HALLMARK FINANCIAL

SPECIALTY PROPERTY & CASUALTY INSURANCE SOLUTIONS

Investor Presentation

Q3 2019

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.

Q3 2019 Highlights

Q3 2019

Net Income:	$5.3 million or $0.29 per share[1]
Operating Earnings[2]:	$6.3 million or $0.35 per share[1]
Combined Ratio:	95.8%
Gross Premiums Written:	+33%
Net Premiums Written:	+45%

Year-to-Date

Net Income:	$33.3 million or $1.82 per share[1]
Operating Earnings[2]:	$19.6 million or $1.07 per share[1]
Combined Ratio:	95.6%
Gross Premiums Written:	+27%
Net Premiums Written:	+37%
Book Value Per Share	+15.5% to $16.36
Annualized Return on Beginning Equity[2]:	17.4%
Annualized Operating Return on Beginning Equity[2]:	10.2%

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(1) Calculated based on Diluted Shares
(2) Non-GAAP reconciliation provided in the appendix
Note: all percentage changes on this page are in comparison to the same period the prior year

Company Overview

Company Overview

- **Specialty insurance company** headquartered in Dallas, TX with **450+ employees**
- Targeting primarily **Excess & Surplus lines** for small to mid-sized enterprise (SME) risks in specialty and niche markets where there is an opportunity to achieve higher 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
- Company undertook a comprehensive **transformation**, starting in 2014:
  - ✓ Overhauled existing businesses
  - ✓ Organically developed new specialty products
  - ✓ Attracted new talent and expertise throughout the company
  - ✓ Modernized & centralized Claims, IT and Actuarial functions; strengthened the control environment

Key Attributes

$797M
LTM Gross Premiums

$347M (1)
Market Capitalization

"A-"
(Stable Outlook)
A.M. Best Financial Strength Rating

$16.36
Book Value Per Share

$730M
Cash & Investments

$1.5B
Total Assets

(1) Market data as of September 30, 2019

Business Approach

We believe we can consistently achieve higher ROEs than the general insurance market by combining top-quartile underwriting results with conservative investment returns

SPECIALTY MARKETS	Compete in **Specialized** or **Underserved** market segments, where expertise and service offerings provide a competitive advantage and ability to achieve above average returns
EXPERTISE DRIVEN	Employ and empower **Specialists** to underwrite, analyze, and deliver value to clients through diversified product verticals and technology-enabled platforms
CLIENT FOCUSED	Value our strong relationships with producers and continue to differentiate products and enhance value proposition by delivering exceptional **Customer Service**
INVESTMENT DISCIPLINE	Approach investment management as a **Core Competency** with the objective to maximize long-term, risk adjusted after-tax total returns

- A **Diversified Specialty Portfolio** provides flexibility to react quickly and adjust capacity within our product groups to maximize returns based on market opportunities
- **Use of Data & Analytics**. Underwriting decisions, led by teams of underwriting experts, incorporate multiple data points into the evaluation of risk, assisted by technology platforms, internal and external data sources, and actuarial support teams embedded throughout the organization
- A **Low Expense Ratio** is a competitive advantage that allows us to adjust premiums accordingly and provides the ability to achieve larger returns while being competitive in the market. Technological improvements have been a key component of the expense ratio decline over the past 4 years
- **In-house Claims Management**. Claims is a core competency of the organization and enables the company to implement its philosophy of driving claims to a quick closure while providing real-time feedback to underwriting and actuarial teams

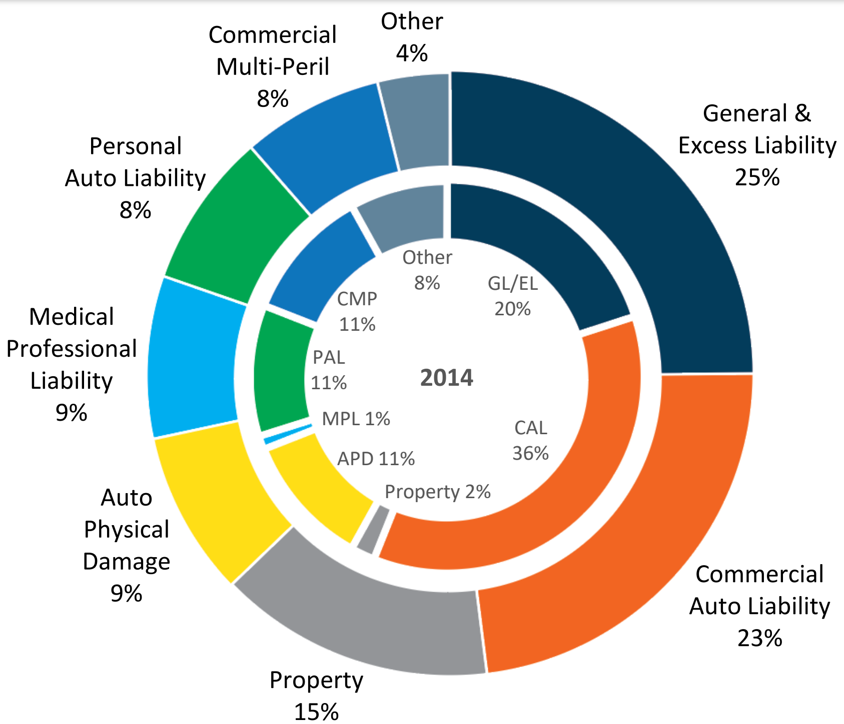
Seasoned Executive Team

President & CEO	Naveen Anand	30+ years of experience in the property/casualty insurance industry with significant underwriting experience in specialty commercial lines.
Chief Financial Officer	Jeffrey Passmore	25+ years of experience in the property/casualty insurance industry with significant experience in finance and accounting. A Certified Public Accountant licensed in Texas.
SVP, Corporate Development	David Webb	15+ years of experience in reinsurance, underwriting, finance and capital markets roles, in both the life and property/casualty sectors. A CFA charterholder.
Chief Actuary	Ken Krissinger	35+ years of experience in the property/casualty insurance industry. A fellow of the Casualty Actuarial Society and member of the American Academy of Actuaries.
Chief Claims Officer	Charles Stauber	30+ years of extensive domestic and international experience in managing and resolving complex specialty insurance claims.
CIO & Head of Operations	Tarek Timol	20+ years of experience in managing the complex IT and application development requirements of financial and insurance operations.
SVP, Human Resources	David Miller	25+ years of experience providing global human resources leadership for organizations within the financial services and data/technology industries.
VP, Group Counsel	Elena Banfi	15+ years of experience in legal, operations and management roles, most recently serving the insurance and specialty finance sectors. Licensed in NY.

Business Profile

Hallmark Financial has a diversified portfolio with a balanced risk profile and a growing national footprint

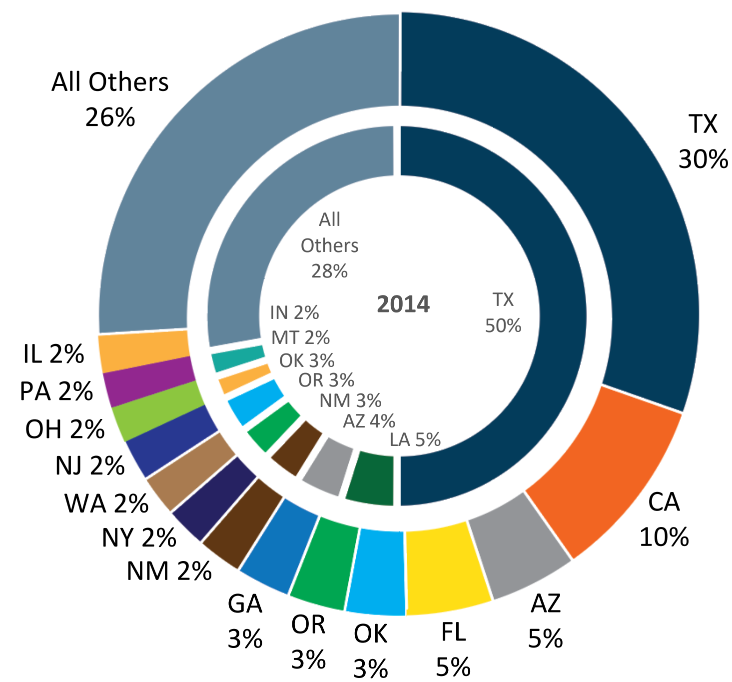
Lines of Business



We are a casualty focused company, and continue to diversify beyond Commercial and Personal Auto

Outer charts based on Gross Premiums Written for **2019Q3 LTM*

Geography



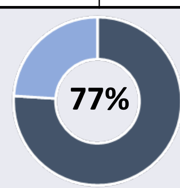
We write business in all 50 states, and continue to grow our premium base nationally to capitalize on new opportunities and improve our geographic spread of risk

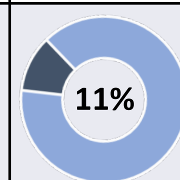
Product Groups

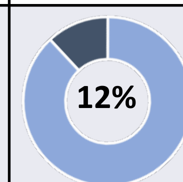
Our **Product Groups** are organized by products and distribution channel, led by experienced underwriting teams and supported by actuaries and data scientists

- **Each of these product lines were targeted based on profitability and market opportunity**
- **Incentive structure is based on underwriting profitability**

SPECIALTY COMMERCIAL								STANDARD COMMERCIAL	PERSONAL
Commercial Auto	**E&S Casualty**	**E&S Contract Binding**	**E&S Property**	**Pro – Financial Lines**	**Pro – Healthcare**	**Programs**	**Specialty Aviation**	**Commercial Accounts (CIS)**	**Personal Lines**
Trucking (targeting specialty classes)	GL for SME risks with a focus on Construction, Light Mfg., Products & Premises Liability	Small E&S Accounts (GL & Commercial Package)	Shared & Layered Property Risks	D&O and E&O for SME risks	Medical Professional Liability for Hospitals, Medical Facilities and Physicians	Business produced by specialist MGAs	Personal & Small Aircraft; Airport Liability	Commercial Package for SME risks within targeted specialties	Non-standard Auto & Renters
Wholesale	Wholesale	Wholesale	Wholesale	Wholesale	Wholesale	Wholesale / MGAs	Retail Agents	Retail Agents	Retail Agents
Admitted & E&S	E&S	E&S	E&S	E&S	E&S	Admitted & E&S	Admitted	Admitted	Admitted





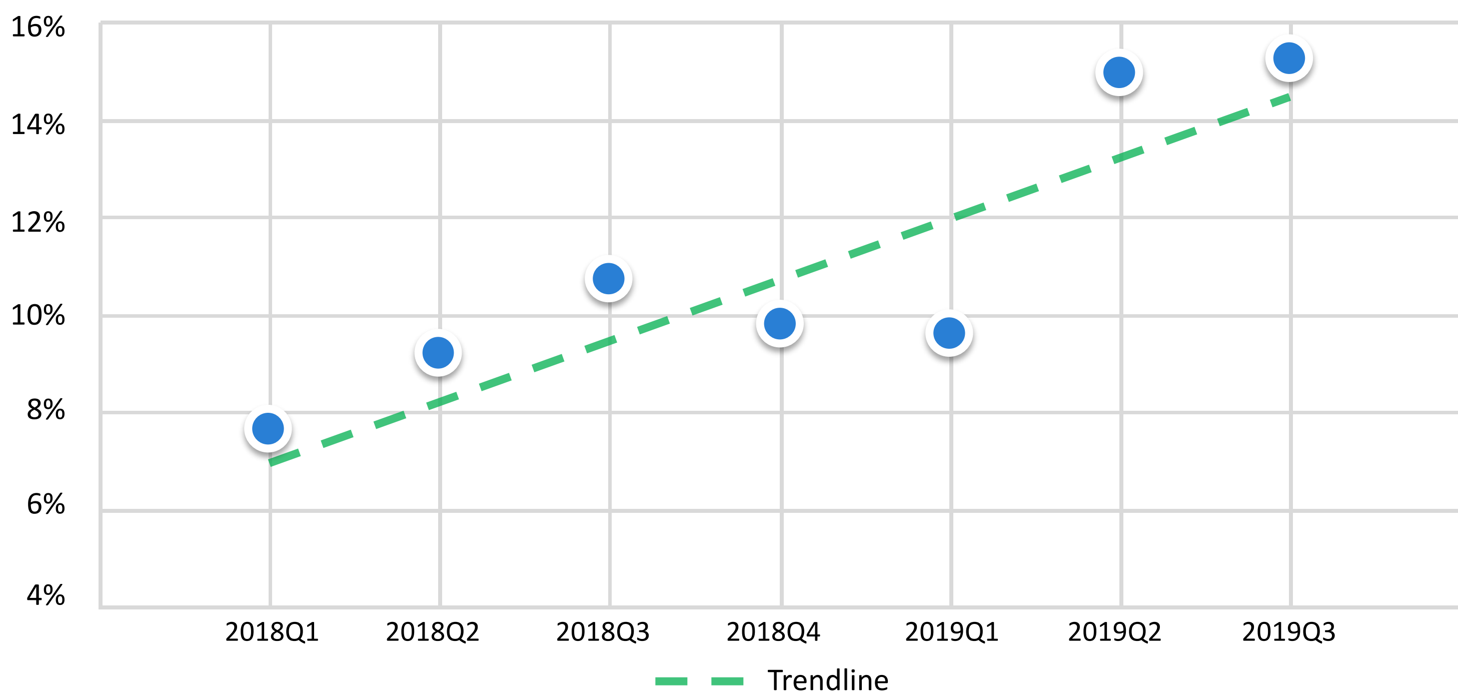


**Percentages based on Gross Premiums Written for 2019Q3 YTD*

Specialty Rate Momentum Increasing

- We have seen continued rate momentum in our specialty businesses since Q1 2018
- We are currently achieving rate increases in excess of 15% on a combined basis across our specialty portfolio
- Segments of the business experiencing the greatest amount of disruption are seeing rate increases in excess of 20%

Rate Increases By Quarter*

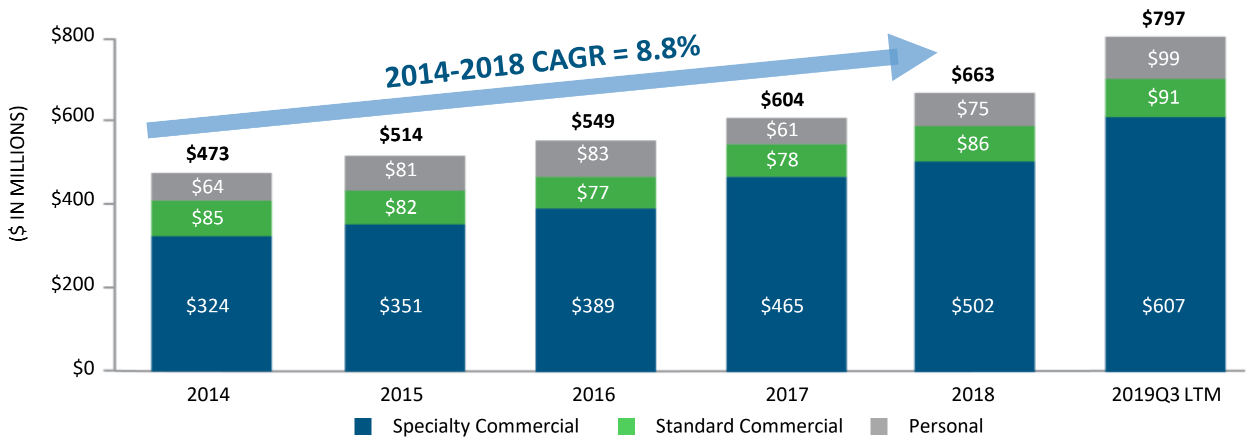


*Rate increases for specialty commercial segment only; excludes non-material lines of business

Gross and Net Premiums

Gross Premiums Written

Hallmark Financial continues to achieve measured growth in GWP

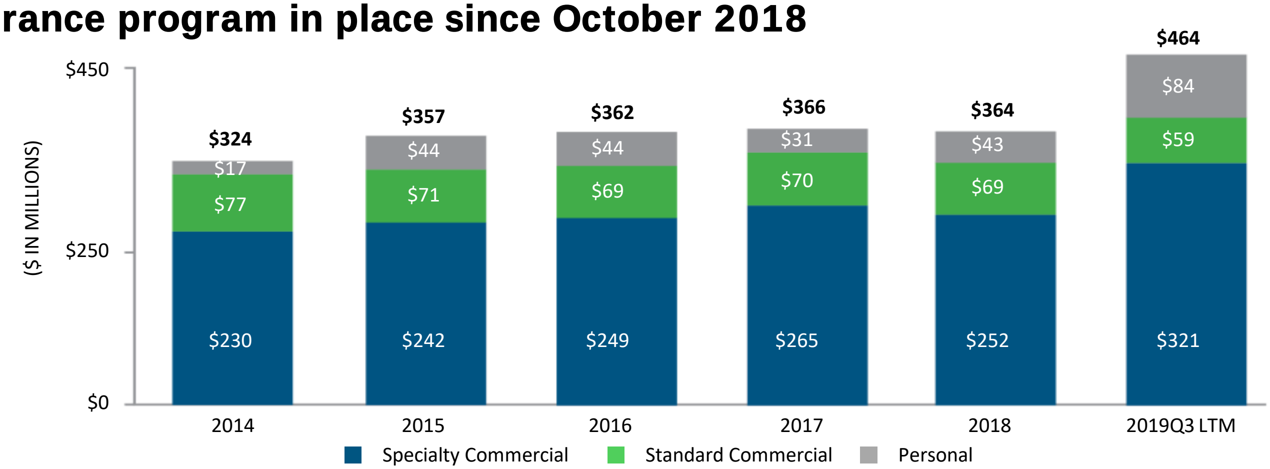


- Significant growth occurring in specialty product lines
- Premiums are increasing as a result of both new business and rate increases
- YTD 2019 gross premiums grew by 27% over the same period the prior year

Net Premiums Written

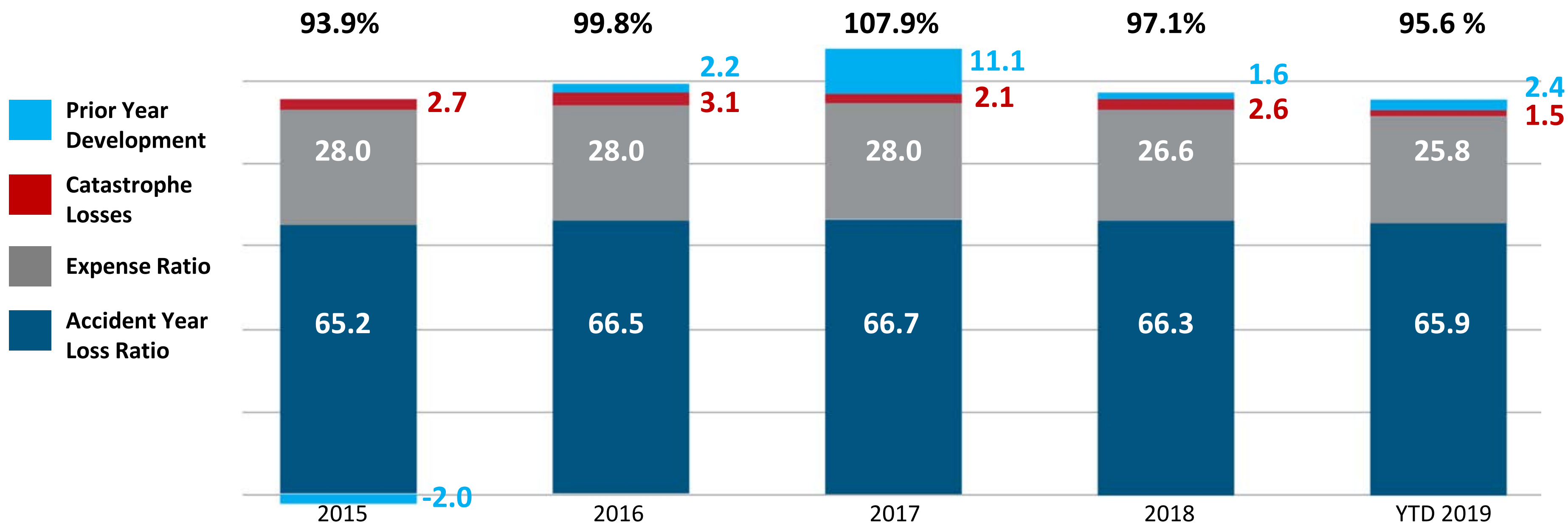
While relatively flat between 2015 and 2018, the mix of net premiums are changing as a result of the consolidated casualty reinsurance program in place since October 2018

- Many of the specialty product lines were heavily reinsured as they were seasoned and grew to appropriate scale
- Under the current reinsurance program, Hallmark Financial retains more of these profitable specialty risks
- YTD 2019 net premiums grew by 37% over the same period the prior year



Operating Performance

Calendar Year Combined Ratio



Accident Year Loss Ratio

AY loss ratios highlight the **stable trend of underwriting performance** in recent years. This metric excludes CAT and prior year development.

Catastrophe Losses

Even though 2017 & 2018 were the highest combined 2-year period of CAT losses the industry has recorded, the above results show a level of **CAT losses well within tolerance.**

PY Development

Prior Year Reserve Development from the emergence of **increased** frequency and severity trends in the **commercial auto lines industry** impacted results in 2017 while the Company focused on improving underwriting and claims handling for existing books of business.

Commercial Auto

Industry Issue
Claim severity is increasing, impacted by higher medical costs, rising litigation supported by private financing, distracted driving and social inflation

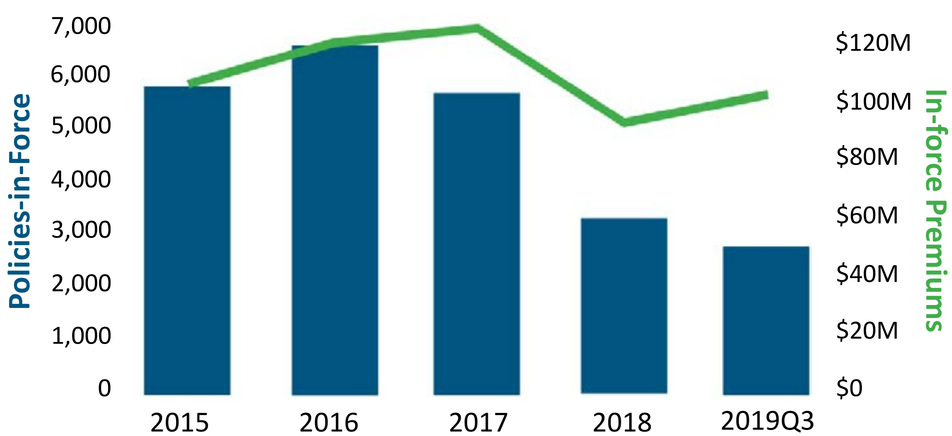
Our Specialty Approach
Our business is organized to address the new market realities and manage the entire life cycle of the business

UNDERWRITING

- We are seeing increasing rate momentum (15%+) in our specialty business
- Premium per policy continues to increase, as highlighted by the primary trucking liability chart below:
  - Policy counts are down 53% (since 2015), while premiums are down only 4%
  - Reflects the impact of rate increases and portfolio changes implemented since 2015

Premium-to-Exposure

Primary Trucking Liability



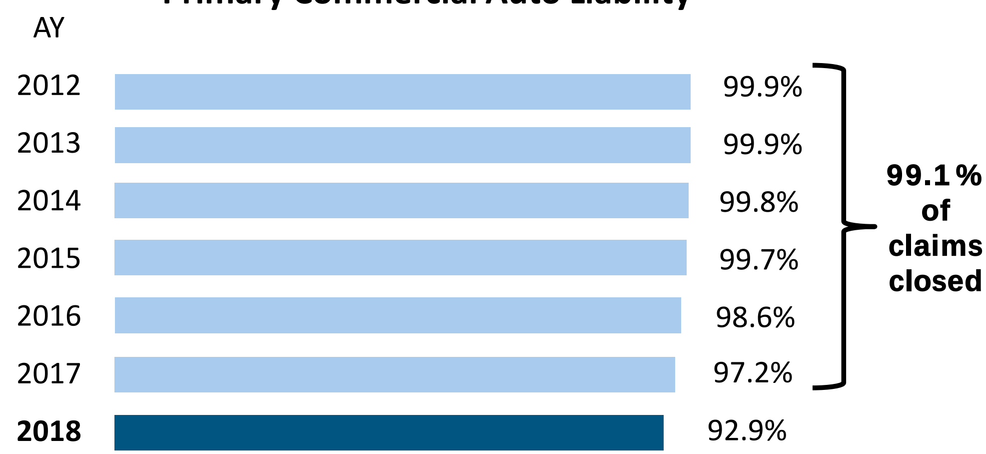
CLAIMS

We view management of the claim as a core competency and critical part of our business model:

- ✓ As a corporate function, claims handling is standardized across the organization
- ✓ Teams are organized by specialty and staffed by specialists
- ✓ Claims process is designed to close claims quickly and efficiently

% of Claims Closed

Primary Commercial Auto Liability

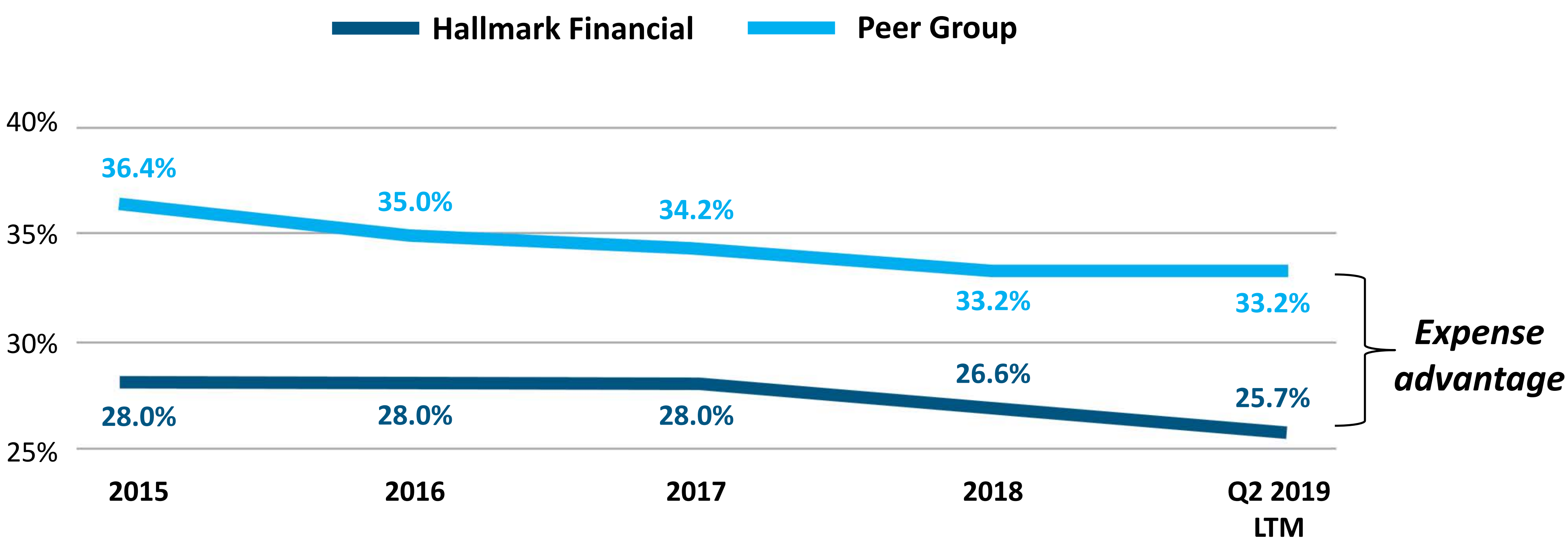


Digital Transformation

As part of its transformation, Hallmark Financial has implemented best-in-class technology and process improvements to enhance underwriting capabilities, improve service levels, and reduce costs

	Underwriting Support & Service	Process Improvements	Infrastructure
2014	Separate Systems with Limited Aggregation	100% Manual Data Entry	25+ Legacy Platforms / 100% On-Premise Hosting
Digital Enhancements (2015-2019)	Built a Data Warehouse for improved analytics Linked External Data to support U/W decisions Implementing Digital Portals	Launched Shared Services Model BPO to include offshore capabilities Implemented Robotic Process Automation (RPA) Built Comprehensive Underwriting Desktop	Added Public & Private Cloud Hosting (Now 100% Hybrid Architecture) Launched 3 New Underwriting Platforms (Decommissioning Legacy Systems)
Benefits	• Better informs underwriting decisions using internal and external data sources • Enhances service levels for clients	• Reduces expense • Improves time to completion • Optimizes company resources • Provides better access to data	• Enhances security • Improves reliability • Reduces Costs

Favorable Expense Ratio relative to our peers



We continue to achieve efficiency gains through technology and process improvements, as well as our mix of business and fee income

A lower Expense Ratio provides us with a competitive advantage

Source: S&P Global, Q2 2019 data for select public companies
Peer Group: ACGL, ARGO, AXS, DGICA, GBLI, JRVR, KNSL, RLI, SIGI, MKL, WRB

Investment Highlights: Liquidity and Short Duration

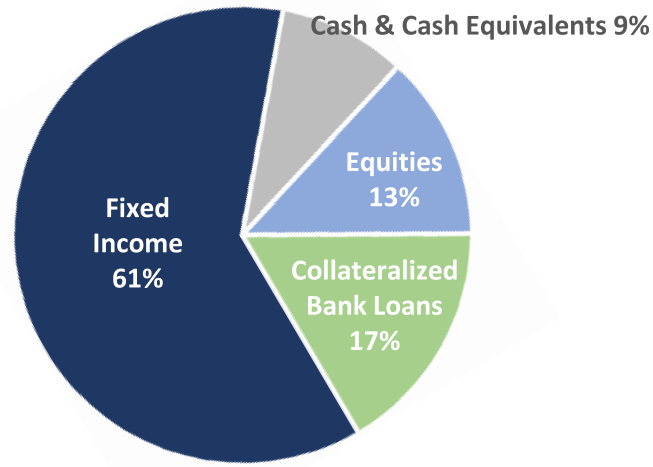
Portfolio Characteristics

As of 9/30/2019

Size:	$664M
Duration:	**1.5 yrs**
Avg. Rating:	Baa1
Book Yield:	3.3%
Tax-Adj Yield:	3.5%

Asset Allocation

As of 9/30/2019



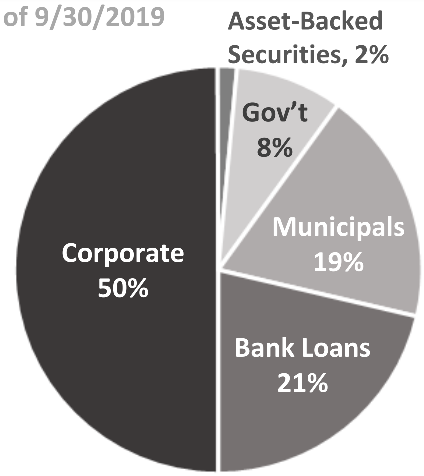
Investment Highlights

The portfolio has **significant liquidity**

- $112 million of total cash and near cash
- 76% of debt securities have maturities of five years or less
- No illiquid hedge funds, private equity investments or private placements

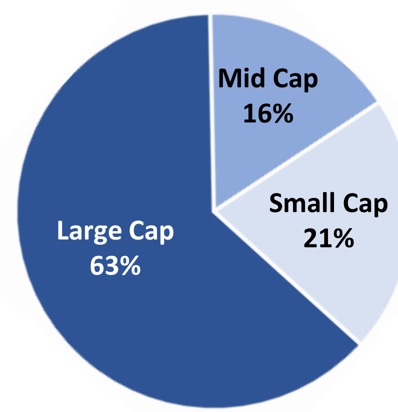
Debt by Classification

As of 9/30/2019



Equities by Type

As of 9/30/2019



Investment Strategy and Philosophy

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

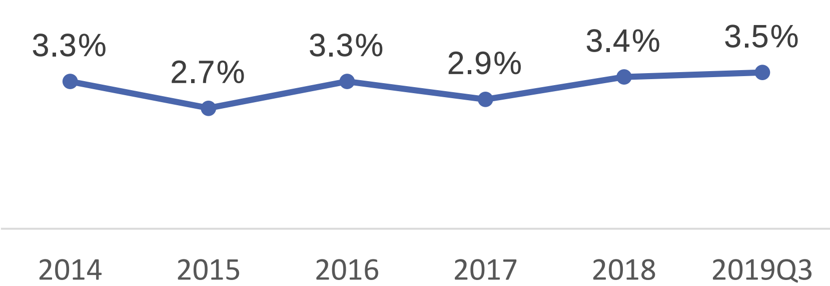
Debt Securities

- 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

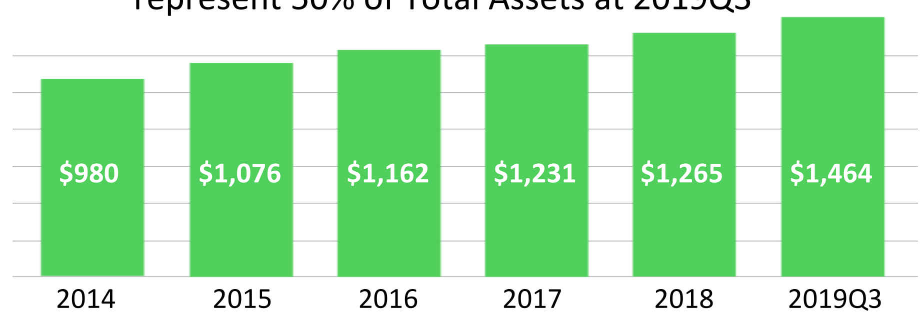
- Primarily long-term holdings with potential for significant capital appreciation
- Rigorous value-based investment discipline focused on individual security selection
- Opportunistic approach seeks to capture value resulting from market-related price dislocations and short-term orientation of market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

Tax-Adjusted Yield



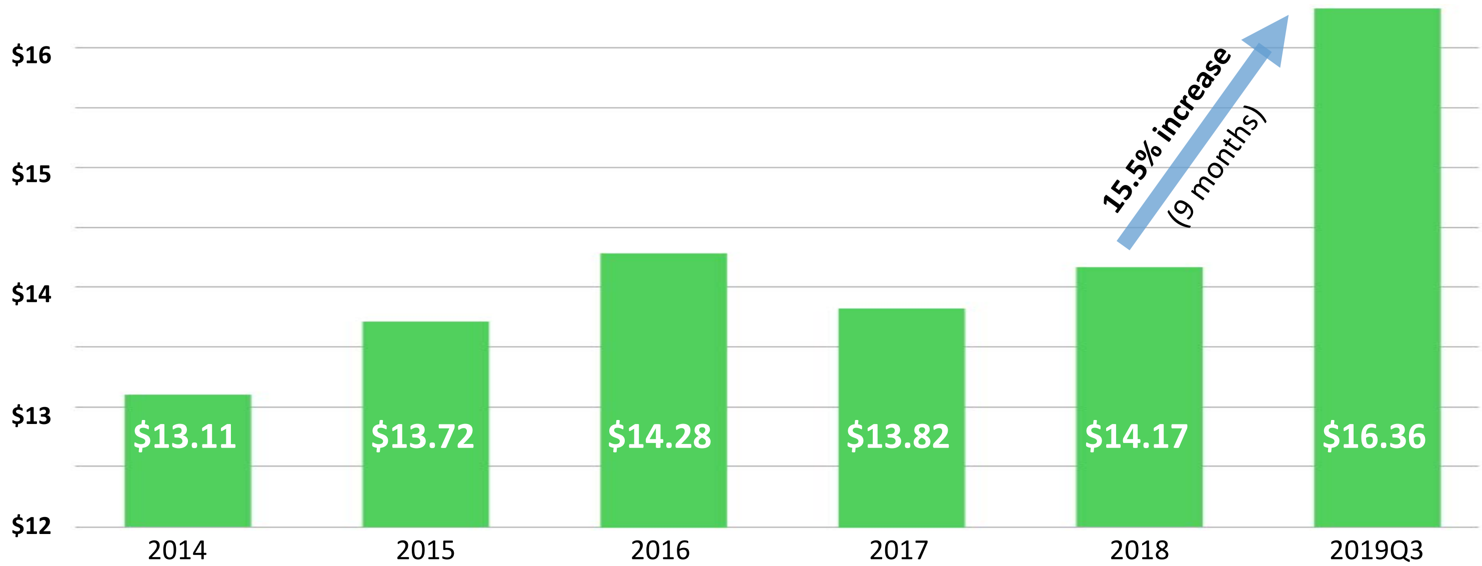
Total Assets

- Total Assets grew 49% since 2014
- Cash, Cash Equivalents and Investments represent 50% of Total Assets at 2019Q3



Return on Equity: Historical

Book Value Per Share



Book Value Per Share has consistently grown since 2014, with the exception of a reduction in 2017 driven by PY adverse reserve development.

Between Q4 2018 and Q3 2019, BVPS increased 15.5%.

Return on Equity

Increasing Return on Equity is the Company's top goal

We will continue to drive improvements in ROE through underwriting and claims efforts, efficiency improvements, and investment discipline.

Return on Equity: Component Analysis

How Hallmark Financial can sustain 10%+ going forward…

Category	Target	2019 Q3 Result
Combined Ratio Loss Ratio + Expense Ratio	**95%** or less	YTD 2019 combined ratio of 95.6% or **93.2%** excluding prior year development.
Net Premium Leverage	**1.4x – 1.5X**	**1.6x** at 9/30/19. This ratio is impacted by the % growth in net premiums.
Investment Return Total Investment Return, including all investment income, gains and losses	**3.0% +**	Net tax-adjusted yield of **3.5%** at 9/30/19 on the fixed income portfolio. The valuation of equity securities has increased **14%** year-to-date.
Asset Leverage Ratio of Investable Assets to Equity	**2.6x** or greater	**2.5x** at 9/30/19. This ratio is impacted by Premium Leverage and type of business written (writing longer-tailed business increases the time frame for investing reserves).
Financing Rate	**6.25%**	**5.7%** at 9/30/19, including a mixed of fixed and LIBOR-based floating rate securities. Floating rate investments in the investment portfolio will partially offset the impact from interest rate changes.
Debt Leverage Debt to Total Capital Ratio (1)	**25% - 30%**	**26%** at 9/30/19. Debt capital enables increased Premium and Asset Leverage without diluting shareholders. We target sufficient capital to model an 'A' rating under AM Best's BCAR methodology.

The following components drive the change in equity over time:

Beginning Equity + Underwriting Results + Investment Returns - Cost of Debt - Taxes = Ending Equity

Underwriting Results: Net Premium Leverage X Combined Ratio

Investment Returns: Asset Leverage X Investment Return

Cost of Debt: Debt Leverage X Financing Rate

(1) Excluding operating lease liability which A.M. Best excludes in its leverage calculation

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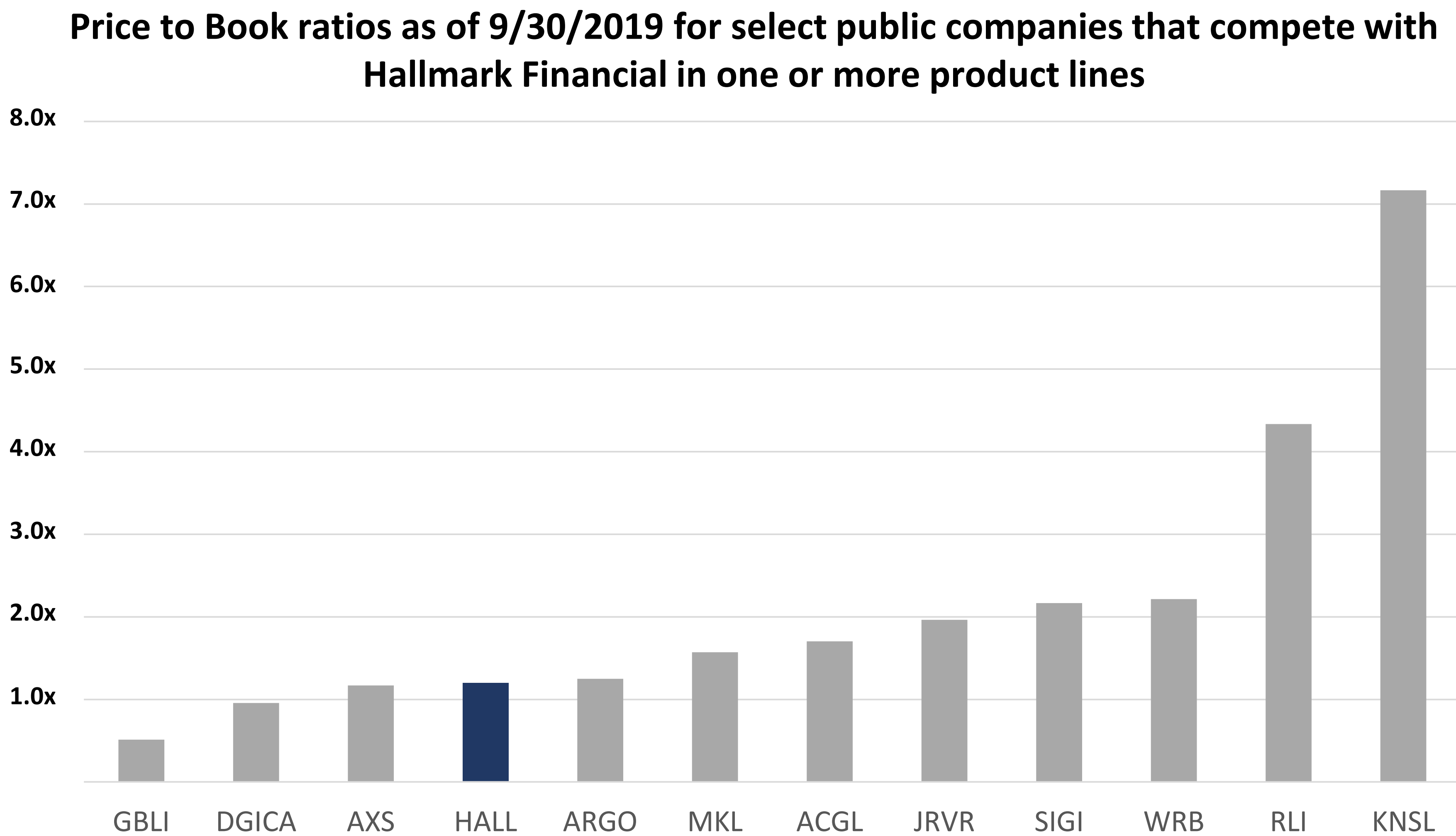
Price to Book



While our stock price has increased since year-end 2018, it still trades at a multiple below our peer group, and understates our transformation and market opportunity.

Source: S&P Global

Note: Book Values as known on 9/30/2019, as reported by S&P Global

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Supplemental Information

Historical Data

($ 000s)

	Gross Premiums Written	Investment Income	Net Income (2)	Operating Cash Flow	GAAP Equity (2)	GAAP Equity ROAE	GAAP BVPS (1)(2)	GAAP BVPS % Chg	Period-end Stock Price (1)	Period-end Stock Price % Chg
2004	$ 33,389	$ 1,386	$ 5,849	$ 7,339	$ 32,656	20%	$ 5.37		$ 7.20	
2005	$ 89,467	$ 3,836	$ 9,186	$ 29,654	$ 85,188	16%	$ 5.89	10%	$ 8.16	13%
2006	$ 213,945	$ 10,461	$ 9,191	$ 75,962	$ 150,731	13%	$ 7.26	23%	$ 9.91	21%
2007	$ 249,472	$ 13,180	$ 27,863	$ 85,684	$ 179,621	17%	$ 8.65	19%	$ 15.86	60%
2008	$ 243,849	$ 16,049	$ 12,899	$ 48,712	$ 179,412	7%	$ 8.61	0%	$ 8.77	(45%)
2009	$ 287,558	$ 14,947	$ 24,575	$ 61,698	$ 226,517	12%	$ 11.26	31%	$ 7.96	(9%)
2010	$ 320,973	$ 14,849	$ 7,403	$ 36,360	$ 235,278	3%	$ 11.69	4%	$ 9.10	14%
2011	$ 354,881	$ 15,880	$ (10,891)	$ 24,610	$ 215,572	(7%)	$ 11.19	(4%)	$ 6.99	(23%)
2012	$ 389,842	$ 15,293	$ 3,524	$ 33,682	$ 220,537	2%	$ 11.45	2%	$ 9.39	34%
2013	$ 460,027	$ 12,884	$ 8,245	$ 68,338	$ 238,118	4%	$ 12.36	8%	$ 8.89	(5%)
2014	$ 473,218	$ 12,383	$ 13,429	$ 33,684	$ 252,037	5%	$ 13.11	6%	$ 12.09	36%
2015	$ 514,223	$ 13,969	$ 21,863	$ 52,936	$ 262,026	9%	$ 13.72	5%	$ 11.69	(3%)
2016	$ 549,077	$ 16,342	$ 6,526	$ 30,854	$ 265,736	2%	$ 14.28	4%	$ 11.63	(1%)
2017	$ 604,156	$ 18,874	$ (11,553)	$ 7,199	$ 251,118	(4%)	$ 13.82	(3%)	$ 10.43	(10%)
2018	$ 663,015	$ 18,232	$ 10,347	$ (32,935)	$ 255,532	4%	$ 14.17	3%	$ 10.69	2%
YTD 2019	$ 629,730	$ 15,573	$ 33,341	$ 22,900	$ 296,433		$ 16.36	15%	$ 19.13	79%
TOTAL	**$ 6,076,822**	**$ 214,138**	**$ 171,797**	**$ 586,677**						

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(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.

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 from GAAP net income. 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 Before Tax	Less Tax Effect	Net After Tax	Weighted Average Shares Diluted	Diluted Per Share
Third Quarter 2019					
Reported GAAP measures	$ 6,660	$ 1,373	**$ 5,287**	18,295	**$ 0.29**
Excluded investment (gains)/losses	$ 1,342	$ 282	$ 1,060	18,295	$ 0.06
Operating earnings	$ 8,002	$ 1,655	**$ 6,347**	18,295	**$ 0.35**
Third Quarter 2018					
Reported GAAP measures	$ 12,075	$ 2,390	**$ 9,685**	18,167	**$ 0.53**
Excluded investment (gains)/losses	$ (6,980)	$ (1,465)	$ (5,515)	18,167	$ (0.30)
Operating earnings	$ 5,095	$ 925	**$ 4,170**	18,167	**$ 0.23**
Year-to-Date 2019					
Reported GAAP measures	$ 42,062	$ 8,721	**$ 33,341**	18,283	**$ 1.82**
Excluded investment (gains)/losses	$ (17,412)	$ (3,657)	$ (13,755)	18,283	$ (0.75)
Operating earnings	$ 24,650	$ 5,064	**$ 19,586**	18,283	**$ 1.07**
Year-to-Date 2018					
Reported GAAP measures	$ 19,256	$ 3,834	**$ 15,422**	18,203	**$ 0.85**
Excluded investment (gains)/losses	$ (2,678)	$ (562)	$ (2,116)	18,203	$ (0.12)
Operating earnings	$ 16,578	$ 3,272	**$ 13,306**	18,203	**$ 0.73**

Operating return on beginning GAAP equity is calculated as operating earnings divided by GAAP equity at the beginning of the period. Management believes that operating return on beginning GAAP equity provides useful information to investors about the performance of the Company's core insurance operations relative to its shareholder equity. Return on beginning equity is the GAAP measure that is most directly comparable to operating return on beginning GAAP equity. A reconciliation of operating return on beginning GAAP equity to return on beginning equity is presented below.

Year-to-date 2019 net income	33,341	a
Excluded investment gains, net of tax	(13,755)	
Year-to-date 2019 operating earnings	19,586	b
Annualized year-to-date 2019 net income	44,455	(a/3*4)
Annualized year-to-date 2019 operating earnings	26,115	(b/3*4)
Beginning GAAP equity	255,532	c
Annualized return on beginning GAAP equity	17.4%	(a/3*4)/c
Annualized operating return on beginning GAAP equity	10.2%	(b/3*4)/c

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