HALLMARK FINANCIAL

SPECIALTY PROPERTY & CASUALTY INSURANCE SOLUTIONS

Investor Presentation

Q4 2018

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. 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.

Hallmark Financial's Value Proposition

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

- Well positioned to take advantage of current market opportunities
- Significant investments in talent and technology
- Specialty and underserved markets provide opportunities for enhanced profitability
- Our expense structure provides a competitive advantage, as it is below comparable companies that compete in our markets
- Our business is scalable, as we are only writing a fraction of the markets in which we operate
- We are adaptable to new market conditions as they arise, and are positioned to respond quickly to these changes

NASDAQ: HALL

Corporate Headquarters	Fort Worth, TX
Employees	~450
Share Price	$10.69
Shares Outstanding	18.0M
Market Cap	$192.7M
Shareholder's Equity	$255.5M
Book Value Per Share	$14.17

(as of 12/31/2018)

AM Best Ratings:

Insurer Financial Strength:	A- (stable)
LT Issuer Credit Rating:	bbb- (stable)

Our Business Model

EXPERTISE DRIVEN

We employ and empower **Specialists** to underwrite, analyze, and deliver value to our clients through our diversified product verticals and technology-enabled platforms

INVESTMENT DISCIPLINE

We approach investment management as a **Core Competency** with the objective to maximize long-term, after-tax total returns

SPECIALTY FOCUS

SERVICE ORIENTED

We value our strong relationships with producers and continue to differentiate our products and enhance our value proposition by delivering exceptional **Customer Service** to create franchise value for our distribution partners

SPECIALTY MARKETS

We compete in **Specialized** or **Underserved** market segments, where our expertise and service offering provides a competitive advantage and ability to achieve above average returns

Our Business Approach

Specialty Portfolio

- Build a diversified portfolio of specialty insurance products
- Target underserved market segments requiring specialized knowledge
- Adjust our appetite for any one product based upon market dynamics
- Be flexible and able to quickly react to new opportunities

Data & Analytics

- Utilize data and analytics to support underwriting decisions
- Integrate technology into product delivery to improve efficiency, reduce expense and improve the client experience

Investments

- All investments are managed internally
- Employ a disciplined, value-based investment approach that relies upon individual securities selection

Strategic

- Employ reinsurance to enhance risk-adjusted returns and reduce volatility
- Opportunistic M&A to expand product lines, grow geographically, and build new expertise

Completed Strategic Initiatives

In the past 4 years, the Company has transformed from a primarily regional auto writer into a specialty insurance company with a national platform

- Added new specialty product teams to capitalize on market opportunities and diversify book
- Substantial expense ratio reductions driven by implementing more efficient business processes and by utilizing technology improvements such as A.I. and Robotics
- Predictive Modeling employed to refine target markets, risk selection and pricing
- Restructured claims team with specialty product focus able to address new claims promptly to help prevent rising severity
- Actuarial team embedded in product groups to provide on-the-spot technical pricing, rate feedback and portfolio analytics
- Upgraded technology infrastructure to better manage client experience and access to information

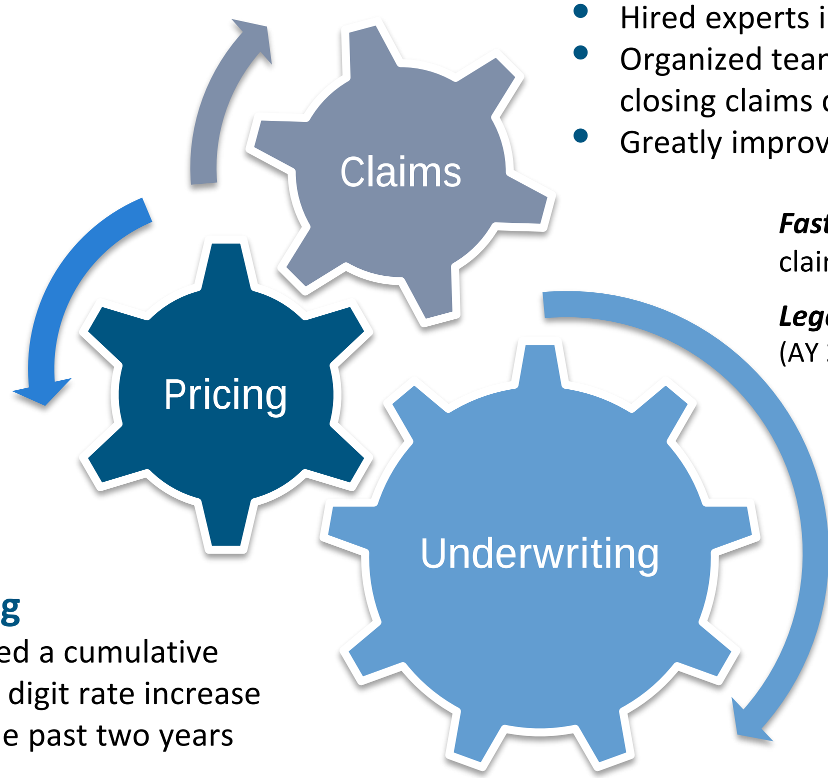
The Hallmark Approach: Commercial Auto

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:



Claims

- Hired experts in auto and auto litigation
- Organized teams to promptly address new and legacy claims, with the goal of closing claims quickly to minimize severity (***Fast track*** for the first 30 days)
- Greatly improved the adequacy of case reserves

(Results compare year-end 2016 to year-end 2018)

Fast track claims process	30-day Bodily Injury closure rate improved from 13% to 41% 30-day Property Damage closure rate improved from 26% to 51%
Legacy claims (AY 2016 & prior)	• 880 open Commercial Auto Liability claims at year-end 2017 • In one year, 69% (or 610) of those claims were closed

Pricing

Achieved a cumulative double digit rate increase over the past two years

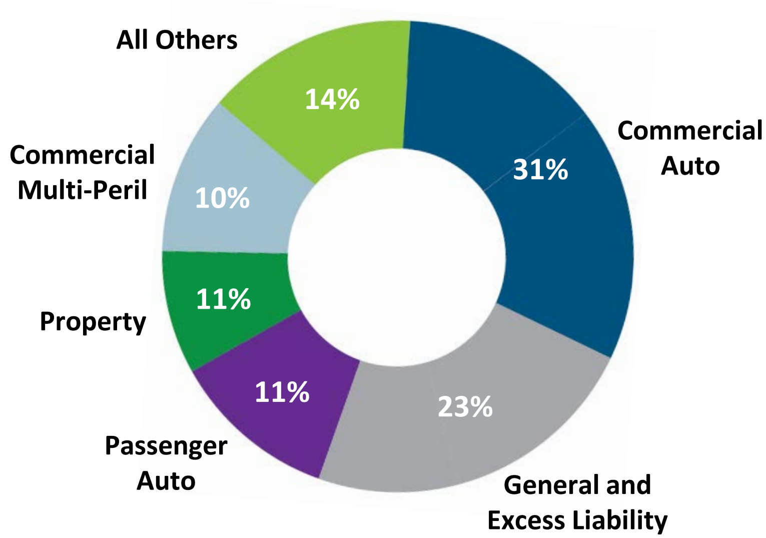
Underwriting

- Hired experts in commercial auto underwriting
- Consolidated primary and excess groups to form a single cohesive team
- Developed a next-gen predictive model to increase segmentation and better assess risk quality
- Identified the best and worst performing classes
- Exited worst performing states (LA and MS)

Business Profile

Hallmark Financial is a diversified portfolio of ten (10) business units, with a balanced risk profile and a growing national footprint

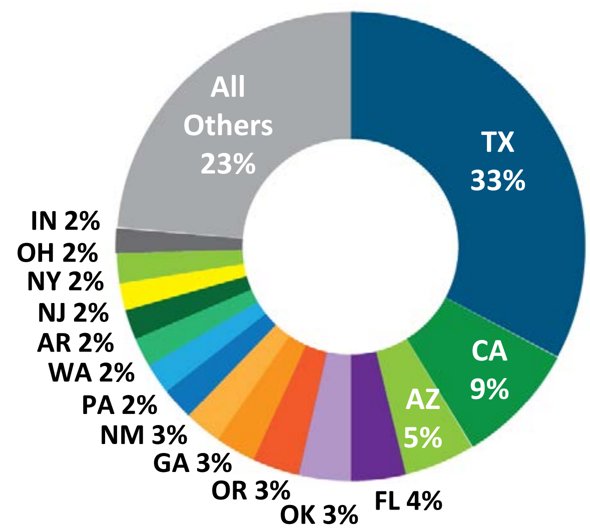
Lines of Business



- Commercial Auto is currently our largest class of business
- It continues to shrink as a percentage of the portfolio as our other specialty businesses grow

**Charts based on Gross Premiums Written as of 12/31/18*

Geography



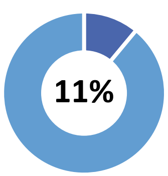
- Texas represents our largest exposure at 33%, which is greatly reduced from 50% in 2014
- We write business in all 50 states, and continue to grow our premium base nationally to capitalize on new opportunities and improve our geographic spread of risk

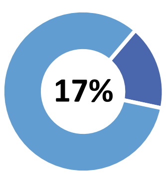
Business Units

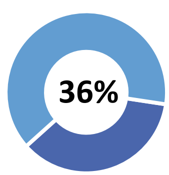
Our **Business Units** are organized by products and distribution channel, led by experienced underwriting teams and supported by actuaries and data scientists

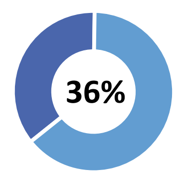
- **Incentive structure is based on underwriting profitability**

RETAIL			WHOLESALE						GENERAL AGENTS
Specialty Personal Lines	**Commercial Accounts (CIS)**	**Aviation**	**Commercial Auto**	**E&S Casualty**	**E&S Contract Binding**	**E&S Property**	**Pro-Financial Lines**	**Pro-Healthcare**	**Programs**
Personal Auto & Renters	Package and BOP	Aircraft Hull & Liability; Airport Liability	Primary & Excess	Primary, Excess & Excess Public Entity	Monoline GL & Package	Shared & Layered; Builders' Risk	D&O and E&O	Hospitals, Medical Facilities, and Physicians	Business produced by Specialty MGAs
Auto Liability, Phys Dam, GL, Property	Commercial Multi-Peril	Aircraft, General Liability	Commercial Auto Liability & Phys Dam	GL, Product Liability	GL, Property	Property	Management Professional Liability	Medical Malpractice, GL, Professional Liability	Property & Casualty Lines
Admitted	Admitted	Admitted	Admitted & E&S	E&S	E&S	E&S	E&S	E&S	Admitted & E&S









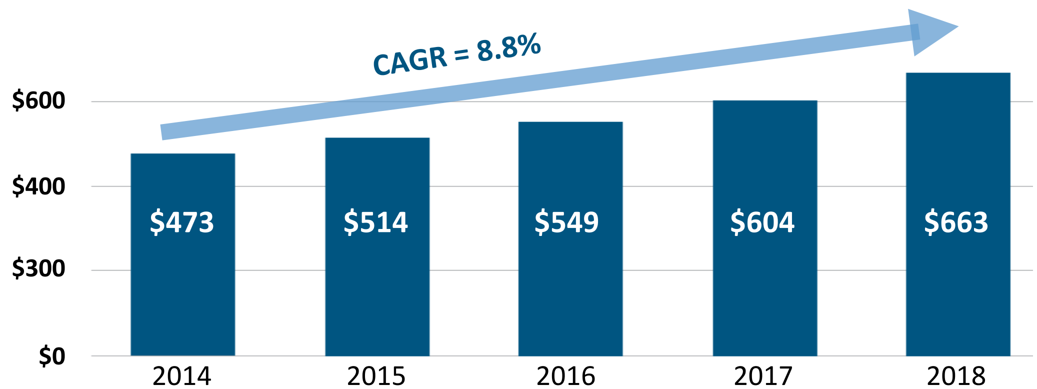
Executive Team (Over 195 years of combined experience)

President & CEO	Naveen Anand	30+ years of experience in the property/casualty insurance industry with significant underwriting experience in specialty commercial lines.
Chief Accounting Officer	Jeffrey Passmore	25+ years of experience in in the property/casualty insurance industry with significant experience in finance & accounting. A Certified Public Accountant licensed in Texas.
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.
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.
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.

Gross and Net Premiums

Gross Premiums Written

Hallmark Financial continues to achieve measured growth in GWP

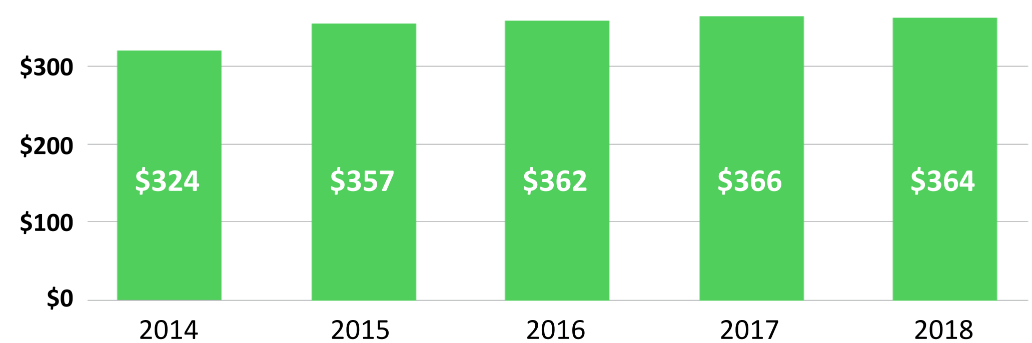


- Significant growth occurring in specialty product lines
- Premiums are increasing as a result of both new business and rate increases

Net Premiums Written

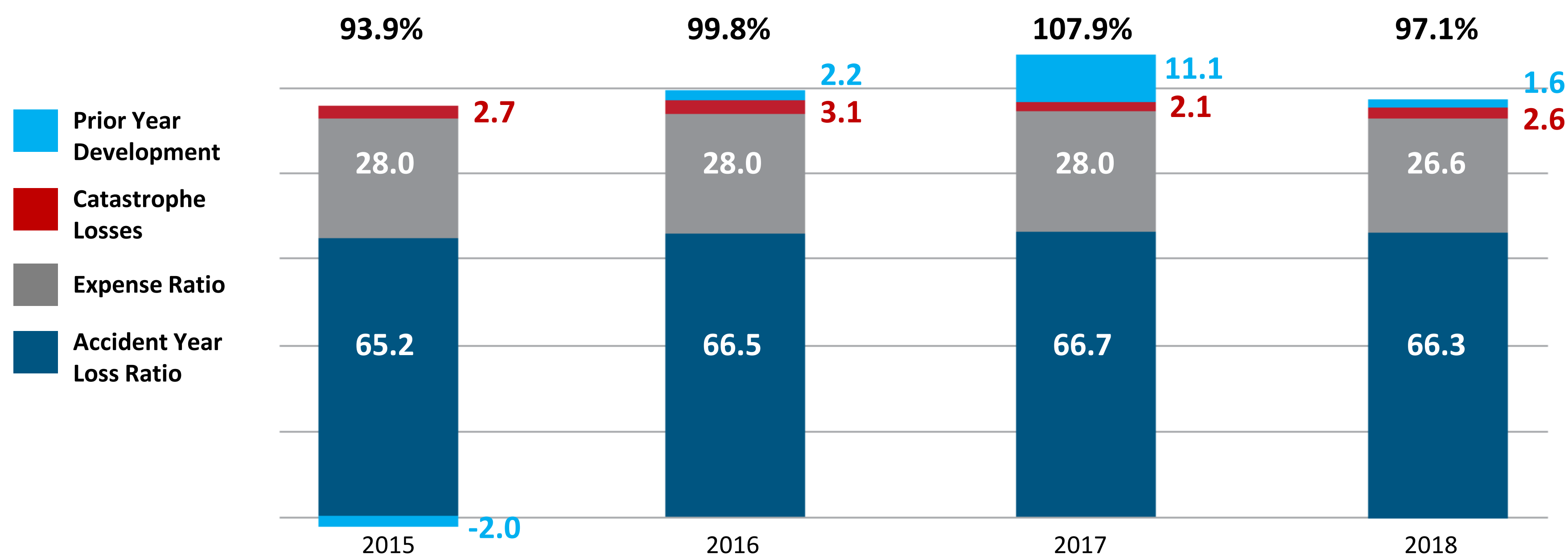
While relatively flat between 2015 and 2018, the mix of net premiums are expected to change as a result of the new consolidated casualty reinsurance program in place since October 2018

- Many of the specialty product lines were heavily reinsured as they grew to appropriate scale and while the books were seasoned
- Under the new 2019 reinsurance program, Hallmark Financial retains more of these profitable specialty risks
- Net premiums in Q4 2018 grew by 17% (versus Q4 2017)



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

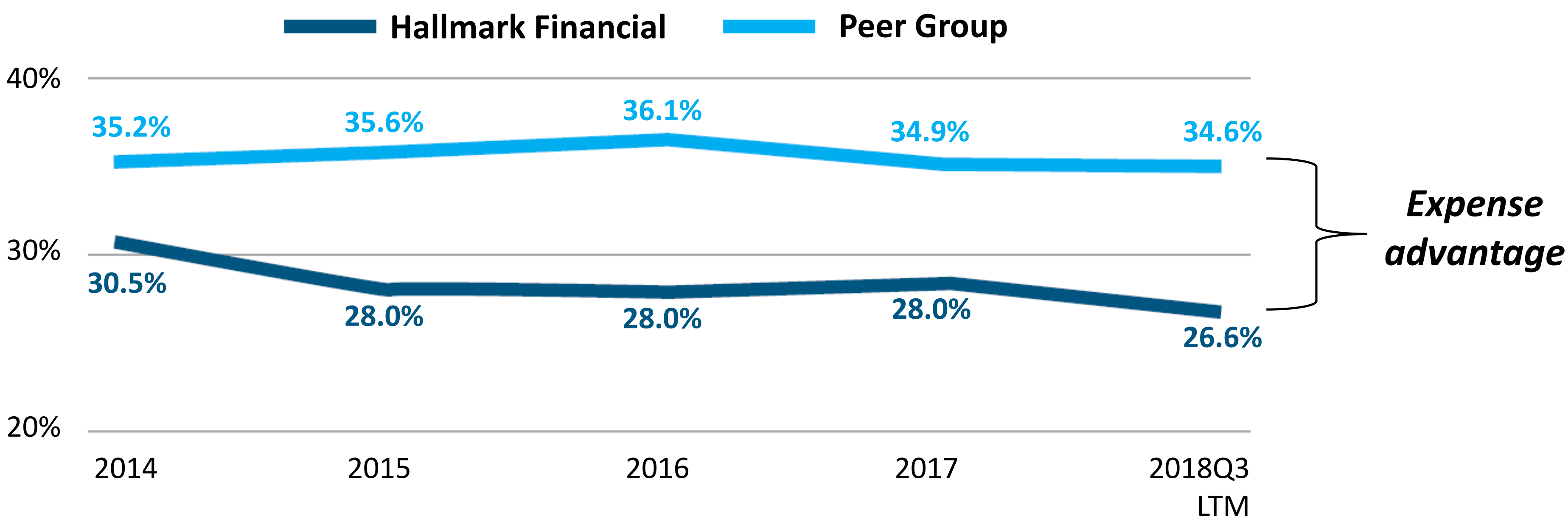
Even though 2017 & 2018 were the highest combined 2-year period of CAT losses the industry has recorded, the above results show a level of **CAT losses well within tolerance.**

PY Development

Prior Year Reserve Development impacted results in 2016 and 2017 while the Company focused on improving underwriting and claims handling for existing books of business.

PY Development had a minimal impact on 2018 results (1.6%), highlighting the positive impact of these changes.

Favorable Expense Ratio relative to our peers



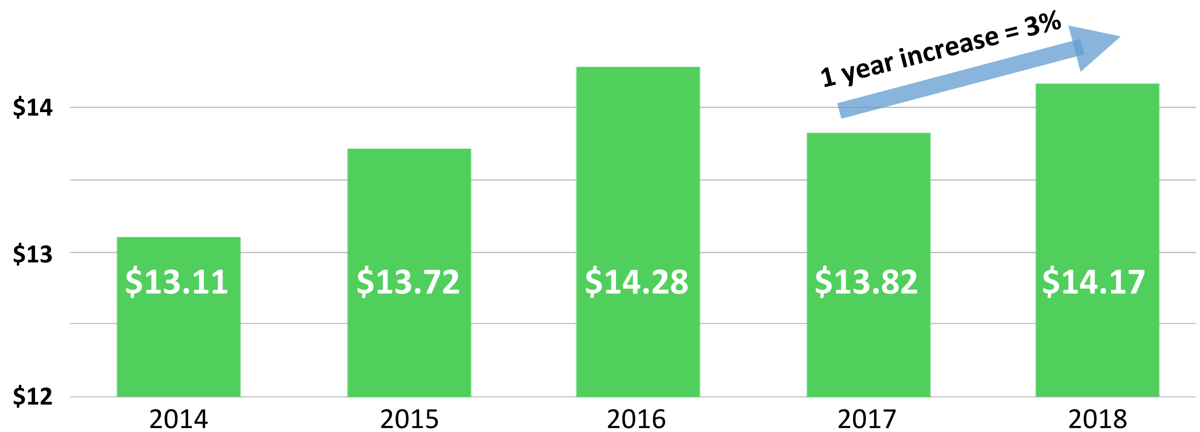
Our expense ratio has declined by 3.9 points since 2014, exemplifying the efficiency gains the company has achieved through technology and process improvements.

A lower Expense Ratio provides us with a competitive advantage

Source: S&P Global, 2018Q3 data for select public companies
Peer Group: ACGL, ARGO, AHL, AXS, CNFR, DGICA, EMCI, RE, GBLI, THG, JRVR, NAVG, RNR, RLI, SIGI, WRB

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. In 2018, BVPS increased by 3%.

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 we can achieve 10%+ going forward…

Category	Target	2018 Result
Combined Ratio Loss Ratio + Expense Ratio	**95%** or less	2018 combined ratio (excluding prior year development) of 95.5%, highlighting both the positive trend in underwriting performance and favorable expense ratio.
Net Premium Leverage	**1.4x**	Currently 1.4x. Expect to generally maintain this relationship within a range.
Investment Return Total Investment Return requires inclusion of all investment income, gain and loss	**3.0% +**	2018 total investment return was less than net investment income due to declines in equity markets. Over time, total investment return (including net realized and unrealized gains) is expected to be additive to comprehensive income and growth in BVPS.
Asset Leverage Ratio of Investable Assets to Equity	**2.6x** or greater	Currently 2.6x. 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	**7.0%** or less	2018 at 5.2%, primarily floating rate based on LIBOR. Floating rate investments in the investment portfolio will partially offset the impact from interest rate changes.
Debt Leverage Debt to Total Capital Ratio	**25%** - **30%**	Currently at 25%. Debt capital enables increased Premium and Asset Leverage without diluting shareholders. 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

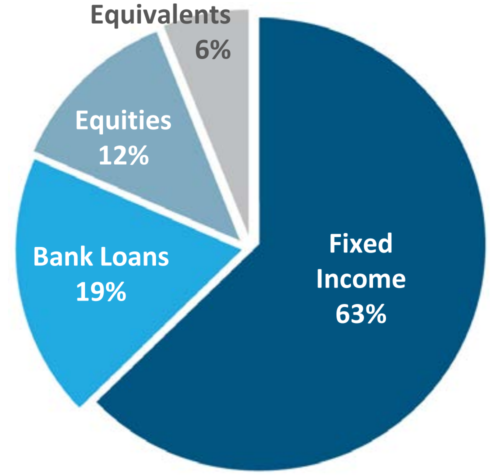
**Assumes an effective tax rate of 21%*

Investment Highlights: Liquidity and Short Duration

Portfolio Characteristics

Size:	$628M
Duration:	**1.4 yrs**
Ave. Rating:	Baa2
Book Yield:	3.3%
Tax-Adj Yield:	3.4%

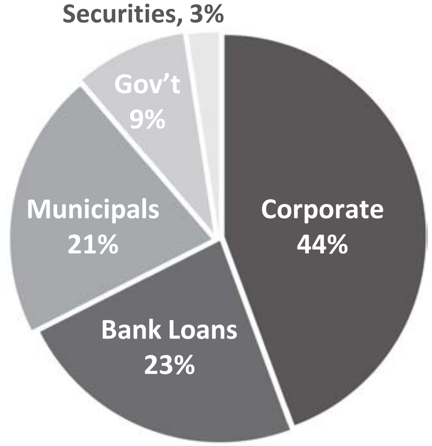
Asset Allocation



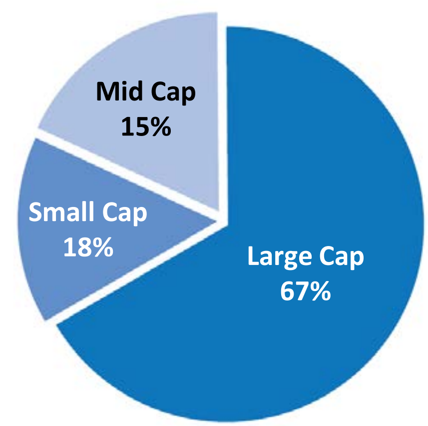
Investment Highlights

- The portfolio has **significant liquidity**
  - $98.7 million total cash, near cash and available credit under a revolver
  - 74% of debt securities having maturities of five years or less
  - No illiquid hedge funds, private equity investments or private placements
- **A short duration of 1.4 years protects the balance sheet from the impact of interest rate increases**
  - During a rising interest rate environment, the portfolio should outperform the benchmark Bloomberg Barclay's U.S. Aggregate Index

Debt by Classification



Equities by Type



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

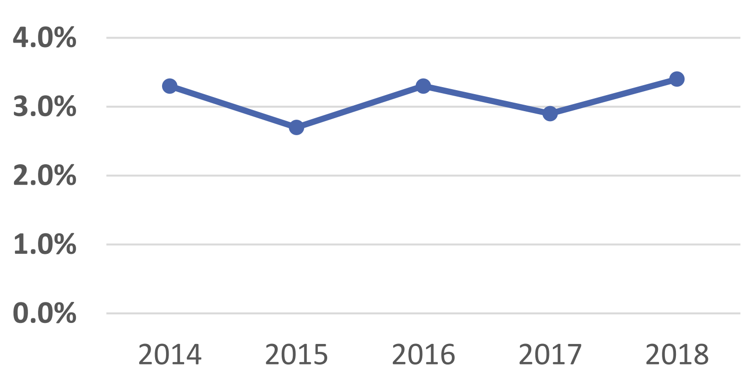
Debt Securities

- Broadly diversified selection of risks
- Primarily investment grade bonds; utilize tax exempt securities to enhance after-tax returns
- Floating-rate bank loan participations are collateralized and provide protection against rising rates, but typically have ratings equivalent to unsecured bonds

Equity Securities

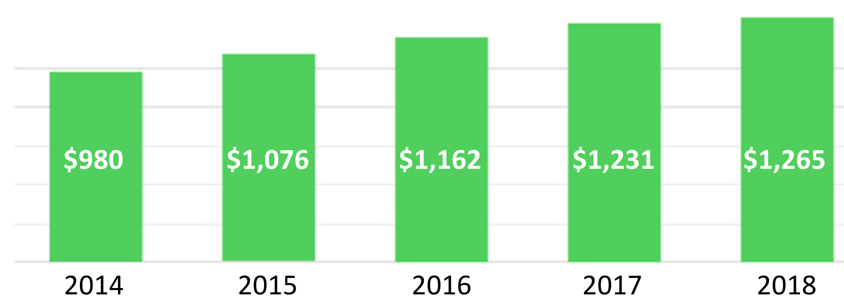
- Primarily long-term holdings with potential for significant capital appreciation
- Rigorous value-based investment discipline focused on individual security selection
- Opportunistic approach seeks to capture value resulting from market-related price dislocations and short-term orientation of market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

Tax-Adjusted Yield



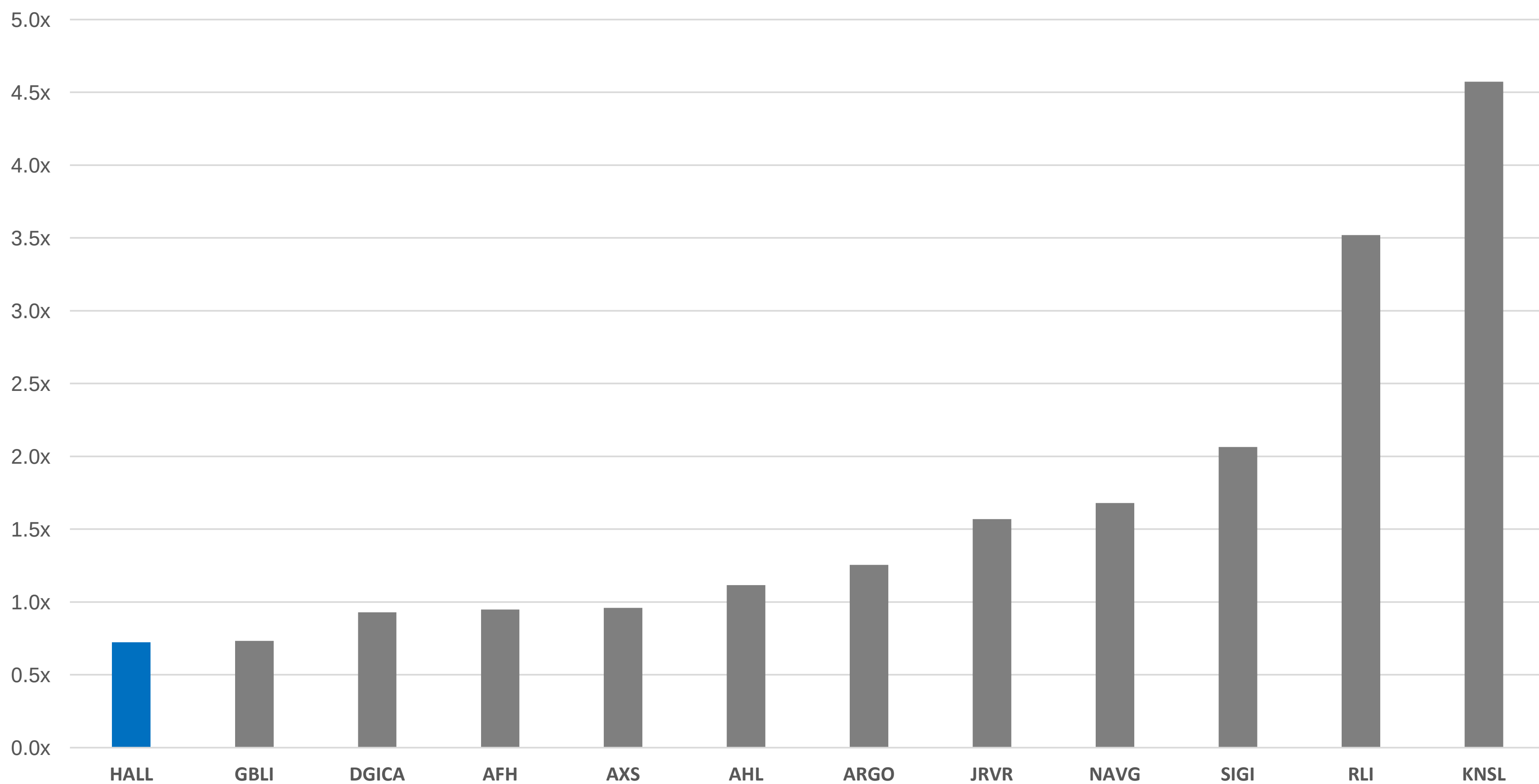
Total Assets

- Total Assets grew 29% since 2014
- Investable Assets represent 53%



Price to Book

Price to Book ratios as of 12/31/2018 for select public companies that compete with Hallmark Financial in one or more product lines



Our stock price does not accurately reflect future earnings capabilities

…and understates our market position and transformation.

Source: S&P Global

Value Proposition

- Well positioned to take advantage of current market opportunities
- Significant investments in talent and technology
- Specialty and underserved markets provide opportunities for enhanced profitability
- Our expense structure provides a competitive advantage, as it is below comparable companies that compete in our markets
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We believe we can consistently achieve higher ROEs than the general insurance market by combining top-quartile underwriting results with above average investment returns

Supplemental Information

Operating Earnings to Net Income - 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
Fourth Quarter 2018					
Reported GAAP measures	$ (6,453)	$ (1,378)	$ **(5,075)**	18,055	$ **(0.28)**
Excluded investment losses/gains	$ 12,873	$ 2,703	$ 10,170	18,198	$ 0.56
Operating earnings	$ 6,420	$ 1,325	$ **5,095**	18,198	$ **0.28**
Fourth Quarter 2017					
Reported GAAP measures	$ (15,967)	$ (5,338)	$ **(10,629)**	18,162	$ **(0.59)**
Excluded investment losses/gains	$ 896	$ 314	$ 582	18,162	$ 0.04
Operating earnings	$ (15,071)	$ (5,024)	$ **(10,047)**	18,162	$ **(0.55)**
Fiscal 2018					
Reported GAAP measures	$ 12,803	$ 2,456	$ **10,347**	18,201	$ **0.57**
Excluded investment losses/gains	$ 10,195	$ 2,141	$ 8,054	18,201	$ 0.44
Operating earnings	$ 22,998	$ 4,597	$ **18,401**	18,201	$ **1.01**
Fiscal 2017					
Reported GAAP measures	$ (16,572)	$ (5,019)	$ **(11,553)**	18,343	$ **(0.63)**
Excluded investment losses/gains	$ 205	$ 72	$ 133	18,343	$ 0.01
Operating earnings	$ (16,367)	$ (4,947)	$ **(11,420)**	18,343	$ **(0.62)**

Historical Data

	Gross Premiums Produced	Investment Income	Net Income (2)	Operating Cash Flow	GAAP Equity (2)	GAAP Equity ROAE	GAAP BVPS (1)(2)	GAAP BVPS % Chg	Year-End Stock Price (1)	Year-End Stock Price % Chg
2004	$ 119,305	$ 1,386	$ 5,849	$ 7,339	$ 32,656	20%	$ 5.37		$ 7.20	
2005	$ 118,066	$ 3,836	$ 9,186	$ 29,654	$ 85,188	16%	$ 5.89	10%	$ 8.16	13%
2006	$ 293,304	$ 10,461	$ 9,191	$ 75,962	$ 150,731	13%	$ 7.26	23%	$ 9.91	21%
2007	$ 297,904	$ 13,180	$ 27,863	$ 85,684	$ 179,621	17%	$ 8.65	19%	$ 15.86	60%
2008	$ 287,081	$ 16,049	$ 12,899	$ 48,712	$ 179,412	7%	$ 8.61	0%	$ 8.77	(45%)
2009	$ 288,450	$ 14,947	$ 24,575	$ 61,698	$ 226,517	12%	$ 11.26	31%	$ 7.96	(9%)
2010	$ 314,857	$ 14,849	$ 7,403	$ 36,360	$ 235,278	3%	$ 11.69	4%	$ 9.10	14%
2011	$ 344,379	$ 15,880	$ (10,891)	$ 24,610	$ 215,572	(7%)	$ 11.19	(4%)	$ 6.99	(23%)
2012	$ 384,231	$ 15,293	$ 3,524	$ 33,682	$ 220,537	2%	$ 11.45	2%	$ 9.39	34%
2013	$ 454,981	$ 12,884	$ 8,245	$ 68,338	$ 238,118	4%	$ 12.36	8%	$ 8.89	(5%)
2014	$ 468,442	$ 12,383	$ 13,429	$ 33,684	$ 252,037	5%	$ 13.11	6%	$ 12.09	36%
2015	$ 509,188	$ 13,969	$ 21,863	$ 52,936	$ 262,026	9%	$ 13.72	5%	$ 11.69	(3%)
2016	$ 544,968	$ 16,342	$ 6,526	$ 30,854	$ 265,736	2%	$ 14.28	4%	$ 11.63	(1%)
2017	$ 600,243	$ 18,874	$ (11,553)	$ 7,199	$ 251,118	-4%	$ 13.82	-3%	$ 10.43	(10%)
2018	$ 659,531	$ 18,232	$ 10,347	$ (32,935)	$ 255,532	4%	$ 14.17	3%	$ 10.69	2%
TOTAL	**$ 5,684,930**	**$ 198,565**	**$ 138,456**	**$ 563,777**						

(1) Stock prices and BVPS prior to 2006 have been adjusted for the one for six reverse stock split which took place during the Q3 2006. (2) FY2010 and FY2011 Net income, Equity and BVPS have been restated for change in accounting principal related to deferred acquisition costs.

HALLMARK FINANCIAL

NASDAQ: HALL

For more information, visit www.hallmarkgrp.com.