



PROPERTY & CASUALTY INSURANCE SOLUTIONS

3Q 2023

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:

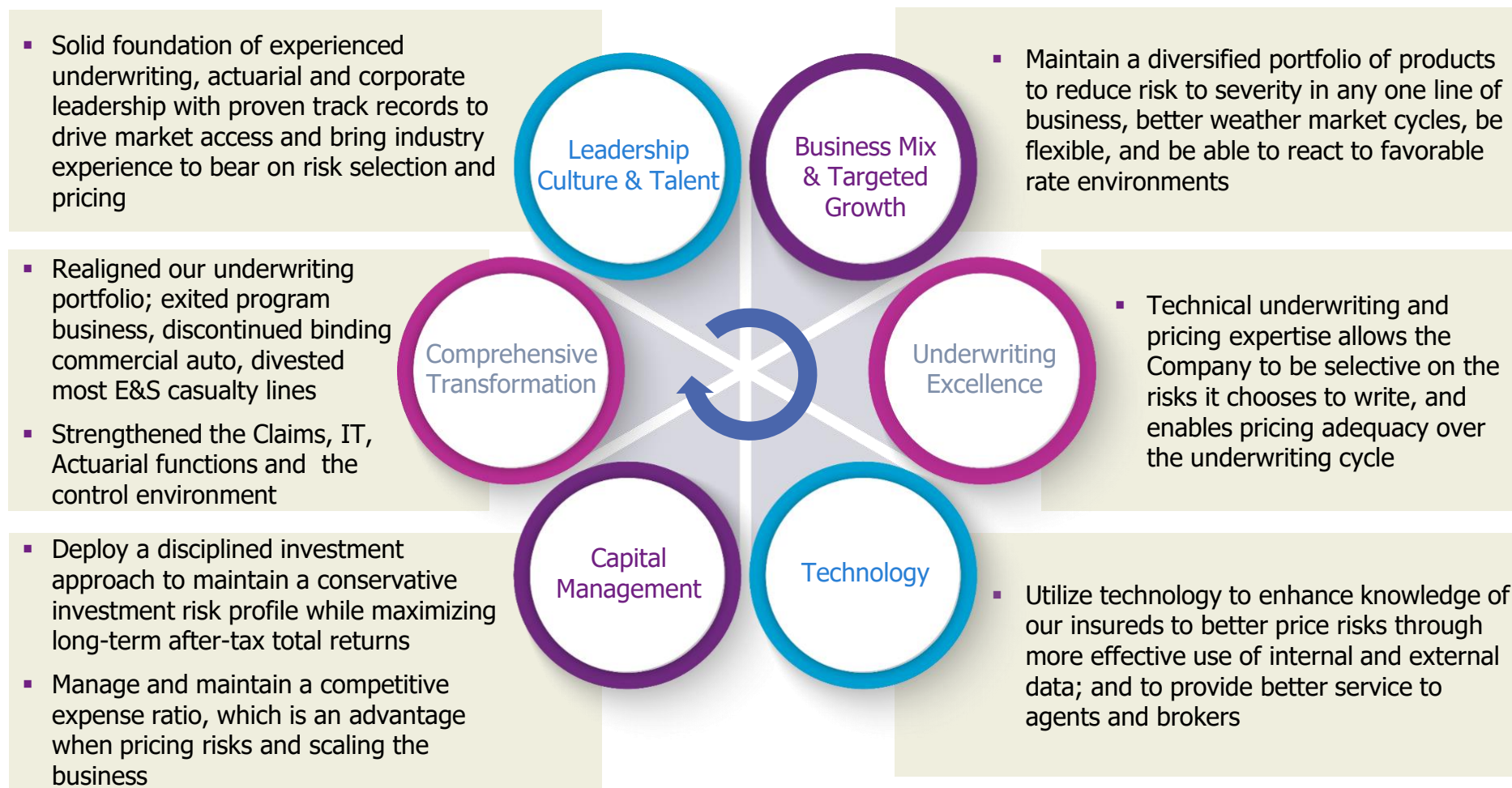
- our business and growth strategies;
- our performance goals;
- our projected financial condition and operating results;
- our understanding of our competition;
- industry and market trends;
- the impact of technology on our products, operations and business; and
- any other statements or assumptions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



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

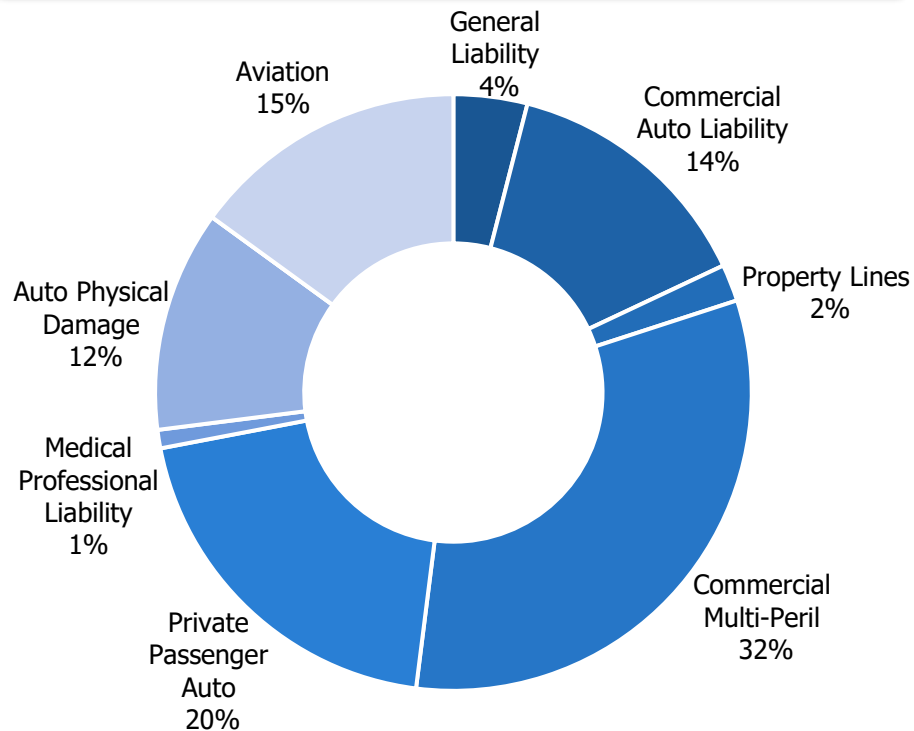
Business Strategy

- 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

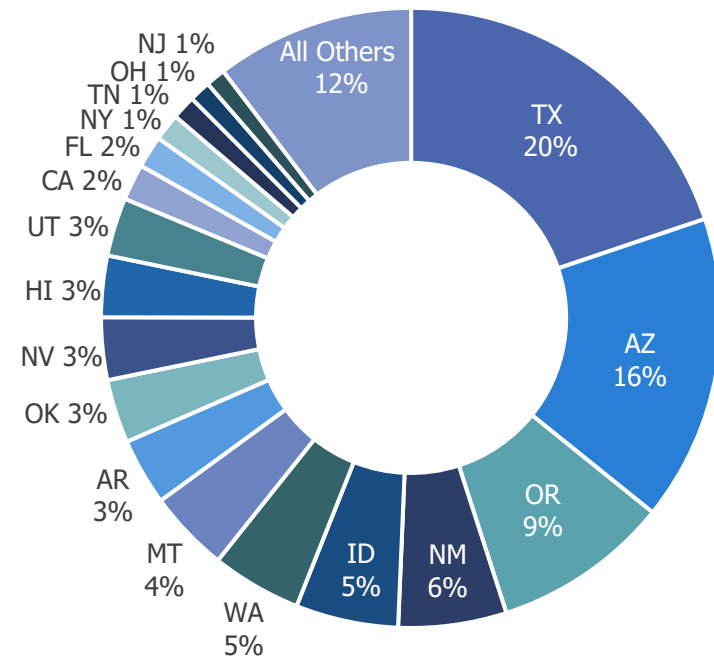
Business Profile

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

Lines of Business*



Geography*



We write business in 48 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 2023 Results

Q3 2023

Net Loss:	\$(21.5) million or \$(11.83) per share ¹
Operating Loss²:	\$(11.7) million or \$(6.43) per share ¹
Combined Ratio:	150.1%
Gross Premiums Written:	3.4%
Net Premiums Written:	19.4%

Impacting Q3 Continuing Operations Results:

- Combined Ratio of 150.1 points is inclusive of 30.6 points from catastrophe losses and 9.7 points from unfavorable prior year loss development
- Unfavorable prior loss development was primarily driven by the exited contract binding line of business

Year-to-Date

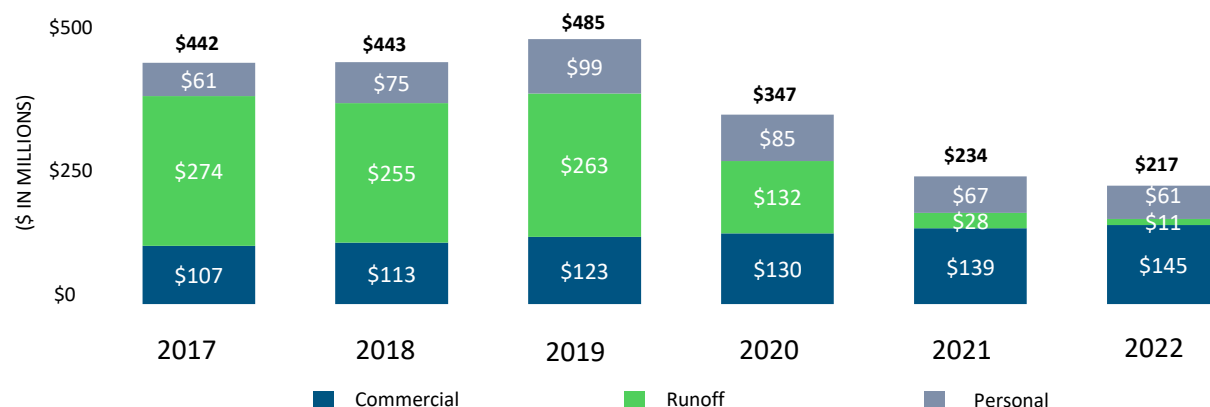
Net Loss:	\$(72.6) million or \$(39.91) per share ¹
Operating Loss²:	\$(29.1) million or \$(16.00) per share ¹
Combined Ratio:	173.8%
Gross Premiums Written:	-1.1%
Net Premiums Written:	12.7%
Book Value Per Share	\$(4.27)

Impacting Year-to-Date Continuing Operations Results:

- Combined Ratio of 173.8 points is inclusive of 12.9 points from catastrophe losses and 13.9 points from unfavorable prior year loss development
- 33.8 points of combined ratio from write-off of receivable from reinsurer

Gross and Net Premiums

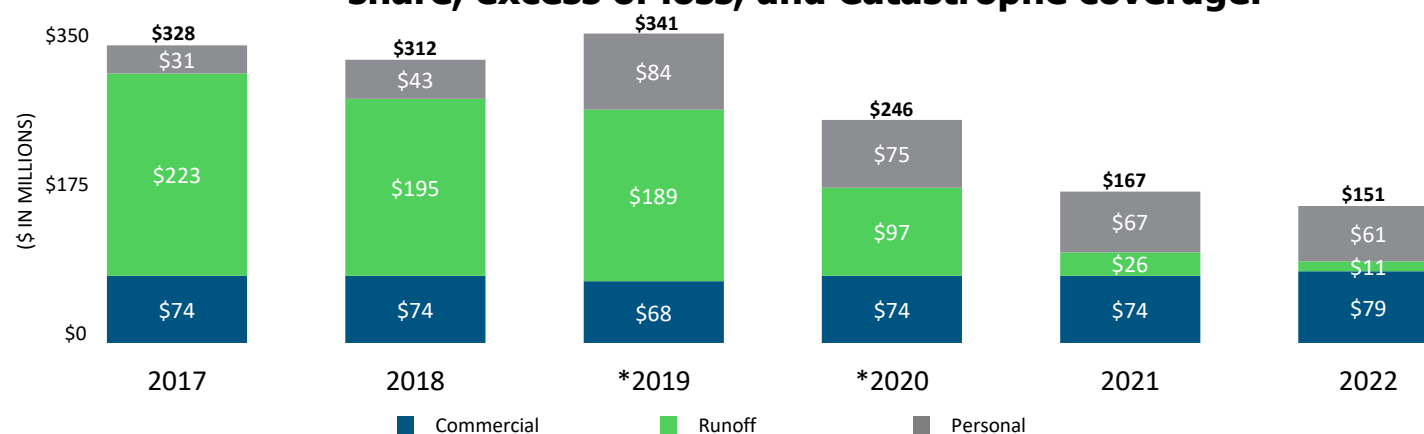
Gross Premiums Written



- 2022 Premiums reducing due to the maturing of our runoff lines of business that we exited in prior periods

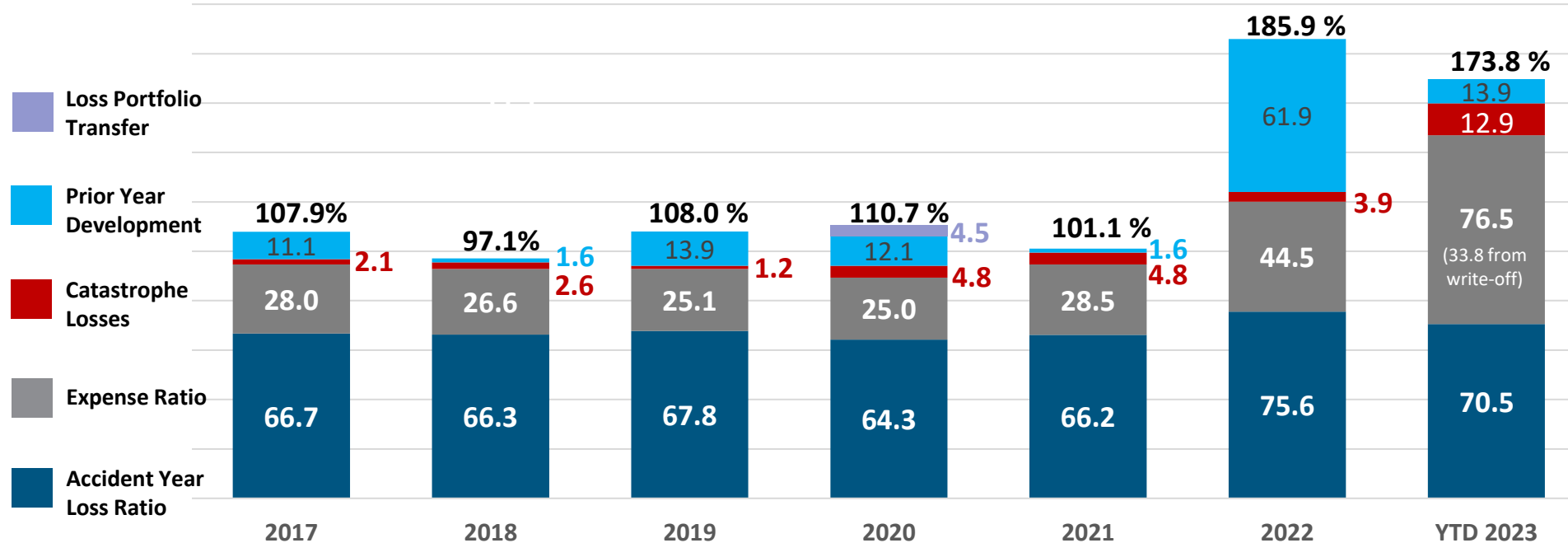
Net Premiums Written

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

The 3rd quarter of 2023 experienced \$11.3 million net CAT losses representing 30.6 and 10.3 points to the current quarter and year-to-date combined ratio, respectively. This exceeds recent past historical experience due to the Maui wildfire event.

Prior Year Development

Receivable Write-off

Adverse Prior Year Reserve Development added \$15.2 million in net losses and contributed 13.9 points to the year-to-date 2023 combined ratio driven primarily by our exited contract binding business; \$36.8M write-off of receivable from reinsurer added 33.8 points to the year-to-date 2023 combined ratio.

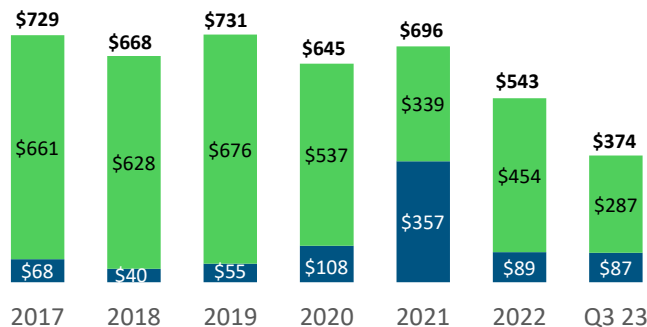
Investment Highlights: Liquidity and Short Duration

Investment Highlights

- The portfolio has **significant liquidity** at **9/30/2023**
 - \$109 million in total cash and treasury bills
 - 94% of debt securities having maturities of five years or less
 - No illiquid hedge funds, private equity investments, private placements
- A short duration of 1.2 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, while 2022 & 2023 reduced in part to discontinuing the bulk of our excess & surplus operations
- Cash and invested assets of \$374M represented ~34% of total assets in Q3 2023



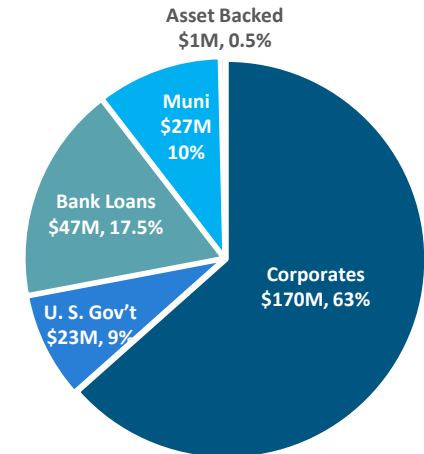
Debt Portfolio

As of 9/30/2023

Size:	\$268M
Duration:	1.2 yrs
Avg. Rating:	Baa1
Book Yield:	4.6%
Tax-Adj Yield:	4.7%

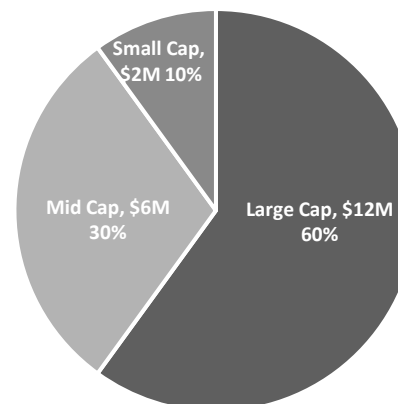
Debt By Classification

As of 9/30/2023



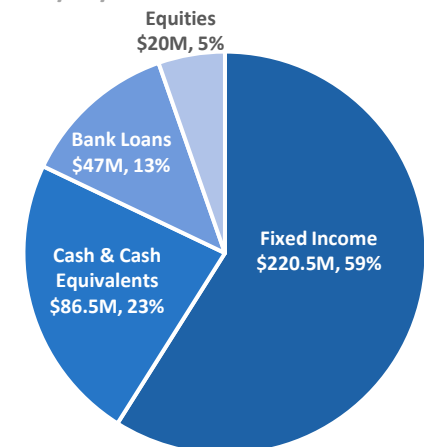
Equities By Type

As of 9/30/2023



Asset Allocation

As of 9/30/2023



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

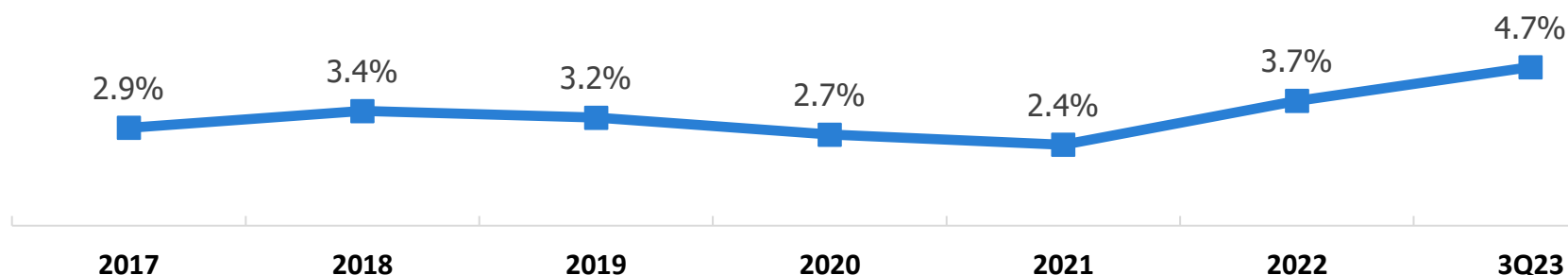
Debt Securities

- 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

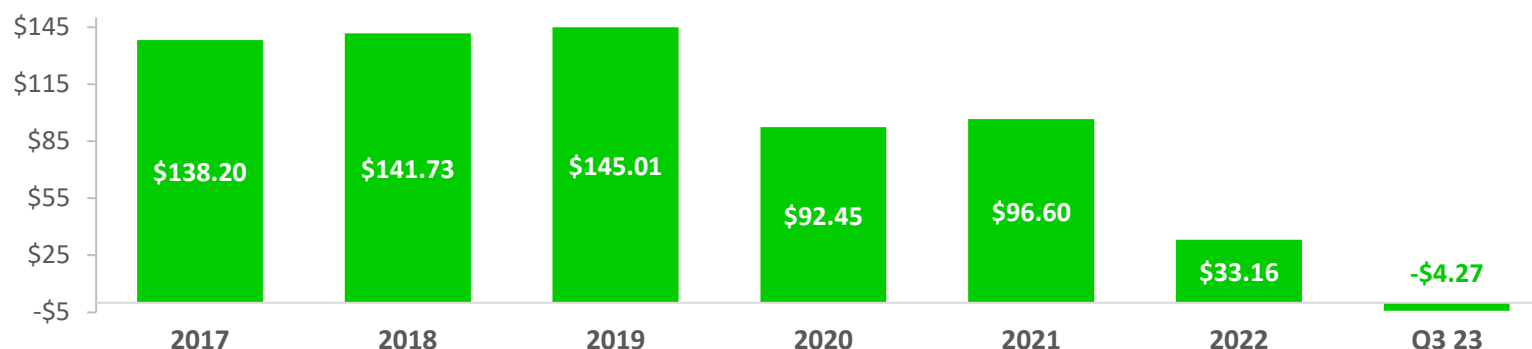
- Primarily long-term holdings with potential for significant capital appreciation
- Rigorous value-based investment discipline focused on individual security selection
- Opportunistic approach seeks to capture value resulting from market-related price dislocations and short-term orientation of market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

Tax-Adjusted Yield



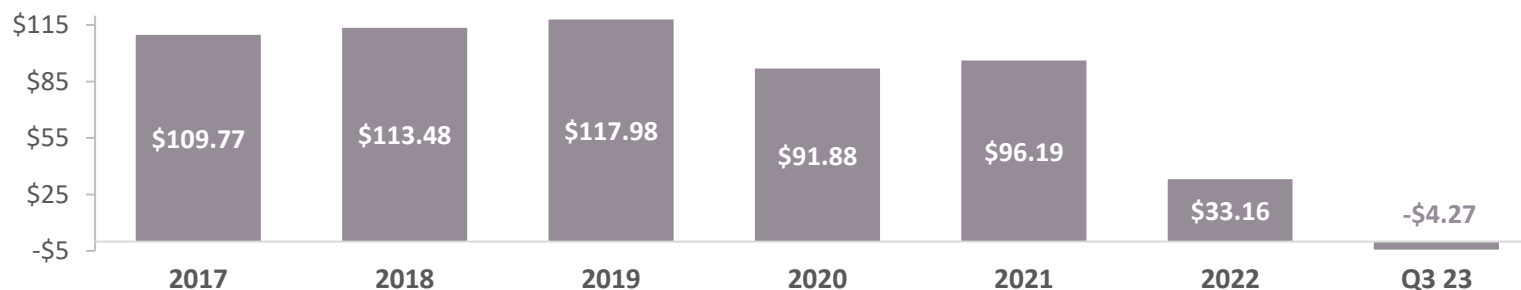
Book Value Per Share

Book Value Per Share



The 36% decline from 2019 to 2020 was largely due to the write down of Goodwill and intangible assets in Q1 2020. The 66% decline from 2021 to 2022 was driven by adverse prior year reserve development and an allowance recorded on our deferred tax asset. The decline from 2022 to 2023 was driven by a write down of a receivable from a reinsurer, higher CAT loss stemming primarily from the Maui wildfire event and adverse prior year reserve development.

Tangible Book Value Per Share¹



Tangible Book Value Per Share decreased 79% from year-end 2022.
This reduction was primarily driven by a write down of a receivable from a reinsurer.



HALLMARK
FINANCIAL

Supplemental Information

Historical Data

(\$ 000s)

	Gross Premiums Written	Investment Income	Net Income (2) (3)	Operating Cash Flow	GAAP Equity / (Deficit) (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	\$ 53.70	\$72.00	
2005	\$ 89,467	\$ 3,836	\$ 9,186	\$ 29,654	\$ 85,188	\$ 58.90 10%	\$81.60	13%
2006	\$ 213,945	\$ 10,461	\$ 9,191	\$ 75,962	\$ 150,731	\$ 72.60 23%	\$99.10	21%
2007	\$ 249,472	\$ 13,180	\$ 27,863	\$ 85,684	\$ 179,621	\$ 86.50 19%	\$158.60	60%
2008	\$ 243,849	\$ 16,049	\$ 12,899	\$ 48,712	\$ 179,412	\$ 86.10 0%	\$87.70	-45%
2009	\$ 287,558	\$ 14,947	\$ 24,575	\$ 61,698	\$ 226,517	\$ 112.60 31%	\$79.60	-9%
2010	\$ 320,973	\$ 14,849	\$ 7,403	\$ 36,360	\$ 235,278	\$ 116.90 4%	\$91.00	14%
2011	\$ 354,881	\$ 15,880	\$ (10,891)	\$ 24,610	\$ 215,572	\$ 111.90 -4%	\$69.90	-23%
2012	\$ 389,842	\$ 15,293	\$ 3,524	\$ 33,682	\$ 220,537	\$ 114.50 2%	\$93.90	34%
2013	\$ 460,027	\$ 12,884	\$ 8,245	\$ 68,338	\$ 238,118	\$ 123.60 8%	\$88.90	-5%
2014	\$ 473,218	\$ 12,383	\$ 13,429	\$ 33,684	\$ 252,037	\$ 131.10 6%	\$120.90	36%
2015	\$ 514,223	\$ 13,969	\$ 21,863	\$ 52,936	\$ 262,026	\$ 137.20 5%	\$116.90	-3%
2016	\$ 549,077	\$ 16,342	\$ 6,526	\$ 30,854	\$ 265,736	\$ 142.80 4%	\$116.30	-1%
2017	\$ 604,156	\$ 18,874	\$ (11,553)	\$ 7,199	\$ 251,118	\$ 138.20 -3%	\$104.30	-10%
2018	\$ 663,015	\$ 18,232	\$ 10,347	\$ (32,935)	\$ 255,532	\$ 141.70 3%	\$106.90	2%
2019	\$ 843,831	\$ 20,604	\$ (1,132)	\$ 27,670	\$ 262,761	\$ 145.00 2%	\$175.70	64%
2020	\$ 743,368	\$ 12,920	\$ (94,351)	\$ (69,327)	\$ 167,706	\$ 92.40 -36%	\$35.60	-79%
2021	\$ 653,754	\$ 9,715	\$ 9,004	\$ 43,768	\$ 175,521	\$ 96.60 5%	\$43.50	22%
2022	\$ 653,543*	\$ 13,454	\$ (108,110)	\$ (164,957)	\$ 60,294	\$ 33.16 -66%	\$5.80	-87%
3Q 2023	\$ 165,976*	\$ 12,573	\$ (72,559)	\$ (172,079)	\$ (7,768)	\$ (4.27) -113%	\$1.92	-67%

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

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	Diluted
	from Continuing Operations	Less Tax			
	Before Tax	Effect	After Tax	Average Shares Diluted	Per Share
Third Quarter 2023					
Reported GAAP measures	\$ (16,205)	\$ 456	\$ (16,661)	1,818	\$ (9.16)
Excluded deferred tax valuation allowance	\$ -	\$ (4,970)	\$ 4,970	1,818	\$ 2.73
Operating loss	\$ (16,349)	\$ (4,544)	\$ (11,805)	1,818	\$ (6.49)
Third Quarter 2022					
Reported GAAP measures	\$ (30,260)	\$ (1,007)	\$ (29,253)	1,819	\$ (16.08)
Excluded tax valuation allowance	\$ -	\$ (6,471)	\$ 6,471	1,819	\$ 3.56
Excluded investment (gains)/losses	\$ 2,821	\$ 592	\$ 2,229	1,819	\$ 1.23
Operating loss	\$ (27,439)	\$ (6,886)	\$ (20,553)	1,819	\$ (11.30)
Year-to-Date 2023					
Reported GAAP measures	\$ (73,903)	\$ (211)	\$ (73,692)	1,818	\$ (40.53)
Excluded deferred tax valuation allowance	\$ -	\$ (15,209)	\$ 15,209	1,818	\$ 8.37
Excluded write-off receivable from reinsurer	\$ 36,826	\$ 7,733	\$ 29,093	1,818	\$ 16.00
Excluded investment (gains)/losses	\$ 248	\$ 52	\$ 196	1,818	\$ 0.11
Operating loss	\$ (36,829)	\$ (7,635)	\$ (29,194)	1,818	\$ (16.06)
Year-to-Date 2022					
Reported GAAP measures	\$ (99,701)	\$ 5,242	\$ (104,943)	1,818	\$ (57.72)
Excluded tax valuation allowance	\$ -	\$ (30,359)	\$ 30,359	1,818	\$ 16.70
Excluded investment (gains)/losses	\$ 6,764	\$ 1,420	\$ 5,344	1,818	\$ 2.94
Operating income	\$ (92,937)	\$ (23,697)	\$ (69,240)	1,818	\$ (38.09)

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.

	2018	*2019	*2020	2021	2022	Q3 2023
Reported GAAP measures						
Stockholder's Equity	\$ 255,532	\$ 262,761	\$ 167,706	\$ 175,521	\$ 60,294	\$ (7,768)
Shares Outstanding	1,803	1,812	1,814	1,817	1,818	1,818
Book Value per share (1)	\$ 141.73	\$ 145.01	\$ 92.45	\$ 96.60	\$ 33.16	\$ (4.27)
Excluded Goodwill						
Excluded Goodwill	\$ 44,695	\$ 44,695				
Excluded Intangible Assets, net	\$ 7,555	\$ 5,087	\$ 1,322	\$ 944	\$ -	\$ -
Excluded deferred tax impact	\$ (1,314)	\$ (795)	\$ (278)	\$ (198)	\$ -	\$ -
Total excluded intangible assets from stockholders equity	\$ 50,936	\$ 48,987	\$ 1,044	\$ 746	\$ -	\$ -
Tangible stockholder's equity						
Tangible stockholder's equity	\$ 204,596	\$ 213,774	\$ 166,662	\$ 174,775	\$ 60,294	\$ (7,768)
Shares outstanding	1,803	1,812	1,814	1,817	1,818	1,818
Tangible Book Value per share (1)	\$ 113.48	\$ 117.98	\$ 91.88	\$ 96.19	\$ 33.16	\$ (4.27)

(1) includes the effect of the one-for-ten reverse stock split effective 1/1/2023

*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.



NASDAQ: HALL

For more information, visit www.hallmarkgrp.com