



HALLMARK
FINANCIAL



SPECIALTY PROPERTY & CASUALTY INSURANCE SOLUTIONS

1Q 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:

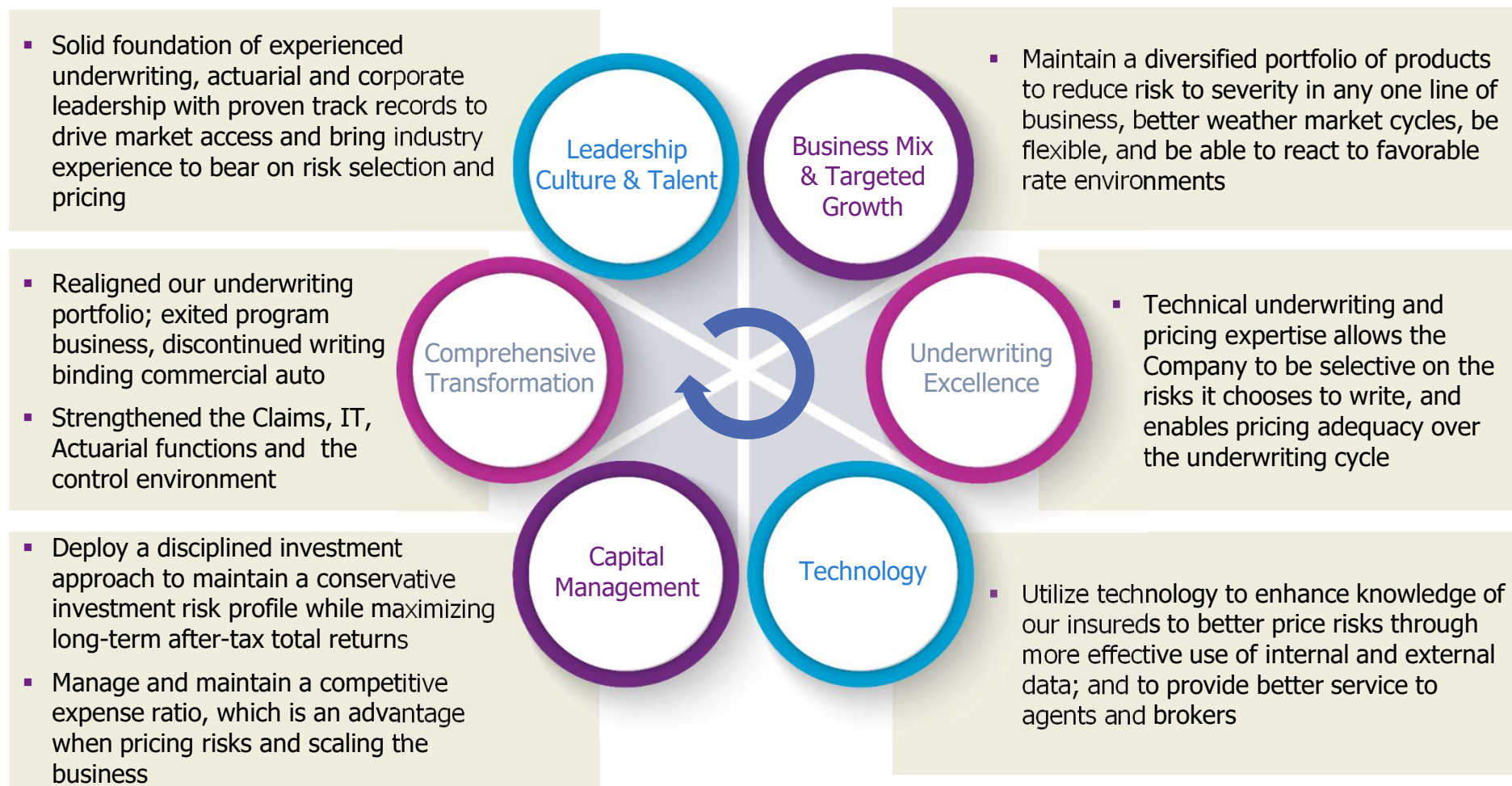
- our business and growth strategies;
- our performance goals;
- our projected financial condition and operating results;
- our understanding of our competition;
- industry and market trends;
- the impact of technology on our products, operations and business; and
- any other statements or assumptions 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

Specialty insurance company targeting primarily Excess & Surplus lines in specialty and niche markets where there is an opportunity to achieve higher returns on capital



Company Overview

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- **Specialty insurance company** headquartered in Dallas, TX with **400+ 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

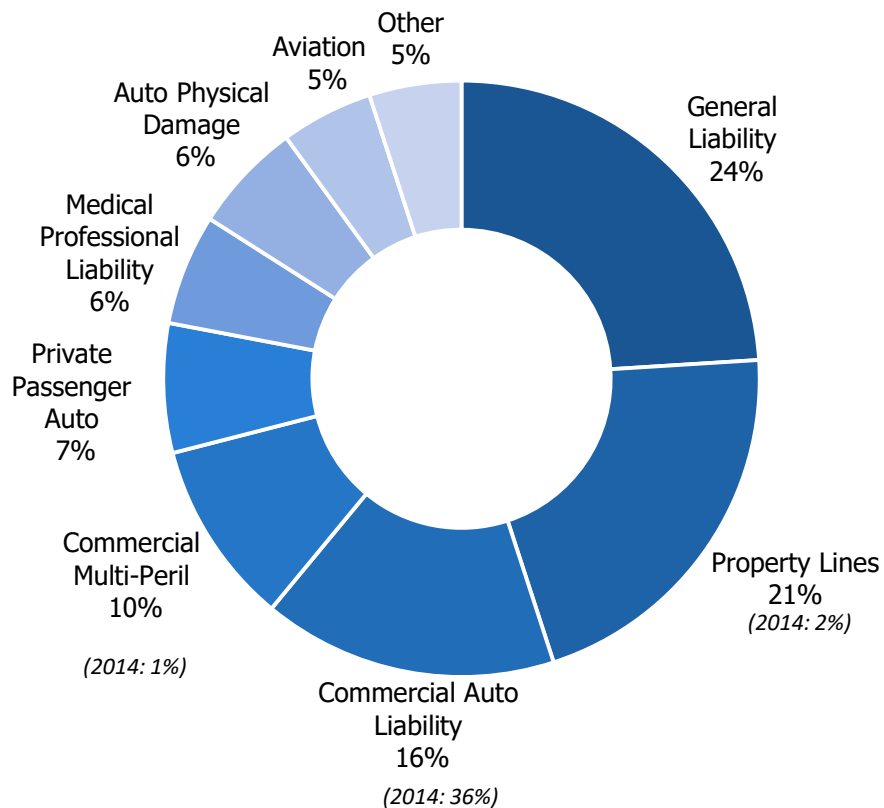
Business Strategy

- 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

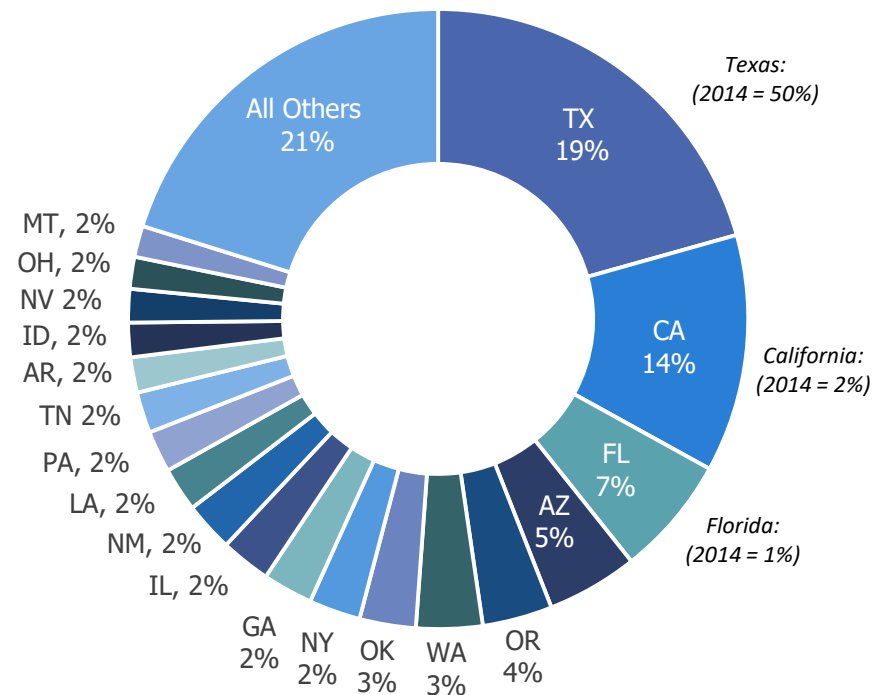
Hallmark Financial has a diversified portfolio with a balanced risk profile and a growing national footprint

Lines of Business



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

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

- The Company **targets primarily Excess & Surplus lines for small- to mid-sized enterprise (“SME”) risks** in specialty and niche markets where there is an opportunity for **higher 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 three industry segments
- Each product line is targeted based on profitability and market opportunity with a focus on underserved markets that require specialized underwriting skills

SPECIALTY COMMERCIAL								STANDARD COMMERCIAL	PERSONAL
Commercial Auto	E&S Casualty	E&S Contract Binding	E&S Property	Pro – Financial Lines	Pro – Healthcare	Specialty Aviation	Discontinued Lines	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 Medical Facilities and Physicians	Personal & Small Aircraft; Airport Liability	Binding Primary Auto; Hospitals; Business produced by MGAs	Commercial Package for SME risks within targeted specialties	Non-standard Auto & Renters
Wholesale	Wholesale	Wholesale	Wholesale	Wholesale	Wholesale	Retail Agents	N/A	Retail Agents	Retail Agents
Admitted & E&S	E&S	E&S	E&S	E&S	E&S	Admitted	Admitted & E&S	Admitted	Admitted

Q1 2022 Results

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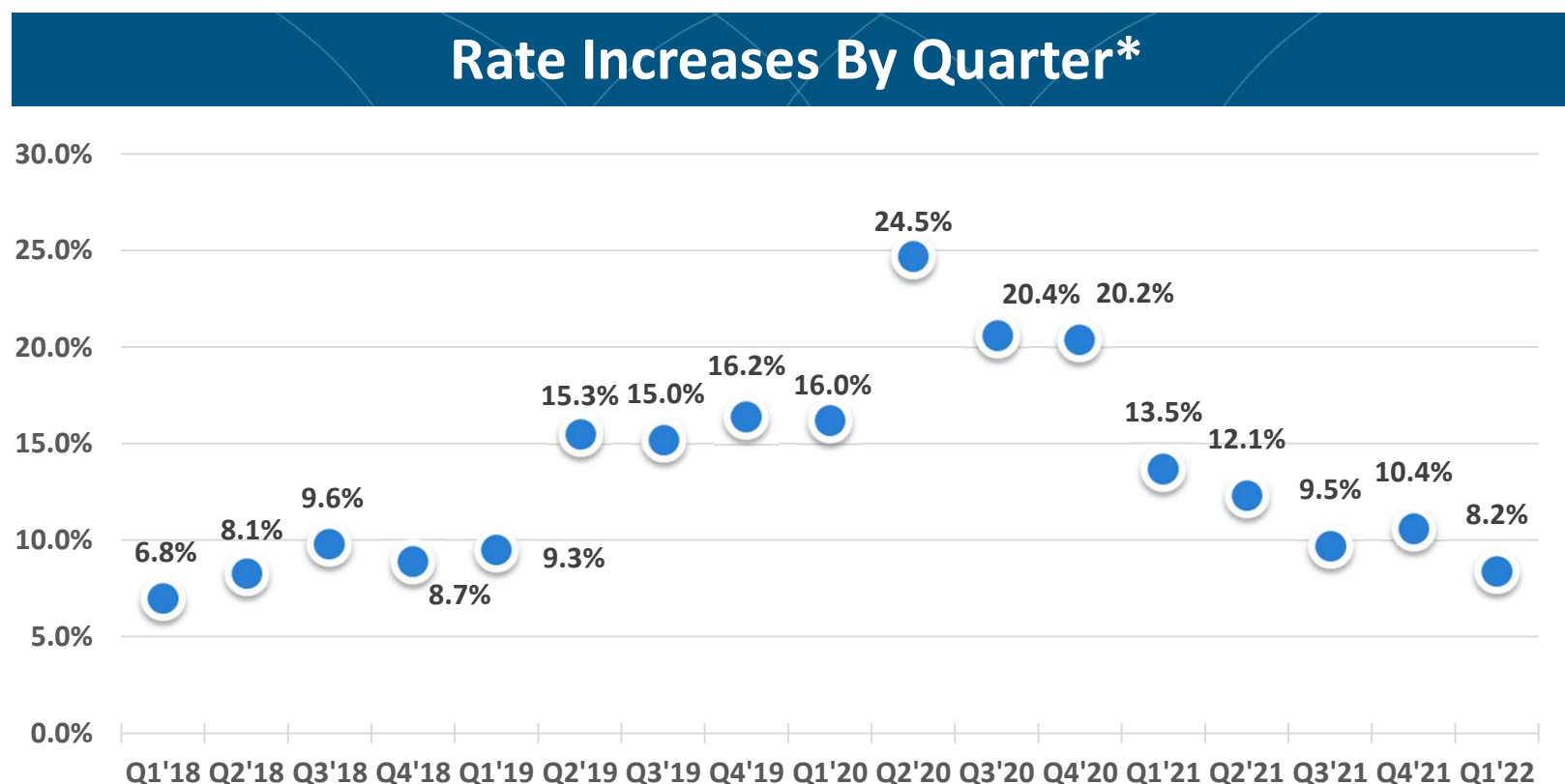
Net Income (Loss):	\$(3.2) million or \$(0.18) per share ¹
Operating Earnings (Loss)²:	\$(3.3) million or \$(0.18) per share ¹
Combined Ratio:	106.0%
Gross Premiums Written:	-7%
Net Premiums Written:	-14%
Book Value Per Share	\$9.34

Impacting Q1 Results:

- Combined Ratio was 106.0 points (inclusive of 1.3 points from catastrophe losses)
- Unfavorable PYD of \$7.7 M (impacted combined ratio by 9.3 points) driven primarily by our exited contract binding line of business

Specialty Commercial - Rate

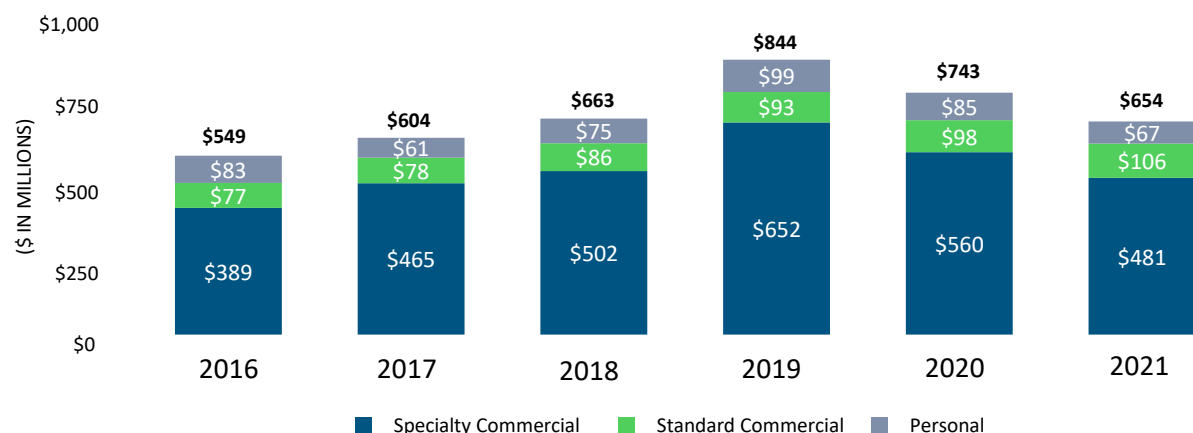
- We began to aggressively push for rate increases in our Specialty lines of business in 2018
- Achieved rate increase were +14.4% in 2019, +19.9% in 2020 and in 2021 +11.7%*
- YTD 2022 rate increase of 8.2% is in excess of our planned rate change of 6.2%



Gross and Net Premiums

Gross Premiums Written

Hallmark Financial continues to achieve measured growth in Gross Premiums Written

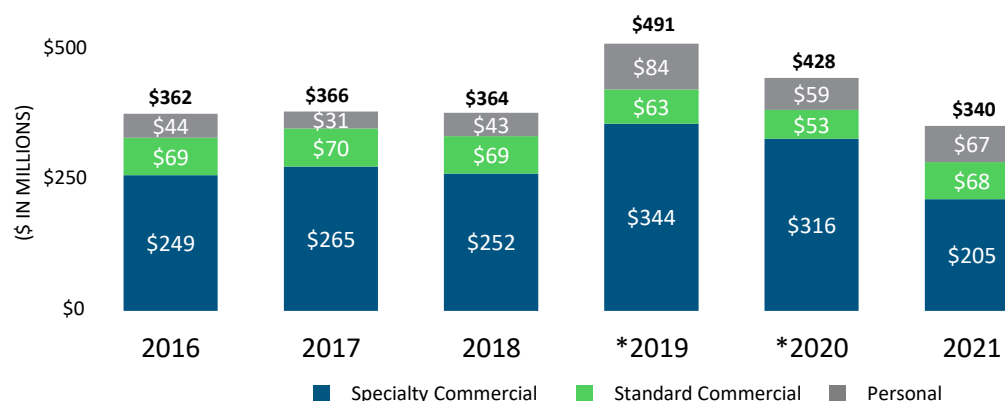


- 2021 Premiums reducing due to Binding Commercial Auto exit, exit of various Program business and overall recalibration to be more in line with capital base

Net Premiums Written

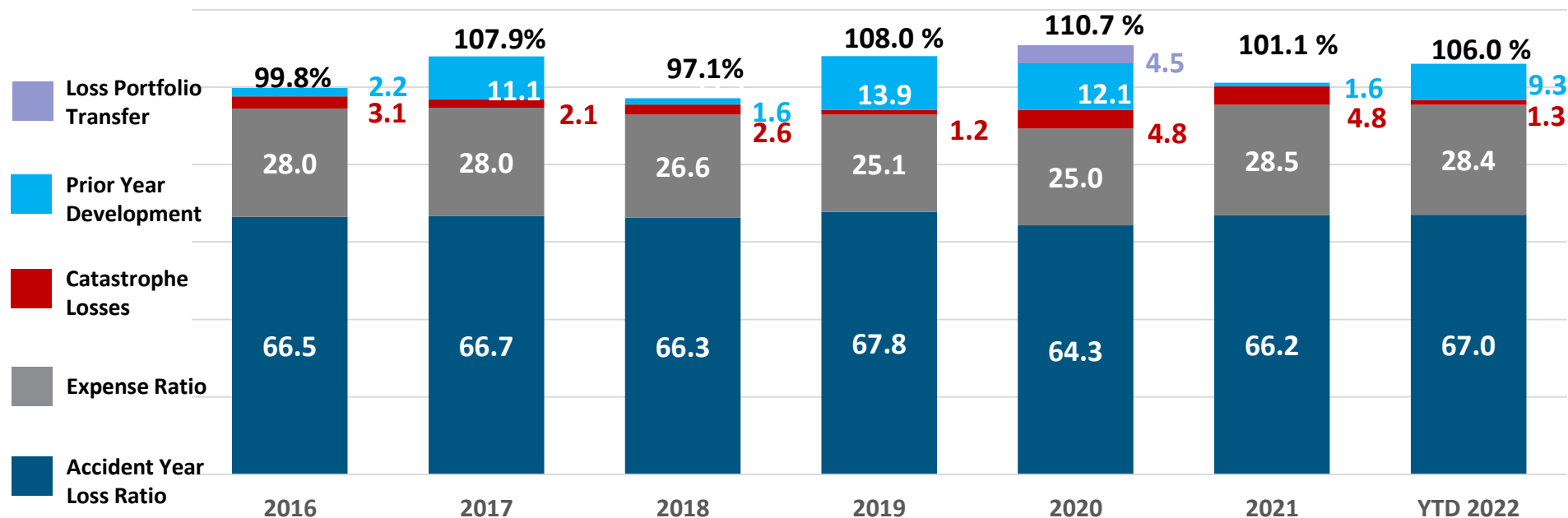
The Company is reinsuring about 48% of premiums in 2021, through a more balanced use of quota share, excess of loss, and Catastrophe coverage.

- Many of the specialty product lines were heavily reinsured as they seasoned and grew to scale
- Mix of net premiums has changed over time; casualty business is now part of a consolidated casualty reinsurance program
- CAT-focused property risks have both quota share and excess of loss reinsurance coverage



Operating Performance

Calendar Year Combined Ratio



Catastrophe Losses

YTD' 22 experienced \$1.1 million net CAT losses which contributed 1.3 points to the combined ratio. This is below the 2 – 3 points the Company typically experiences

Prior Year Development

Adverse Prior Year Reserve Development added \$7.7 million in net losses and contributed 9.3 points to the combined ratio in YTD'22 primarily driven by our exited contract binding business

Adjusted Segment Overview

(\$ in Millions)	Historical Financials ⁽¹⁾						
	2016	2017	2018	*2019	*2020	YTD'21	YTD'22
Specialty Commercial (excl. Binding Auto)	203.8	278.1	386.3	536.9	534.9	480.8	103.9
Standard Commercial (excl. Runoff Lines)	71.1	77.9	86.1	92.6	98.0	105.6	30.3
Personal Lines	83.3	61.2	75.1	99.3	85.0	67.2	16.8
Discontinued Lines (Binding & Runoff Lines)	190.9	186.8	115.5	115.0	25.4	0.2	0.0
Gross Premium Written	549.1	604.2	663.0	843.8	743.3	653.8	151.0
Specialty Commercial (excl. Binding Auto)	64.5	70.0	121.1	193.2	268.1	237.8	50.2
Standard Commercial (excl. Runoff Lines)	62.2	65.7	72.4	64.0	66.5	68.6	16.7
Personal Lines	44.0	35.7	32.6	80.3	78.3	68.5	15.6
Discontinued Lines (Binding & Runoff Lines)	182.7	189.6	137.1	96.8	59.0	4.4	0.0
Net Premiums Earned	353.4	361.0	363.1	434.3	471.9	379.3	82.5
Specialty Commercial (excl. Binding Auto)	91.7%	93.5%	84.2%	91.3%	86.6%	91.1%	83.0%
Standard Commercial (excl. Runoff Lines)	95.7%	97.9%	87.0%	108.9%	110.5%	104.4%	107.3%
Personal Lines	120.2%	113.3%	94.9%	101.6%	114.9%	117.4%	109.8%
Discontinued Lines (Binding & Runoff Lines)	95.3%	111.9%	108.0%	134.4%	199.2%	130.5%	-20645.0%
Consolidated Combined Ratio⁽²⁾	99.8%	107.9%	97.1%	108.2%	111.3%	101.1%	106.0%

- Hallmark Financial has strategically developed the Specialty Commercial segment over this time frame (amounts have been adjusted to exclude Binding Auto)
 - This segment on an adjusted basis has grown from **37%** in 2016 to **73%** of total premiums in YTD 2021,
 - And has performed well over this period, with a combined ratio between **84%** and **94%**.

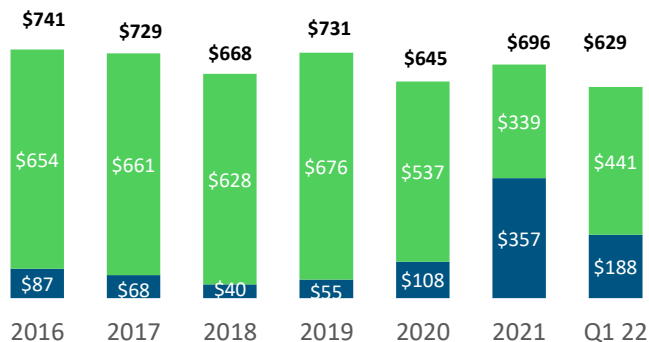
Investment Highlights: Liquidity and Short Duration

Investment Highlights

- The portfolio has **significant liquidity** at **03/31/2022**
 - \$230 million in total cash and treasury bills/S-T Notes
 - 82% 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 ~42% of total assets in Q1 2022



Debt Portfolio

As of 03/31/2022

Size: \$388M

Duration: 1.0 yrs

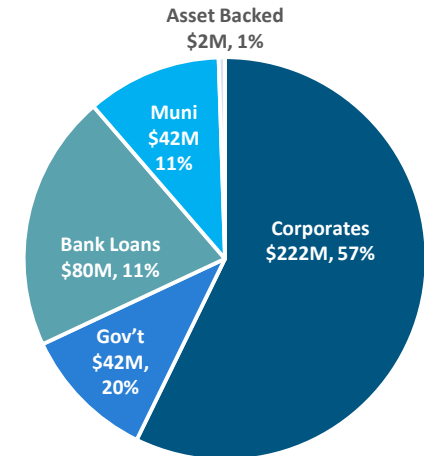
Avg. Rating: Baa1

Book Yield: 2.4%

Tax-Adj Yield: 2.5%

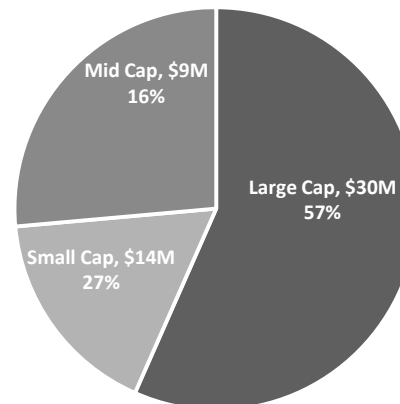
Debt By Classification

As of 03/31/2022



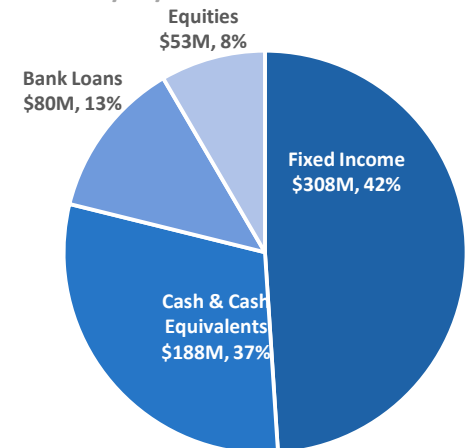
Equities By Type

As of 3/31/2022



Asset Allocation

As of 03/31/2022



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

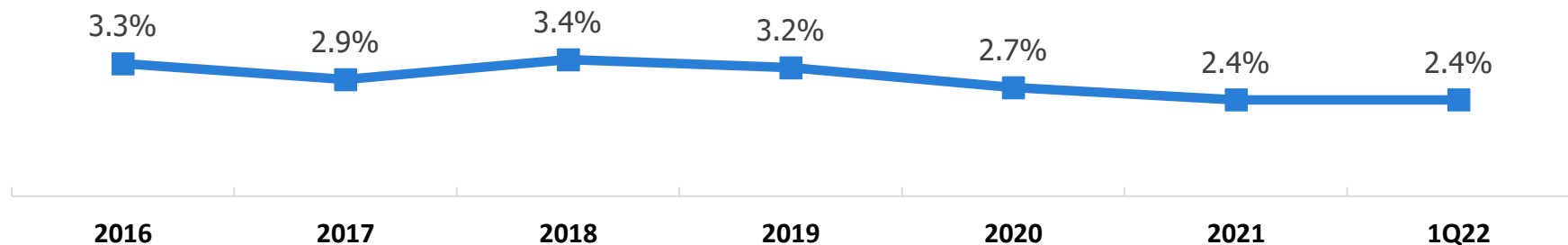
Debt Securities

- 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

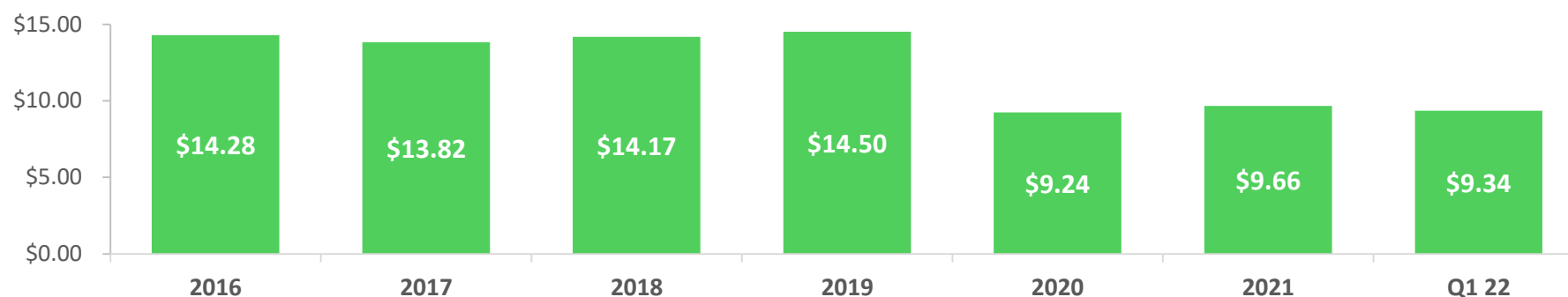
- Primarily long-term holdings with potential for significant capital appreciation
- Rigorous value-based investment discipline focused on individual security selection
- Opportunistic approach seeks to capture value resulting from market-related price dislocations and short-term orientation of market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

Tax-Adjusted Yield



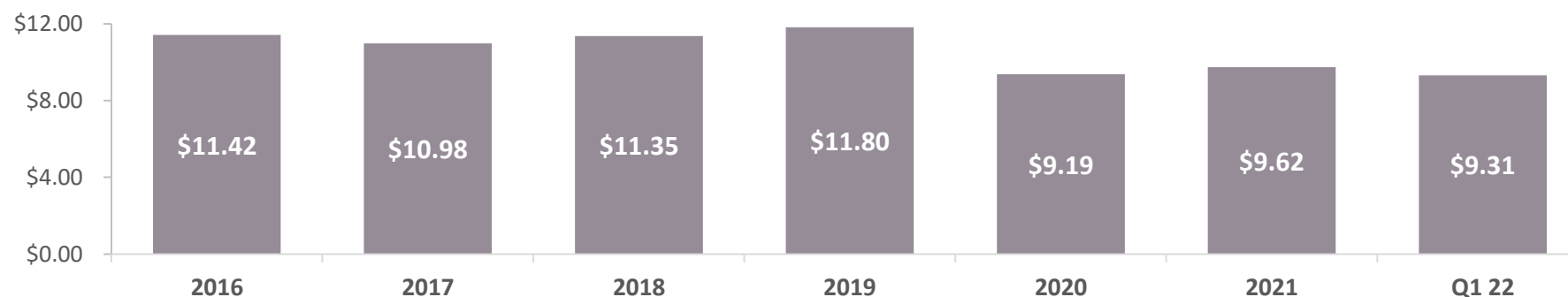
Book Value Per Share

Book Value Per Share



Book Value Per Share was \$9.34 at Q1 2022, a 36% decrease from year-end 2019. Approximately 50% of this decrease was due to the write down of Goodwill and intangible assets in Q1 2020, which reduced Book Value Per Share by \$2.52.

Tangible Book Value Per Share¹



Tangible Book Value Per Share decreased \$2.49 per share or 21% from year-end 2019. This reduction was driven by a combination of prior year reserve development and the cost of the LPT.



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
2004	\$ 33,389	\$ 1,386	\$ 5,849	\$ 7,339	\$ 32,656	\$ 5.37	\$7.20	% Chg
2005	\$ 89,467	\$ 3,836	\$ 9,186	\$ 29,654	\$ 85,188	\$ 5.89	\$8.16	13%
2006	\$ 213,945	\$ 10,461	\$ 9,191	\$ 75,962	\$ 150,731	\$ 7.26	\$9.91	21%
2007	\$ 249,472	\$ 13,180	\$ 27,863	\$ 85,684	\$ 179,621	\$ 8.65	\$15.86	60%
2008	\$ 243,849	\$ 16,049	\$ 12,899	\$ 48,712	\$ 179,412	\$ 8.61	\$8.77	-45%
2009	\$ 287,558	\$ 14,947	\$ 24,575	\$ 61,698	\$ 226,517	\$ 11.26	\$7.96	-9%
2010	\$ 320,973	\$ 14,849	\$ 7,403	\$ 36,360	\$ 235,278	\$ 11.69	\$9.10	14%
2011	\$ 354,881	\$ 15,880	\$ (10,891)	\$ 24,610	\$ 215,572	\$ 11.19	\$6.99	-23%
2012	\$ 389,842	\$ 15,293	\$ 3,524	\$ 33,682	\$ 220,537	\$ 11.45	\$9.39	34%
2013	\$ 460,027	\$ 12,884	\$ 8,245	\$ 68,338	\$ 238,118	\$ 12.36	\$8.89	-5%
2014	\$ 473,218	\$ 12,383	\$ 13,429	\$ 33,684	\$ 252,037	\$ 13.11	\$12.09	36%
2015	\$ 514,223	\$ 13,969	\$ 21,863	\$ 52,936	\$ 262,026	\$ 13.72	\$11.69	-3%
2016	\$ 549,077	\$ 16,342	\$ 6,526	\$ 30,854	\$ 265,736	\$ 14.28	\$11.63	-1%
2017	\$ 604,156	\$ 18,874	\$ (11,553)	\$ 7,199	\$ 251,118	\$ 13.82	\$10.43	-10%
2018	\$ 663,015	\$ 18,232	\$ 10,347	\$ (32,935)	\$ 255,532	\$ 14.17	\$10.69	2%
2019	\$ 843,831	\$ 20,604	\$ (1,132)	\$ 27,670	\$ 262,761	\$ 14.50	\$17.57	64%
2020	\$ 743,368	\$ 12,920	\$ (94,351)	\$ (69,327)	\$ 167,706	\$ 9.24	\$3.56	-79%
2021	\$ 653,754	\$ 9,715	\$ 9,004	\$ 43,768	\$ 175,521	\$ 9.66	\$4.35	22%
1Q 2022	\$ 150,959	\$ 1,859	\$ (3,219)	\$ (61,981)	\$ 169,836	\$ 9.34	\$3.63	-17%

(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 impairment of goodwill and other intangible assets ("Impairments") from GAAP net income. The Impairments are an unusual and infrequent charge 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) Before Tax	Less Tax Effect	Net After Tax	Weighted Average Shares Diluted	Diluted Per Share
First Quarter 2022					
Reported GAAP measures	\$ (4,119)	\$ (900)	\$ (3,219)	18,172	\$ (0.18)
Excluded investment (gains)/losses	\$ (51)	\$ (11)	\$ (40)	18,172	\$ (0.00)
Operating loss	\$ (4,170)	\$ (911)	\$ (3,259)	18,172	\$ (0.18)
First Quarter 2021					
Reported GAAP measures	\$ 11,227	\$ 2,256	\$ 8,971	18,142	\$ 0.49
Excluded investment (gains)/losses	\$ (5,779)	\$ (1,214)	\$ (4,565)	18,142	\$ (0.25)
Operating income	\$ 5,448	\$ 1,042	\$ 4,406	18,142	\$ 0.24

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	Q1 22
Reported GAAP measures							
Stockholder's Equity	\$ 265,736	\$ 251,118	\$ 255,532	\$ 262,761	\$ 167,706	\$ 175,521	\$ 169,836
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	\$ 9.34
Excluded Goodwill							
Excluded Goodwill	\$ 44,695	\$ 44,695	\$ 44,695	\$ 44,695			
Excluded Intangible Assets, net	\$ 12,491	\$ 10,023	\$ 7,555	\$ 5,087	\$ 1,322	\$ 944	\$ 693
Excluded deferred tax impact	\$ (3,917)	\$ (3,053)	\$ (1,314)	\$ (795)	\$ (278)	\$ (198)	\$ (146)
Total excluded intangible assets from stockholders equity	\$ 53,269	\$ 51,665	\$ 50,936	\$ 48,987	\$ 1,044	\$ 746	\$ 547
Tangible stockholder's equity							
Tangible stockholder's equity	\$ 212,467	\$ 199,453	\$ 204,596	\$ 213,774	\$ 166,662	\$ 174,775	\$ 169,289
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	\$ 9.31

*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.



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For more information, visit www.hallmarkgrp.com