	\$11.63	-1%
2017	\$ 604,156	\$ 18,874	\$ (11,553)	\$ 7,199	\$ 251,118	\$ 13.82	-3%	\$10.43	-10%
2018	\$ 663,015	\$ 18,232	\$ 10,347	\$ (32,935)	\$ 255,532	\$ 14.17	3%	\$10.69	2%
2019	\$ 843,831	\$ 20,604	\$ (1,132)	\$ 27,670	\$ 262,761	\$ 14.50	2%	\$17.57	64%
2020	\$ 743,368	\$ 12,920	\$ (94,351)	\$ (69,327)	\$ 167,706	\$ 9.24	-36%	\$3.56	-79%
2021	\$ 653,754	\$ 9,715	\$ 9,004	\$ 43,768	\$ 175,521	\$ 9.66	5%	\$4.35	22%
YTD 2022	\$ 499,047*	\$ 8,700	\$ (100,789)	\$ (74,156)	\$ 65,768	\$ 3.62	-63%	\$1.05	-76%

* for consistency, includes business related to the E&S operations that were sold effective 9/30/22

(1) Stock prices and BVPS prior to 2006 have been adjusted for the one for six reverse stock split which took place during Q3 2006.

(2) FY2010 and FY2011 Net income, Equity and BVPS have been restated for change in accounting principle related to deferred acquisition costs.

(3) FY2019 and FY2020 Net income, Equity and BVPS have been restated for the correction of an immaterial error related to certain reinsurance treaties and other items related to prior periods.

Non-GAAP Reconciliation

Non-GAAP Financial Measures

The Company's financial statements are prepared in accordance with United States generally accepted accounting principles ("GAAP"). However, the Company also presents and discusses certain non-GAAP financial measures that it believes are useful to investors as measures of operating performance. Management may also use such non-GAAP financial measures in evaluating the effectiveness of business strategies and for planning and budgeting purposes. However, these non-GAAP financial measures should not be viewed as an alternative or substitute for the results reflected in the Company's GAAP financial statements. In addition, the Company's definitions of these items may not be comparable to the definitions used by other companies.

Operating earnings and operating earnings per share are calculated by excluding net investment gains and losses and asset impairments or valuation allowances from GAAP net income. Asset impairments and valuation allowances are an unusual and infrequent charges for the Company. Management believes that operating earnings and operating earnings per share provide useful information to investors about the performance of and underlying trends in the Company's core insurance operations. Net income and net income per share are the GAAP measures that are most directly comparable to operating earnings and operating earnings per share. A reconciliation of operating earnings and operating earnings per share to the most comparable GAAP financial measures is presented below.

(\$ in thousands)	Income (Loss)			Net	Weighted	
	from Continuing Operations	Less Tax	After Tax		Average	Diluted
	Before Tax	Effect		Shares Diluted	Per Share	
Third Quarter 2022						
Reported GAAP measures	\$ (30,260)	\$ (1,007)	\$ (29,253)	18,185	\$ (1.61)	
Excluded deferred tax valuation allowance	\$ -	\$ (6,471)	\$ 6,471	18,185	\$ 0.36	
Excluded investment (gains)/losses	\$ 2,821	\$ 592	\$ 2,229	18,185	\$ 0.12	
Operating loss	\$ (27,439)	\$ (6,886)	\$ (20,553)	18,185	\$ (1.13)	
Third Quarter 2021						
Reported GAAP measures	\$ (1,883)	\$ 161	\$ (2,044)	18,142	\$ (0.11)	
Excluded investment (gains)/losses	\$ 533	\$ 112	\$ 421	18,142	\$ 0.02	
Operating loss	\$ (1,350)	\$ 273	\$ (1,623)	18,142	\$ (0.09)	
Year-to-Date 2022						
Reported GAAP measures	\$ (99,701)	\$ 5,242	\$ (104,943)	18,181	\$ (5.77)	
Excluded deferred tax valuation allowance	\$ -	\$ (30,359)	\$ 30,359	18,181	\$ 1.67	
Excluded investment (gains)/losses	\$ 6,764	\$ 1,420	\$ 5,344	18,181	\$ 0.29	
Operating loss	\$ (92,937)	\$ (23,697)	\$ (69,240)	18,181	\$ (3.81)	
Year-to-Date 2021						
Reported GAAP measures	\$ (3,036)	\$ 828	\$ (3,864)	18,157	\$ (0.21)	
Excluded investment (gains)/losses	\$ (9,122)	\$ (1,916)	\$ (7,206)	18,157	\$ (0.40)	
Operating income	\$ (12,158)	\$ (1,088)	\$ (11,070)	18,157	\$ (0.61)	

Tangible book value per share is calculated by dividing tangible stockholders' equity by common shares outstanding. Tangible stockholders' equity is calculated by excluding goodwill, net intangible assets, and related deferred tax liabilities from GAAP stockholders' equity. Management believes that tangible book value per share provide useful information to investors about the Company's per share equity value exclusive of goodwill and net intangible assets from prior acquisitions. Stockholder' equity is the GAAP measures that is most directly comparable to tangible shareholders' equity. A reconciliation of tangible stockholders' equity and tangible book value per share to the most comparable GAAP financial measures is presented below.

	2016	2017	2018	*2019	*2020	2021	Q3 22
Reported GAAP measures							
Stockholder's Equity	\$ 265,736	\$ 251,118	\$ 255,532	\$ 262,761	\$ 167,706	\$ 175,521	\$ 65,768
Shares Outstanding	18,612	18,169	18,027	18,123	18,142	18,172	18,190
Book Value per share	\$ 14.28	\$ 13.82	\$ 14.17	\$ 14.50	\$ 9.24	\$ 9.66	\$ 3.62
Excluded Goodwill							
Excluded Goodwill	\$ 44,695	\$ 44,695	\$ 44,695	\$ 44,695			
Excluded Intangible Assets, net							
Excluded Intangible Assets, net	\$ 12,491	\$ 10,023	\$ 7,555	\$ 5,087	\$ 1,322	\$ 944	\$ 441
Excluded deferred tax impact							
Excluded deferred tax impact	\$ (3,917)	\$ (3,053)	\$ (1,314)	\$ (795)	\$ (278)	\$ (198)	\$ (93)
Total excluded intangible assets from stockholders equity	\$ 53,269	\$ 51,665	\$ 50,936	\$ 48,987	\$ 1,044	\$ 746	\$ 348
Tangible stockholder's equity							
Tangible stockholder's equity	\$ 212,467	\$ 199,453	\$ 204,596	\$ 213,774	\$ 166,662	\$ 174,775	\$ 65,420
Shares outstanding	18,612	18,169	18,027	18,123	18,142	18,172	18,190
Tangible Book Value per share	\$ 11.42	\$ 10.98	\$ 11.35	\$ 11.80	\$ 9.19	\$ 9.62	\$ 3.60

*2019 and 2020 BVPS and TBVPS per share have been restated for the correction of an immaterial error related to certain reinsurance treaties and other items related to prior periods.



HALLMARK
FINANCIAL

NASDAQ: HALL

For more information, visit www.hallmarkgrp.com