UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2015
Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ________ to _________
Commission file number: 001-36712

STATE NATIONAL COMPANIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**26-0017421**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1900 L. Don Dodson Drive Bedford, Texas	**76021**
(Address of Principal Executive Offices)	(Zip Code)

(817) 265-2000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.001 par value per share	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐	Accelerated Filer ☒	Non-Accelerated Filer ☐ (Do not check if a smaller reporting company)	Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).Yes ☐ No ☒

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2015 was $339,562,737.

As of March 10, 2016, the registrant had 42,508,877 shares of common stock outstanding.

Documents Incorporated by Reference

Portions of the Proxy Statement for the 2016 Annual Meeting of Shareholders to be held June 3, 2016 are incorporated by reference into Part III of this Form 10-K.

STATE NATIONAL COMPANIES, INC.

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PART I

Note on Forward-Looking Statements

Various statements contained in this Form 10-K are forward-looking statements made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include projections and estimates concerning the timing and success of specific projects, future production, revenues, income and capital spending of State National Companies, Inc. (the "Company" or "State National"). The Company's forward-looking statements are generally, but not always, accompanied by words such as "estimate," "believe," "expect," "will," "plan," "target," "could," or other words that convey the uncertainty of future events or outcomes.

There can be no assurance that actual developments will be those anticipated by us, and therefore you are cautioned not to place undue reliance on the Company's forward-looking statements. Actual results may differ materially from those expressed or implied in these statements as a result of significant risks and uncertainties, including, but not limited to, our ability to recover from our capacity providers, the cost and availability of reinsurance coverage, challenges to our use of issuing carrier or fronting arrangements by regulators or changes in state or federal insurance or other statutes or regulations, our dependence on a limited number of business partners, potential regulatory scrutiny of lender-placed automobile insurance, level of new car sales, availability of credit for vehicle purchases and other factors affecting automobile financing, our ability to compete effectively, a downgrade in the financial strength ratings of our insurance subsidiaries, our ability to accurately underwrite and price our products and to maintain and establish accurate loss reserves, changes in interest rates or other changes in the financial markets, the effects of emerging claim and coverage issues, changes in the demand for our products, the effect of general economic conditions, breaches in data security or other disruptions with our technology, and changes in pricing or other competitive environments.

Forward-looking statements involve inherent risks and uncertainties that are difficult to predict and many of which are beyond the Company's control. The Company cautions readers that various factors could cause its actual financial and operational results to differ materially from those indicated by forward-looking statements made from time-to-time in news releases, reports, proxy statements, registration statements, and other written communications, as well as oral statements made from time to time by representatives of the Company. These and other important factors, including those contained in Item 1A, "Risk Factors" in this Annual Report on Form 10-K, may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. The forward-looking statements contained in this Form 10-K speak only as of the date hereof, and the Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Item 1: Business

Overview

We are a leading specialty provider of property and casualty insurance operating in two niche markets across the United States. In our Program Services segment, we leverage our "A" (Excellent) A.M. Best rating, expansive licenses and reputation to provide access to the U.S. property and casualty insurance market in exchange for ceding fees. In our Lender Services segment, we specialize in providing collateral protection insurance ("CPI"), which insures personal automobiles and other vehicles held as collateral for loans made by credit unions, banks and specialty finance companies. Both of these businesses have a long track record of profitable operations.

Our Program Services segment generates significant fee income, in the form of ceding fees, by offering issuing carrier capacity to both specialty general agents and other producers ("GAs"), who sell, control, and administer books of insurance business that are supported by third parties that assume reinsurance risk. These reinsurers are domestic and foreign insurers and institutional risk investors ("capacity providers") that want to access specific lines of U.S. property and casualty insurance business. Issuing carrier ("fronting") arrangements refer to our business in which we write insurance on behalf of a capacity provider and then reinsure the risk under these policies with the capacity provider in exchange for ceding fees. Our broad licensing authority, strong A.M. Best "A" (Excellent) rating, which is the third highest out of fifteen rating categories used by A.M. Best, and track record of over 27 consecutive years of profitable operations allow us to act as the policy-issuing carrier for business produced by GAs.

We reinsure substantially all of the underwriting and operating risks in connection with our fronting arrangements to our capacity providers. In many cases, we hold significant collateral to secure the associated reinsurance recoverables. We have ceded over $12 billion in premiums over 27 years with no unpaid reinsurance recoverables. Because we generally only write in these lines on a fronting basis, GAs and reinsurers can be confident that we will not compete with them with respect to the business they write through us. In exchange for providing our insurance capacity, licensing and rating to our GA and capacity provider clients, we receive ceding fees averaging in excess of 5% of gross written premiums. In addition, we require minimum annual fees, which we refer to as “capacity fees” for smaller programs, programs with uncertain premium volume or a program that involves exclusivity. For the year ended December 31, 2015, our Program Services segment generated $1.1 billion in gross written premium, $68.0 million of earned ceding fees and $53.5 million in pre-tax income.

Our Lender Services segment generates premium primarily from providing CPI to our credit union, bank and specialty finance clients. Lenders purchase CPI to provide coverage for automobiles or other vehicles of borrowers who do not uphold their obligation to insure the collateral underlying the loan. Our lender clients pay us directly for CPI and then add the cost of CPI to the borrower’s loan. Our CPI business is fully vertically integrated: we manage all aspects of the CPI business cycle, including sales and marketing, policy issuance, policy administration, underwriting and claims handling. We believe that we are the only vertically integrated CPI provider focused primarily on this product offering, and that the breadth and flexibility of our services enable us to provide our lender clients with responsive and customized policy terms, services and reporting to better serve their needs. We service our CPI clients through InsurTrak, our proprietary technology platform that allows both us and our clients to track and manage a CPI program. We believe our InsurTrak system is highly scalable with the capacity to service a much larger volume of business without significant changes to the system. As of December 31, 2015, we had over 600 CPI clients with portfolios totaling 4.7 million CPI loans. In addition, our integrated CPI platform and InsurTrak have contributed to our ability to write business for credit unions, banks and specialty finance companies.

We have an exclusive relationship with CUNA Mutual Insurance Society (“CUNA Mutual”) to provide CPI. CUNA Mutual is a leading insurance company focused on providing a range of insurance products to credit unions in the U.S. This alliance provides us access to over 95% of the nation’s credit unions through CUNA Mutual’s substantial sales force and has enabled us to achieve a leading market share of approximately 26% in the credit union CPI market. In 2014, we amended our relationship with CUNA Mutual to increase our retention of the business subject to the alliance to 70% from 50% for policies written on or after July 1, 2014. Our relationship with CUNA mutual has contributed significantly to our growth in the credit union market. We believe that banks and specialty finance companies also present significant growth opportunities for this business. For the year ended December 31, 2015, our Lender Services segment generated $146.0 million in gross written premium, $120.5 million in net written premium and pre-tax income of $18.8 million.

We write our insurance business through our three insurance company subsidiaries, which have expansive licenses to write insurance in the U.S. State National Insurance Company, Inc. (“SNIC”) and National Specialty Insurance Company (“NSIC”) are admitted carriers licensed to write property and casualty business in all 50 states and the District of Columbia. United Specialty Insurance Company (“USIC”) is an admitted carrier in Delaware and is eligible to write surplus lines in all 50 states and the District of Columbia. A surplus lines insurer is not directly regulated by the insurance departments in the states in which it writes and as a result has more latitude when insuring hard-to-place risks found in the surplus lines market. Having both admitted and surplus lines authority allows us to provide a broader and more flexible product offering in our fronting business. These companies operate under an intercompany pooling agreement in order to take advantage of our strong “A” (Excellent) group rating from A.M. Best.

Our long history of profitable operations has enabled us to maintain our "A" (Excellent) A.M. Best rating while writing gross premiums in excess of $1.2 billion in 2015 on approximately $263 million of shareholders' equity, or over four times operating leverage at December 31, 2015. As of December 31, 2015, we had total assets of approximately $2.4 billion. The following table sets forth selected financial data for the periods presented:

	Year Ended December 31,		
($ in thousands)	2015	2014	2013
Program Services			
Gross written premium	$ 1,119,125	$ 909,501	$ 691,067
Net written premium	(3)	(5)	(1,018)
Ceding fees	67,956	45,732	32,898
Pre-tax income	53,503	34,646	20,526
Lender Services			
Gross written premium	$ 145,962	$ 124,624	$ 118,898
Net written premium	120,511	99,079	87,791
Pre-tax income (loss)	18,816	(4,650)	15,793
Adjusted pre-tax income (1)	18,816	13,150	15,793
Consolidated			
Gross written premium	$ 1,265,087	$ 1,034,125	$ 809,965
Net written premium	120,508	99,074	86,773
Ceding fees	67,956	45,732	32,898
Pre-tax income	69,554	1,317	25,498
Net income	44,666	11,013	22,711
Adjusted pre-tax income (1)	69,554	45,864	35,700
Adjusted net income (2)	44,666	28,683	22,084

(1) Adjusted pre-tax income is considered a non-GAAP financial measure because it reflects the following adjustments to pre-tax income, which is the most directly comparable measure calculated in accordance with GAAP: the amount of founder special compensation, non-recurring offering-related expenses and contract modification expense related to the amendment to our alliance agreement with CUNA Mutual. Management believes this measure is helpful to investors because it provides comparability in evaluating core financial performance between periods. Management uses adjusted pre-tax income to evaluate core financial performance against historical results without the effect of these items. For a reconciliation of this non-GAAP financial measure, see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Results of Operations—Consolidated Results of Operations."

(2) Adjusted net income is considered a non-GAAP financial measure because it reflects the following adjustments to net income, which is the most directly comparable measure calculated in accordance with GAAP: the pro forma provision for income taxes as if the Company had been treated as a C Corporation for each period presented, and the exclusion (net of tax benefit) of the increase in the Company's deferred tax asset as a result of the conversion to C Corporation status, the amount of founder special compensation, non-recurring offering-related expenses and contract modification expense related to the amendment to our alliance agreement with CUNA Mutual. Management believes this measure is helpful to investors because it provides comparability in evaluating core financial performance between periods. For a reconciliation of this non-GAAP financial measure, see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Results of Operations—Consolidated Results of Operations."

2014 Capital Raise and Nasdaq Listing

On June 25, 2014, we completed the sale of an aggregate of 31,050,000 shares of our common stock in a private placement exempt from registration under the Securities Act of 1933, which we refer to in this report as the private placement. Subsequently, we registered the resale of these shares with the Securities and Exchange Commission and our common stock began trading on the Nasdaq Global Select Market on November 3, 2014.

Our Business Segments and Services

We have two primary business segments, Program Services and Lender Services.

- **Program Services** — Our Program Services segment is a fronting business. We leverage our "A" (Excellent) A.M. Best rating, expansive licenses and reputation to provide access to the U.S. property and casualty insurance market to capacity providers in exchange for ceding fees. Through our fronting business, we write a wide variety of insurance products, principally including general liability insurance, commercial liability insurance, commercial multi-peril insurance, property insurance and workers compensation insurance. We are able to reinsure substantially all of the underwriting and operating risks associated with our fronting arrangements to our capacity providers. We mitigate the credit risk of our capacity providers generally by either selecting well capitalized, highly rated authorized reinsurers or requiring that the reinsurer post substantial collateral to secure the reinsured risks.

- **Lender Services** — Our Lender Services segment specializes in providing CPI, which insures personal automobiles and other vehicles held as collateral for loans made by credit unions, banks and specialty finance companies. Our lender clients pay us directly for CPI and then add the cost of CPI to the loans of borrowers who do not uphold their obligation to the lender to insure the collateral underlying the loan. We also provide ancillary insurance products that currently are not actively marketed.

Our Competitive Strengths

We believe that our specialized business model provides us with the following competitive strengths:

- ***Successful and Focused U.S. Specialty Platform***. We have a track record of over 27 consecutive years of success in the CPI and fronting markets in the U.S. with leading market positions in these two businesses. We believe that our focus on these two niche markets provides us with the opportunity for achieving superior long-term growth and profitability.

- ***Efficient, Fee-Based Fronting Business Model***. We have a specialized fronting model providing specialty GAs and capacity providers with access to our "A" (Excellent) rating from A.M. Best, expansive licensing and reputation in exchange for ceding fees averaging in excess of 5% of gross premiums written. For 2015, our Program Services segment generated $1.1 billion of gross written premium and $73.5 million of ceding fees, of which $68.0 million was earned during 2015. We have ceded over $12 billion in premiums over 27 years with no unpaid reinsurance recoverables. We reinsure substantially all liabilities associated with our fronting arrangements and require our GAs (with capacity providers either providing some of these services directly or being responsible for the performance by the GAs) to handle all the services associated with policy administration, claims handling, cash handling, underwriting and other traditional insurance company services. As a result, we retain virtually no risk other than the credit risk of the capacity provider, and we incur minimal incremental expense on additional premium volume produced. Using our model, we are able to generate significant gross written premiums on a relatively small capital base compared to other insurance carriers. We believe that our long track record of success in this market and credibility with A.M. Best enables us to maintain our "A" rating with a relatively high operating leverage that we expect would be difficult for a competitor to obtain.

- ***Vertical Integration and Proprietary Technology in CPI Business***. We believe that we are the only fully vertically integrated CPI provider focused primarily on this product offering, in that our operations cover sales, policy issuance, policy administration, underwriting, claims handling and all other aspects of the CPI business cycle. Our integration enables us to provide our lender clients with responsive and customized policy terms, services and reporting to better serve their needs. We believe that other CPI market participants that contract out distribution, policy issuance or other functions of the business are not as well positioned to adapt to market and product changes and offer customized solutions as we are. In addition, our proprietary insurance tracking system, InsurTrak, delivers real-time visibility to us and our clients into current borrower insurance information. This versatile and scalable system can be easily customized for each client at little incremental cost to us. As of December 31, 2015, we had over 600 CPI clients with portfolios totaling 4.7 million CPI loans.

- ***Profitable, Low Risk Business Model***. Through our specialized Program Services and Lender Services businesses, we are able to generate profits with limited underwriting risk in our insurance subsidiaries. We have operated our business profitably for over 27 consecutive years. We are able to do this in our Program Services business by generating significant ceding fees on gross premiums written and reinsuring substantially all of the risk inherent in the fronting arrangement to our capacity providers, except for the credit risk of the capacity providers, which we mitigate by careful client selection, credit underwriting and, in many cases, significant collateral requirements. Our Program Services business earned ceding fees of $68.0 million, $45.7 million and $32.9 million for the years ended December 31, 2015, 2014 and 2013, respectively. Because we control all aspects of the CPI business operations, we can readily customize our product coverage and reporting to each client. We underwrite each of our lender client accounts and have the ability to move quickly to re-price the business in response to market or financial changes. Our fully vertically integrated CPI business historically has had high frequency but low severity losses and has produced attractive net combined ratios of 86.5%, 89.3% and 85.1% for the years ended December 31, 2015, 2014 and 2013, respectively. The net combined ratio is the sum of the net loss ratio and the net expense ratio, as each is described below, and is a measure of the overall profitability of our Lender Services business, measuring its underwriting profitability and operational efficiency.

- ***Strong Competitive Position***. We believe that our long track record with A.M. Best, insurance regulators and business partners, our specialized business model with significant operating leverage, our experience in assessing and monitoring credit risks and our willingness to refrain from writing primary business that competes with our capacity providers create meaningful market requirements for competitors that may desire to enter the Program Services business. We also believe that our fully vertically integrated CPI business, proprietary technology platform, access to over 95% of the credit union market through our exclusive relationship with CUNA Mutual and our 40-year track record of focusing on the CPI market give us a significant competitive advantage in our Lender Services business.

- ***Proven Leadership and Experienced Management Team.*** We have a highly experienced and capable management team that is led by Terry Ledbetter, Chairman and Chief Executive Officer. Our senior executives have an average of over 20 years of experience with us. Our management team enjoys strong relationships, experience and reputation with rating agencies, insurance regulators and business partners. Utilizing our profitable, specialized business model, our management has positioned us for further growth in the future.

Our Growth Strategies

We intend to continue our profitable growth by focusing on the following strategies:

- ***Capitalize on Positive Market Opportunities***. We believe that macroeconomic conditions will provide us with growth opportunities in each of our business segments. Increased capital in the reinsurance market coupled with a decline in reinsurance rates is causing reinsurers to review options for accessing the primary market, which should create demand for our fronting services in our Program Services segment. Downgrades of insurance companies may also create increased demand for our fronting capacities. In addition, we believe that the increased role of capital markets alternatives to reinsurance, the capitalization of hedge fund-backed reinsurers and the growth of the non-U.S. reinsurance market generally, including syndicates of Lloyd's of London and Bermuda-based reinsurers, should drive demand for our fronting services, as these firms typically do not have direct access to the U.S. insurance market. In our CPI business, we believe that organic growth from our existing lender clients is, and potential new business will be, driven by overall growth in lenders' portfolios as a result of rising automobile sales, higher average auto loan sizes and increasing credit availability.

- ***Expand Direct Relationships with Capacity Providers and Specialty GAs***. Historically, we have relied on our relationship-driven channels to generate new fronting business with only a modest sales and marketing effort. In addition, we have historically relied on brokers to identify GAs in need of fronting arrangements. With the additional capital from the private placement in 2014, we are addressing what we believe is increased demand from domestic and non-U.S. carriers and institutional risk investors. We continue to build direct relationships with GAs and capacity providers and have hired additional fully-dedicated sales staff. Also, we are now attending international conferences in addition to meetings by our senior executives with capacity providers in London and Bermuda. These meetings and conferences along with the direct marketing campaign with GAs have produced new business and viable leads. We plan to continue such efforts to further expand our fronting business.

- ***Expand Our CPI Business within the Banking and the Specialty Finance Company Market***. Because of our exclusive relationship with CUNA Mutual, we have focused our CPI business primarily on credit unions. As a result, our penetration in the CPI market for banks and specialty finance companies is low. However, we believe that the CPI market for banks, particularly regional and smaller banks, and specialty lenders provides growth opportunities and that the specialty finance company market is more attractive to CPI providers due to potentially higher incidences of borrowers' failing to obtain or maintain the required insurance. As such, we have increased focus on sales in these markets.

Our History

The Ledbetter family founded a small general agency in 1973 selling CPI exclusively in Texas. By the late 1970s, the Company began to expand the CPI business beyond Texas.

We acquired the management contract for a Texas county mutual company (the "County Mutual") in 1979 to accommodate the growth of its CPI business and to reduce operating costs. The management contract enabled us to retain the profits generated from business we originated. After acquiring the management contract for the County Mutual, we received inquiries from other carriers and GAs seeking to access the Texas non-standard automobile market, and recognized the opportunity to act as an issuing carrier. The volume of fronting business that the County Mutual wrote as an issuing carrier grew significantly. Most of this business was non-standard automobile insurance in the state of Texas, and all of this business was 100% reinsured. No A.M. Best rating was required and the County Mutual was able to write at very high leverage ratios. At one time, the County Mutual wrote approximately $400 million of annual premium on approximately $2 million of capital and surplus. This high degree of leverage, the related reinsurer credit underwriting undertaken to support that leverage, and the significant collateral held against potential losses, were the foundation of our Program Services business model. After legislative changes reduced the advantages of the county mutual model, we sold the management contract controlling the County Mutual in 2009.

In 1984, we formed SNIC to write our CPI business directly. SNIC received an "A" (Excellent) rating from A.M. Best in 1993, and has maintained the rating for over 20 years. To utilize excess capital in SNIC, we expanded our fronting operations outside of Texas.

In 1999, we acquired NSIC, an inactive insurance company and in 2006 we formed USIC to write coverage on an excess and surplus basis. Both of these insurance companies are subsidiaries of SNIC and operate under an intercompany pooling agreement with SNIC in order to take advantage of the "A" (Excellent) group rating from A.M. Best.

In July of 2009, we formed an exclusive relationship with CUNA Mutual, a leading provider of insurance products to credit unions. This alliance provides us with access to their sales force. That sales force is valuable, in part, because CUNA Mutual has business relationships in 95% of credit unions nationwide. Additionally, over the last 15 years, we have expanded our CPI business through opportunistic acquisitions of multiple CPI agencies and books of business.

Program Services Segment

Business Overview

In our Program Services segment, we leverage our “A” (Excellent) A.M. Best rating, expansive licenses, and reputation to provide access to the U.S. property and casualty insurance market in exchange for ceding fees. This access is sought by GAs and capacity providers in the U.S. property and casualty insurance market. The most common underlying business reasons are set out below:

- GAs writing specialized books of business supported by capacity providers; and
- Capacity providers seeking a fronting arrangement, including:
  - insurers that have access to origination but require broader licensing or given their lower rating, the use of an “A” A.M. Best rating to access business;
  - foreign insurers writing in the United States, either directly or through GAs;
  - domestic insurers seeking additional business free of channel conflicts;
  - insurers looking to reduce financial leverage; and
  - institutional risk investors that need to write through licensed, highly rated entities.

Many of our fronting programs are arranged with the assistance of brokers that are seeking to provide customized insurance solutions for specialty insurance business that requires an A.M. Best “A” rated carrier. In exchange for access to our rating, licensing and reputation, we generally charge ceding fees ranging between 5% and 6% of gross written premium. We are able to do this profitably because our specialized fronting business model relies on our GAs or capacity providers to provide the infrastructure associated with providing policy administration, claims handling, cash handling, underwriting, or other traditional insurance company services. Our low expense structure enables the Program Services segment to produce significant additional premium volume with only minimal incremental expense increase.

Under our specialized fronting arrangements, we retain virtually no risk by reinsuring the following risks:

- underwriting risk, or the insurance and underwriting risk related to the policies issued, including the risk of loss in excess of policy limits or for extra-contractual obligations;
- credit risk of the GAs, or the risk that all premiums will be collected and remitted by the producer; and
- business risk, or the regulatory and compliance risk related to the policies issued as well as any costs related to the administration and run-off of the policies.

We reinsure substantially all of the underwriting risk, credit risk of GAs and business risk to the capacity providers and collect ceding fees on the transactions we facilitate. We remain exposed to the credit risk of capacity providers, or the risk that one of our capacity providers becomes insolvent or otherwise unable or unwilling to pay policyholder claims. To mitigate this credit risk of capacity providers, we have established financial criteria for selecting capacity providers as well as comprehensive methodologies and systems to monitor and mitigate this risk. See “—Relationships with Capacity Providers and Producers” below. Our specialized fronting arrangements have allowed us to cede over $12 billion in premiums over 27 years with no unpaid reinsurance recoverables.

Relationships with Capacity Providers and Producers

The primary capacity providers that partner with us either make the strategic decision not to write certain business directly or cannot write directly. We offer a fully licensed platform with a strong capital position and strong relationships with regulators and rating agencies that have been cultivated for over three decades. Our low cost business model allows us to charge ceding fees that we believe are on the lower end of the market range, which is an additional attraction for capacity providers to work with us. We typically enter into these arrangements with respect to specified portions of a capacity provider's business, rather than all of their portfolio.

In connection with writing Program Services business, we enter into agency and reinsurance agreements with both the producer (typically GAs) and the capacity provider (reinsurer) whereby the producer and capacity provider are required to deal directly with each other to develop business structures and terms and to implement and maintain the ongoing contractual relationship. In a number of cases, the producer and capacity provider for a program are part of the same organization or are otherwise affiliated. The producer generally is the party that will handle the marketing and underwriting of the policies (subject to certain limitations), the overall administration of the business, including preparing reports and making payments (i.e. premiums, commissions, losses, loss adjustment expenses ("LAE"), assessments, etc.) required pursuant to the applicable agreements, and handling of claims (up to certain limits and in some cases in conjunction with the reinsurer). The reinsurer undertakes to monitor the producer and to be responsible for the performance of the producer. As a result of our contract design, substantially all of the underwriting risk and business risk (other than credit risk of the reinsurer) inherent in the arrangement is borne by the reinsurer. We take the risk of insolvency or other failure to pay by a capacity provider and also have potential liability for a breach of our obligations on limited matters, such as a fraudulent or criminal act on our part, fines or penalties assessed for our willful misconduct, a failure to defend an action or prosecute an appeal or our bad faith or negligent rejection of a settlement within policy limits.

Since the funds for premiums, commissions, losses, assessments and other payments are settled directly between the producer and reinsurer, we do not record any receivables or payables. This direct settlement of balances due between the parties has several benefits to us, including reduced leverage ratios, increased Best's Capital Adequacy Ratio ("BCAR") score (used by A.M. Best to monitor capital adequacy), and reduced staffing requirements.

As compensation for writing this business, we receive ceding fees generally from the GAs or other producers. If a producer defaults on its obligation to pay these fees (or any other amount due), the capacity provider is obligated to make the payment under the guarantee contained in the contracts. We charge ceding fees averaging in excess of 5% of gross written premium. The fee may be adjusted upward if, for example, the business uses more surplus (i.e., has a longer tail) or requires more administration or oversight due to collateral requirements. In addition, we require minimum annual fees, which we refer to as "capacity fees" for smaller programs, programs with uncertain premium volume or a program that involves exclusivity.

We select GAs based on their experience, capacity to provide the necessary services, reputation and financial stability. We regularly monitor the performance of our GAs to ensure that there is no material deterioration with respect to such factors over time.

We generally require new capacity providers to either (1) have an A.M. Best rating of "A-" (Excellent) or better, have equity and/or capital and surplus of at least $300 million and not have other issues that impact credit quality negatively or (2) post substantial collateral. We review historical financial results of proposed capacity providers to assess financial stability. The ceding fee we charge rises if deemed necessary for increased risk associated with the credit quality of the capacity provider. For the three years ended December 31, 2015, the average ceding fee was 5.6% (excluding capacity fees) of gross earned premium.

If a capacity provider does not meet our selection criteria, we utilize a number of risk mitigating levers, including requiring the posting of collateral and excess collateral, equity and/or capital and surplus and financial covenants, guarantees by affiliates and premium and/or policy limit caps. With respect to reserve calculation, we maintain reserve calculation control for all of our programs. Where a GA or reinsurer has loss development data available, our internal actuarial department will review such data for sufficiency (i.e., how much history is provided), consistency, and whether the product for which history is provided is consistent with our product. If the data is not credible or where no data is available, the loss reserves are calculated using our experience or industry experience for similar products or lines of business. With respect to collateral, we view eligible collateral either as securities with a National Association of Insurance Commissioners ("NAIC") Securities Valuation Office rating of NAIC-1 or an evergreen letter of credit. The

NAIC SVO has a credit rating scale for securities held in an insurer's investment portfolio ranging from NAIC-1 (lowest risk) to NAIC-6 (highest risk, near or at default). We monitor and manage our outstanding collateral agreements on a weekly basis and set our collateral requirements to further limit our credit exposure.

Our contracts relating to collateral typically provide for changes in the level of collateral required based on estimates of reinsurance recoverables. Our contracts may also provide for changes in level of collateral required based on certain events, such as changes in a capacity provider's ratings and level of equity and/or capital and surplus. We require each program to submit projections to enable us to receive collateral a quarter in advance. We typically set collateral in excess of gross recoverables. As of December 31, 2015, we held $2.7 billion in collateral securing $1.5 billion in reinsurance recoverables. In addition, we have $384.3 million of unsecured reinsurance recoverables, of which $377.2 million relates to the Program Services segment. See "—Reinsurance."

We believe that the increased role of capital markets alternatives to reinsurance, the capitalization of hedge fund-backed reinsurers and the growth of the non-U.S. reinsurance market generally should drive demand for our Program Services, as these firms typically do not have direct access to the U.S. insurance market.

Products

In our Program Services segment we act as an issuing carrier for foreign and domestic insurance and reinsurance companies in exchange for ceding fees, writing a wide variety of insurance products, principally including general liability insurance, commercial liability insurance, commercial multi-peril insurance, property insurance and workers compensation insurance.

Sales and Marketing

We source our fronting arrangements from reinsurance brokers and directly with GAs and capacity providers. Historically, we have been able to fully leverage our capital base through our traditional distribution channels with only a modest sales and marketing effort and using our existing infrastructure. We historically have been opportunistic and relationship-driven, rather than systematic, with respect to new business generation but recently began actively marketing our services. We continue to build direct relationships with GAs and capacity providers and have hired additional fully-dedicated sales staff. Also, we are now attending international conferences in addition to meetings by our senior executives with capacity providers in London and Bermuda. These meetings and conferences along with the direct marketing campaign with GAs have produced new business and viable leads. We plan to continue such efforts to further expand our fronting business.

We do not expect that developing direct relationships will have a negative effect on existing large brokerage relationships. In our experience, brokers typically view fronting deals as opportunistic rather than core to their business and generally accept that companies that primarily act as issuing carriers will and must develop direct relationships. We have a number of long-term relationships with GAs, brokers and reinsurers. Turnover generally occurs when capacity providers choose not to use a fronting arrangement, loss performance deteriorates, a GA forms its own insurance company, or a capacity provider exits a particular line of business. We have historically been able to more than offset cancelled programs with a combination of new fronting arrangements and organic growth in existing fronting arrangements.

Competition

We believe there are relatively few active competitors in the fronting business. We compete primarily on the basis of price, customer service, geographic coverage, financial strength ratings, licenses, reputation, business model, experience and generally not offering State National's products for our own account. Our principal competitors are companies such as James River Group Holdings, Ltd., Clear Blue Financial Holdings, LLC., Spinnaker Insurance Company, AmTrust Financial Services, Inc. and Argo Group, which we believe only act as an issuing carrier on a limited basis or if a GA chooses to use an alternative structure in which the insurer retains the risk as opposed to that involves an issuing carrier. Unlike us, some of our competitors offer policy administration and are willing to assume a significant portion of the underwriting risk. We believe our long track record of success in this market and long-standing relationship and credibility with A.M. Best enable us to maintain our "A" (Excellent) A.M. Best rating with a relatively high operating leverage that we expect would be difficult for a competitor to obtain.

Geographic Distribution

We write our insurance business through our three insurance company subsidiaries, SNIC, NSIC and USIC. SNIC and NSIC are admitted carriers licensed to write property and casualty business in all 50 states and the District of Columbia. USIC is an admitted carrier in Delaware and is eligible to write surplus lines in all 50 states and the District of Columbia. The following table sets forth the distribution of our Program Services gross premium written by state as a percent of total gross premium written for the years ended December 31, 2015, 2014 and 2013:

Program gross premium written

($ in thousands)	Years Ended December 31, 2015		2014		2013	
California	$ 240,114	21.5 %	$182,178	20.0 %	$148,342	21.5 %
Texas	175,100	15.6 %	117,713	12.9 %	88,823	12.9 %
New York	136,168	12.2 %	127,299	14.0 %	103,549	15.0 %
Florida	123,927	11.1 %	81,456	9.0 %	45,718	6.6 %
New Jersey	43,259	3.9 %	38,710	4.3 %	25,837	3.7 %
Arizona	36,270	3.2 %	33,527	3.7 %	20,286	2.9 %
North Carolina	31,471	2.8 %	29,586	3.3 %	24,669	3.6 %
Michigan	31,181	2.8 %	32,983	3.6 %	16,086	2.3 %
Other jurisdictions	301,635	27.0 %	266,049	29.3 %	217,757	31.5 %
Total	$1,119,125	100.0 %	$909,501	100.0 %	$691,067	100.0 %

Lender Services Segment

Business Overview

In our Lender Services segment, we primarily offer CPI, which insures automobiles or other vehicles held as collateral for loans made by credit unions, banks and specialty finance companies. CPI is added by lenders to the loans of borrowers who do not uphold their obligation to the lender to insure the collateral underlying the loan. The product is underwritten directly by us. We also provide ancillary insurance products that we do not actively market. For the year ended December 31, 2015, approximately 96% of our CPI business was written with credit unions. In our CPI business, for 2015, the average lender loan balance was approximately $14,700 and our average claim was approximately $2,800. As of December 31, 2015, we had over 600 CPI clients and with portfolios totaling 4.7 million CPI loans.

Relationship with CUNA Mutual. We entered into a Collateral Protection Alliance Agreement with CUNA Mutual in 2009, which we refer to as the alliance agreement, which provided us access to a wider array of clients, tested and validated the quality of our technology platform, and added significant additional scale to our CPI business. CUNA Mutual has business relationships in 95% of credit unions nationwide. We believe these relationships and CUNA Mutual's substantial sales force have enabled us to achieve a leading market share of approximately 26% in the credit union CPI market. For the years ended December 31, 2015 and 2014, the CPI business generated through our alliance with CUNA Mutual represented 60.0% and 56.3% of our total CPI business respectively. Pursuant to the alliance with CUNA Mutual, CUNA Mutual outsourced CPI administration and claims handling to us.

In connection with the alliance agreement, the parties also entered into a reinsurance agreement pursuant to which we initially agreed to cede 50% of the alliance business to CUNA Mutual. However, in 2014 we amended the alliance agreement to increase our retention of the business subject to the alliance to 70% from 50% for business written on or after July 1, 2014, and in exchange we made payments to CUNA Mutual totaling $17.8 million. In addition, CUNA Mutual pays a ceding commission of 21% and reimburses a proportional share of direct commissions and other reimbursable expenses paid to accounts. The policies subject to the reinsurance agreement with CUNA Mutual insure automobiles or other vehicles held as collateral for loans made by credit unions across the U.S. For a description of the coverages under these policies, see "—CPI Product" below. CUNA Mutual is an admitted reinsurer and we do not hold collateral as security for the reinsurance recoverables under this reinsurance agreement.

Our agreement with CUNA Mutual extends through July 31, 2018. Thereafter, the agreement will be automatically renewed for consecutive three year terms unless either party elects to not renew by notifying the other party in writing at least 12 months prior to the expiration date. CUNA Mutual has the ability to terminate its alliance agreement with us upon a change in control as defined in the contract, which includes a change in control of State National or certain of its subsidiaries. When the alliance agreement terminates, depending upon the reason for the termination and subject to certain exceptions, we may be required to buy out CUNA Mutual's right to participate in future alliance business at a price equal to the previous 12 months net premium times a percentage based on the loss ratio of the business during that period, or CUNA Mutual may have the right to buy out our right to participate in future alliance business.

Vertical Integration. Our CPI business is fully integrated in that our operations in this segment cover sales, policy issuance, policy administration, underwriting, claims handling and all other aspects of the CPI business cycle. We believe we are the only vertically integrated CPI provider focused primarily on this product offering. Because we control all aspects of the CPI business operations, we can readily customize our product coverage and reporting to each client. We underwrite each of our lender client accounts and have the ability to move quickly to re-price the business in response to market or financial changes.

CPI Product

Coverages. A basic CPI policy provides coverage for physical damage to an insured's automobile or other vehicles. The key difference between CPI and traditional automobile physical damage coverage is that CPI is purchased by lenders to protect their interest in collateral when it has been established that a borrower has not fulfilled his or her obligation to the lending institution to purchase adequate insurance coverage. By contrast, traditional automobile coverage is secured by individuals to protect their interests in the automobile in addition to their lienholder's interest, if applicable.

CPI coverage can be written to protect the interest of the lending institution in the automobile, which is known as single interest coverage, or it can be written to protect the interest of both the lender and the borrower, which is known as dual interest coverage. At the lender's request, a CPI program may also include a variety of additional coverage options supplementing the basic physical damage protection. Although the lender is generally responsible for paying our premiums, some of the coverage we offer provides for reimbursement of premiums the lender paid to us in the event of a borrower default. The most significant coverage options include:

- *Collision*: Covers accidental loss or damage to the collateral caused by collision with another object or rollover.
- *Premium Deficiency*: Provides for reimbursement of earned premiums subject to a wide range of options such as physical damage status and loss ratio.
- *Conversion/Skip Loss*: Provides coverage for the loss due to concealment, disposal, or misappropriation of the collateral by the borrower.

Allowance for Policy Cancellations. We experience a high level of policy cancellations with our CPI product because borrowers often purchase insurance at the traditional rates that provides protection for them in addition to their lender. Due to this high level of policy cancellations, we split the premium into two pieces: (1) an allowance for future cancellations and (2) premiums that we expect to earn, which we refer to as "stick premiums." We earn stick premiums on a pro rata basis over the terms of the policies. The CPI premiums written as presented in this document reflect the effects of the allowance for policy cancellations including any adjustments related to re-estimation of the allowance. As such, our recorded CPI premiums written are those that we expect to earn while those that are expected to cancel are included in the allowance for policy cancellations. We record an allowance for policy cancellations for the estimated amount of return premiums and policy fees, net of commission expense and premium taxes that will be incurred on expected future policy cancellations associated with the Company's business. Our allowance for policy cancellations represents the estimated amount of all future cancellations to be processed once a borrower provides satisfactory documentation of valid insurance at any given point in time based on known facts and circumstances.

The process of establishing the allowance for policy cancellations is complex and imprecise as it must take into consideration many variables that are subject to the outcome of future events. As a result, informed subjective estimates and judgments as to our ultimate cancellations are an important component of our reserving process. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Critical Accounting Estimates—Allowance for Policy Cancellations" in Item 7 of this report.

Ancillary Products

As part of our agreement with CUNA Mutual, we no longer market any non-CPI products to credit unions, which include, for example, Guaranteed Auto Protection ("GAP") insurance (covers the difference between the value of the collateral and the outstanding loan balance), mortgage protection insurance, credit life and disability/debt protection insurance, extended warranty insurance and accidental death & dismemberment insurance. For all non-CPI products, except for GAP, we act as an agent rather than an underwriter. As we increase our penetration in the bank and specialty lender market, we may offer these products on a case-by-case basis to non-credit union clients.

Sales and Marketing

Because of our exclusive relationship with CUNA Mutual, we have focused our CPI sales efforts primarily on credit unions. We have also sold CPI programs opportunistically to banks and specialty lending institutions. As of December 31, 2015, we had over 600 CPI clients nationwide and focus on developing new relationships on an ongoing basis. Measured by premium volume, as of December 31, 2015, approximately 90% of our CPI clients have been with us for two or more years and approximately 75% have been with us for five or more years.

CPI is sold by full-time sales professionals whose territories are organized geographically in order to facilitate extensive face-to-face interactions and to develop and leverage regional expertise. Sales managers are paid bonuses monthly based on sales volume. These bonuses are uncapped and may exceed annual salary. Most sales managers we hire have prior experience selling to financial institutions. In addition, our alliance with CUNA Mutual provides us with access to their sales force. That sales force is valuable, in part, because CUNA Mutual has business relationships in 95% of credit unions nationwide. The alliance agreement with CUNA Mutual requires CUNA Mutual to assist in the sale of new CPI loans, and CUNA Mutual provides incentives to their sales force to achieve sales goals.

We have increased focus on sales with banks and specialty finance companies. With a concentrated effort on these prospective clients, and given that our technology and operating platform have the capacity to service many more and larger clients, we believe these markets represent opportunities for significant future growth. We are devoting additional sales and marketing efforts towards these markets.

Client Servicing

We believe that our vertical integration is a key differentiator for us relative to competitors. We act as the agency, program administrator, and underwriter for our clients. Some of the key functions offered include new client assistance, tracking, borrower notification, contact center performance and claims. We believe that other CPI market participants that contract out certain functions of the business are not as well positioned to adapt to market and product changes or offer customized solutions.

New Client Assistance. When we bring on a new client, the client's loan portfolio is uploaded to our service platform, InsurTrak. Immediately after a new sale, our relationship with the client is transferred from a sales manager to an account manager. Account managers serve as a liaison between the client and our service team to ensure that our standards of service are being upheld. Account managers are supported by dedicated service teams.

Proprietary Technology — InsurTrak. A key component of our product and service offering is InsurTrak, our proprietary insurance tracking system. InsurTrak delivers real-time visibility into the current borrower insurance information. A key feature of InsurTrak is that it is highly customizable for the client at virtually no incremental cost to us. Clients have their own ways of managing their businesses, and, therefore, require different analyses, data, and reporting outputs. The platform allows clients and us to view transaction histories, monitor calls, submit insurance updates and claims, and view reports.

Service Operations Center. Another key component of our service offering is our service operations center. The service operations center handles over 900,000 calls from borrowers annually and is available 24 hours a day, 7 days a week. During regular business hours, borrowers can speak with a representative, while after hours callers receive answers to routine insurance questions using an interactive voice response system. Borrowers can also submit insurance information online, through the mail to a dedicated P.O. Box, or via a dedicated fax line.

Additionally, we take measures to assist borrowers in becoming compliant with insurance requirements of their loans. We send at least two customized borrower notices, and each month make thousands of outbound insurance verifications in order to avoid unnecessary CPI placements.

Policy Issuance and Claims Processing. In the event that borrowers let their insurance coverage lapse or that new borrowers fail to obtain the required coverage, we notify the borrower of the need to obtain coverage. Should a borrower fail to comply after receiving at least two notices, we will issue a retroactive CPI policy in accordance with the parameters established with the lender on the borrower's loan. The cost of the CPI policy is added to the borrower's loan balance and is remitted to us by the lender. If the borrower purchases or reinstates private coverage or demonstrates existing coverage, we cancel the policy and issue a premium refund.

Once a policy has been issued, if a loss event occurs, we offer an easy electronic claim submission process to clients. Clients can file electronic claims for single or multiple losses through InsurTrak and can track the status, appraisers' reports, and final settlement sheets of all claims remotely using this system.

Competition

The CPI market is very competitive. However, we believe the CPI market is mature and has significant barriers to entry, such as the required investment in technology and industry-specific knowledge. We compete primarily on the basis of price, coverages offered, claims handling, customer service, geographic coverage, financial strength ratings, licenses, reputation, technology, relationships with business partners and experience. We compete in the credit union market chiefly with two other CPI providers, Allied Solutions ("Allied") and Southwest Business Corporation ("SWBC"). Allied is a Carmel, Indiana-based independent agency selling over 100 commercial and consumer insurance products with a similar market share to us. Allied has grown principally through acquisitions since its founding in 1977 and was sold to Securian, the parent corporation of Minnesota Life Insurance Company, in 2004. SWBC is a San Antonio, Texas-based GA selling a wide range of insurance, mortgage and investment products to commercial and consumer clients. Together with these two companies, we served approximately 71% of the total credit union CPI market in 2015, with the remainder being assorted smaller players and businesses which have opted to self-insure. We estimate that our individual share of the credit union CPI market is approximately 26%.

We have increased our focus on growing our share of bank and specialty finance company CPI programs. These markets are large and growing and possess significant potential for future revenue growth. We believe that the bank automobile loan market is substantially larger than the credit union market based on outstanding loan balances.

While we sell CPI almost exclusively, our two main competitors in the credit union market, Allied and SWBC, sell a much wider range of products, many of which are offered by CUNA Mutual. We believe that our monoline focus, vertical integration and proprietary technology platform provide for faster underwriting and better servicing of CPI clients and continue to serve as a key differentiator in the eyes of our clients.

We believe that a strengthening economy, an aging automobile fleet, and easier access to credit have contributed to recent increases in vehicle sales. In addition, the size of lenders' automobile loan portfolios has been growing, reflecting the lenders' willingness to lend and their willingness to lend at a higher loan-to-value ratio. We believe that there is opportunity for us to benefit from future growth in the CPI market, both organically and through new account sales.

Geographic Distribution

The following table sets forth the distribution of our Lender Services gross premium written by state as a percent of total gross premium written for the years ended December 31, 2015, 2014 and 2013:

Lender gross premium written

($ in thousands)	Years Ended December 31, 2015		2014		2013	
Texas	$ 17,809	12.2 %	$ 16,550	13.3 %	$ 15,925	13.4 %
New York	8,990	6.2 %	7,853	6.3 %	5,745	4.8 %
California	8,182	5.6 %	6,781	5.4 %	8,542	7.2 %
Missouri	7,600	5.2 %	7,161	5.7 %	7,624	6.4 %
Pennsylvania	8,156	5.6 %	6,306	5.1 %	5,931	5.0 %
Illinois	6,396	4.4 %	5,740	4.6 %	6,464	5.4 %
Florida	5,921	4.1 %	5,007	4.0 %	5,063	4.3 %
Arizona	5,810	4.0 %	4,307	3.5 %	4,213	3.5 %
Other states	77,098	52.8 %	64,919	52.1 %	59,391	50.0 %
Total	$145,962	100.0 %	$124,624	100.0 %	$118,898	100.0 %

Reinsurance

We use quota share reinsurance in both Program Services and Lender Services segments. “Quota share reinsurance” refers to reinsurance under which the insurer transfers, or cedes, a fixed percentage of liabilities, premium and related losses for each policy covered on a pro rata basis in accordance with the terms and conditions of the relevant agreement. In our Lender Services business, we use quota share reinsurance only in connection with our alliance with CUNA Mutual.

In our Program Services business, we have developed standardized forms of agreements, including our quota share reinsurance agreement, which we use in substantially all of our fronting arrangements. Under our fronting arrangements, we generally enter into a 100% quota share reinsurance agreement whereby we cede to the reinsurer substantially all of our gross liability under all policies issued by and on behalf of us by the general agent. The reinsurer is generally entitled to 100% of the net premiums received on policies reinsured, less the ceding fee to us, the commission paid to the general agent and premium taxes on the policies. The reinsurer assumes and is liable for substantially all losses incurred in connection with the risks under the reinsurance agreement, including judgments and settlements. As a result, we bear virtually no business, credit or underwriting risk (except the risk of the reinsurer’s insolvency). The reinsurer holds us harmless and indemnifies us for all risks under the agreement. The sole consideration provided by us, in exchange for the ceding fees, is to permit the policies that are reinsured under the agreement to be issued in our name.

Our standard reinsurance agreement provides several events of termination, including that the agreement may be terminated by any party (us, the reinsurer or general agent) by providing at least 90 days written notice to the other parties; immediately by mutual consent of us and the reinsurer; immediately upon written notice by the reinsurer or us in the event of the cancellation or non-renewal of the general agent’s insurance license; by the reinsurer after 30 days written notice of the general agent’s failure to pay the reinsurer the premium due (subject to a grace period after the notice is provided); by us if the reinsurer is insolvent or credit for reinsurance is disallowed; after 30 days written notice by any party in the event that our insurance subsidiary, the reinsurer or general agent passes under the control of any other company or changes a majority of its officers or board; by us if necessary to comply with law; and by us if the reinsurer is required to increase the amount of collateral or is required to secure its obligations under the agreement in specified situations, such as if the reinsurer’s A.M. Best rating falls below the specified level or the reinsurer’s capital and surplus is reduced by the specified amount during any rolling twelve-month period.

Our capacity providers generally pay incurred losses directly, and we do not need to access the collateral. The collateral is usually held by a bank trustee and is available to be accessed by us to pay the losses incurred in the unusual case in which a capacity provider does not pay such losses.

As of December 31, 2015, we held $2.7 billion in collateral securing $1.5 billion in reinsurance recoverables. In addition, we have $384.3 million of unsecured reinsurance recoverables, of which $377.2 million relates to the Program Services segment and $7.1 million relates to our quota share reinsurance with CUNA Mutual, an A.M. Best "A" rated carrier. Collateral held to support reinsurance recoverables generally consists of securities with a NAIC Securities Valuation Office rating of one or evergreen letters of credit. The following table sets forth our ten largest gross reinsurance recoverables by reinsurer as of December 31, 2015:

10 Largest Gross Recoverables	A. M. Best Rating	Gross Recoverables	Collateral Held	Net Recoverables
($ in thousands)				
Knight Insurance Company, Ltd.	A-	$ 363,731	$ 453,588	$ (89,857)
Century Surety Company	B++	172,021	222,146	(50,125)
JRG Reinsurance Company	A-	139,293	157,311	(18,018)
State Automobile Mutual Insurance Company	A-	123,129	136,450	(13,321)
Star Insurance Company	B++	90,508	106,321	(15,813)
Savers Property & Casualty Insurance Corporation	B++	86,011	112,419	(26,408)
Greenlight Reinsurance, Ltd.	A	56,923	74,095	(17,172)
Tokio Millennium Re Ag (US Branch)	A++	54,744	—	54,744
Technology Insurance Company, Inc.	A	52,691	—	52,691
Ananke Re, Ltd.	NR	51,364	619,830	(568,466)
Total		1,190,415	1,882,160	(691,745)
Other recoverables total		721,245	815,609	(94,364)
Total recoverables		$ 1,911,660	$ 2,697,769	$ (786,109)

Collateral held is applied to each reinsurer, up to the amount of the gross recoverable, to determine the net recoverable for each reinsurer. The following table sets forth our ten largest net reinsurance recoverables by reinsurer as of December 31, 2015:

10 Largest Net Recoverables	A. M. Best Rating	Gross Recoverables	Collateral Applied	Net Recoverables
($ in thousands)				
Tokio Millennium Re Ag (US Branch)	A++	$ 54,744	$ —	$ 54,744
Technology Insurance Company, Inc.	A	52,691	—	52,691
Guideone Mutual Insurance Company	A	29,299	—	29,299
Starstone National Insurance Company	A-	29,123	—	29,123
QBE Insurance Corporation	A	25,020	—	25,020
Maiden Reinsurance North America, Inc.	A-	23,696	—	23,696
Lloyd's Syndicate 5820	A	21,140	—	21,140
Brit Syndicate 2987	A	19,431	—	19,431
California Capital Insurance Company	A	17,025	—	17,025
North Carolina Reinsurance Facility	NR	16,167	—	16,167
Total		288,336	—	288,336
Other recoverables total		1,623,324	1,527,335	95,989
Total recoverables		$ 1,911,660	$ 1,527,335	$ 384,325

The following table sets forth our aggregate reinsurance recoverables by reinsurer rating as of December 31, 2015:

Reinsurer Rating	% of Total Recoverables	Gross Recoverables	Collateral Applied	Net Recoverables
($ in thousands)				
A++	2.9 %	$ 55,514	$ 225	$ 55,289
A+	1.2 %	23,603	2,454	21,149
A	18.6 %	355,462	128,961	226,501
A-	41.1 %	786,577	727,804	58,773
B++	26.0 %	497,691	497,691	—
B+	0.3 %	5,761	5,761	—
B	0.4 %	8,006	8,006	—
E	0.6 %	11,540	11,540	—
NR	8.9 %	167,506	144,893	22,613
Total	100.0 %	$ 1,911,660	$ 1,527,335	$ 384,325

Ratings

Financial strength ratings are an important factor in establishing the competitive position of insurance companies and are important to our ability to market and sell our products. Rating organizations continually review the financial positions of insurers, including us. We have been assigned a group financial strength rating of "A" (Excellent) by A.M. Best, an independent rating agency that specializes in ratings for the insurance industry. A.M. Best's financial strength rating is an independent opinion of a company's financial strength and ability to meet its ongoing insurance policy obligations. According to A.M. Best, an "A" rating, which is the third highest out of fifteen rating categories used by A.M. Best, is assigned to insurers that have an excellent ability to meet their ongoing financial obligations to policyholders. This rating reflects A.M. Best's opinion of our ability to pay claims and is not an evaluation directed to investors regarding an investment in our common stock. This rating is subject to periodic review by, and may be revised downward or revoked at the sole discretion of, A.M. Best. There can be no assurance that we will maintain our current ratings. Future changes to our rating may adversely affect our competitive position.

Loss Reserves

We record loss reserves for estimated losses under the insurance policies that we write and for LAE related to the investigation and settlement of those losses. Our reserves for losses and LAE represent the estimated cost of all reported and unreported losses and LAE incurred and unpaid at any given point in time based on known facts and circumstances.

For the years ended December 31, 2015 and 2014, our loss reserves, net of reinsurance recoverables, were $12.8 million and $10.1 million, respectively. Since almost all of Program Services losses are ceded, our net loss reserves are primarily related to Lender Services business. There were no significant changes in the key assumptions utilized in the analysis and calculations of our loss reserves during the years ended December 31, 2015 and 2014.

The process of establishing the liability for unpaid losses and LAE is complex and imprecise as it must take into consideration many variables that are subject to the outcome of future events. As a result, informed subjective estimates and judgments as to our ultimate exposure to losses are an important component of our loss reserving process.

Loss reserves include statistical reserves and case estimates for individual claims that have been reported and estimates for claims that have been incurred but not reported at the balance sheet date as well as estimates of the expenses associated with processing and settling all reported and unreported claims, less estimates of anticipated salvage and subrogation recoveries. Estimates are based upon past loss experience modified for current trends as well as economic, legal and social conditions. Loss reserves are not discounted to present value, which would involve recognizing the time value of money and offsetting estimates of future payments by future expected investment income.

Incurred but not reported ("IBNR") reserve estimates are generally calculated by first projecting the ultimate cost of all claims that have occurred and then subtracting reported losses and loss expenses. Reported losses include cumulative paid losses and loss expenses plus case reserve estimates. The IBNR reserve includes a provision for claims that have occurred but have not yet been reported, some of which are not yet known to the insurer, as well as a provision for future development on reported claims.

We regularly review our loss reserves using a variety of actuarial methods and available information. We update the reserve estimates as historical loss experience develops, additional claims are reported and settled or as new information becomes available. Any changes in estimates are reflected in financial results in the period in which the estimates are changed.

Our loss reserves are reviewed quarterly by internal actuaries and at least annually by our external actuaries. The actuarial review may include an actual to expected loss analysis or more detailed reserve indications for segments with changes, as well as the internal actuarial department's reasonable reserve range compared to carried reserves. We review available actuarial indications and review carried reserves compared to the reasonable reserve range to determine whether any reserve adjustments are warranted.

With respect to reserve calculation for our Program Services business, we maintain reserve calculation control for all of our programs. Where a GA or reinsurer has loss development data available, an internal actuary will review such data for sufficiency (i.e., how much history is provided), consistency, and whether the product for which history is provided is consistent with our product. If the data is not credible or where no data is available, the loss reserves are calculated using our experience or industry experience for similar products or lines of business.

The majority of our net loss reserves carried relates to our CPI business. This business is very short-tailed due to the nature of the coverages provided, which means that length of time between the assumption of a risk and the payment of claims in respect of that risk is a relatively short period.

There is no one specific industry standard for determining reasonable reserve ranges. The internal actuarial reserve ranges are established by considering projections using variations in the underlying actuarial assumptions, projections based on different weightings of the individual actuarial methods, projections by statistical variability analysis or by other appropriate reserve considerations.

Our internal actuarial analysis of the historical data provides the factors we use in our actuarial analysis in estimating our loss and LAE reserves. These factors are implicit measures over time of claims reported, average case incurred amounts, case development, severity and payment patterns. However, these factors cannot be directly used as they do not take into consideration changes in business mix, claims management, regulatory issues, medical trends, and other subjective factors. We generally use a combination of actuarial factors and subjective assumptions in the development of up to five of the following actuarial methodologies:

- Paid Development Method — uses historical, cumulative paid losses by accident year and develops those actual losses to estimated ultimate losses based upon the assumption that each accident year will develop to estimated ultimate cost in a manner that is analogous to prior years.

- Paid Bornhuetter-Ferguson ("BF") Method — a combination of the Paid Development Method and the Expected Loss Method, the Paid BF Method estimates ultimate losses by adding actual paid losses and projected future unpaid losses. The amounts produced are then added to cumulative paid losses to produce the final estimates of ultimate incurred losses.

- Incurred Development Method — uses historical, cumulative incurred losses by accident year and develops those actual losses to estimated ultimate losses based upon the assumption that each accident year will develop to estimated ultimate cost in a manner that is analogous to prior years.

- Incurred Bornhuetter-Ferguson ("BF") Method — a combination of the Incurred Development Method and the Expected Loss Method, the Incurred BF Method estimates ultimate losses by adding actual incurred losses and projected future unreported losses. The amounts produced are then added to cumulative incurred losses to produce an estimate of ultimate incurred losses.

- Expected Loss Method — utilizes an expected ultimate loss ratio based on historical experience adjusted for trends multiplied by earned premium to project ultimate losses.

For each method, losses are projected to the ultimate amount to be paid. The Company then analyzes the results and may emphasize or deemphasize some or all of the outcomes to reflect actuarial judgment regarding their reasonableness in relation to supplementary information and operational and industry changes. For example, the Incurred Development Method is emphasized in the estimation of our short-tail lines of business while the Incurred BF Method is emphasized in the estimation of our long-tail lines of business. These outcomes are then aggregated to produce a single selected point estimate that is the basis for the internal actuarial department's point estimate for loss reserves.

In determining the level of emphasis that may be placed on some or all of the methods, internal actuaries periodically review statistical information as to which methods are most appropriate, whether adjustments are appropriate within the particular methods, and if results produced by each method include inherent bias reflecting operational and industry changes. This supplementary information may include:

- open and closed claim counts;
- statistics related to open and closed claim count percentages;
- claim closure rates;
- changes in average case reserves and average loss and LAE incurred on open claims;
- reported and ultimate average case incurred changes;
- reported and projected ultimate loss ratios; and
- loss payment patterns.

When reviewing reserves described in this section, we analyze historical data and estimate the impact of numerous factors such as (1) individual claim information; (2) industry and the historical loss experience; (3) legislative enactments, judicial decisions, legal developments in the imposition of damages, and changes in political attitudes; and (4) trends in general economic conditions, including the effects of inflation. This process assumes that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting future events. There is no precise method for subsequently evaluating the impact of any specific factor on the adequacy of reserves, because the eventual deficiency or redundancy is affected by multiple factors. The key assumptions we use in our determination of appropriate reserve levels include the underlying actuarial methodologies, consideration of pricing and underwriting initiatives, an evaluation of retention levels, and consideration of any claims handling impact on paid and incurred loss data trends embedded in the traditional actuarial methods.

With respect to the ultimate estimates for losses and LAE, the key assumptions remained consistent for the years ended December 31, 2015 and 2014. If circumstances bear out our assumptions, losses incurred in 2015 should develop similarly to losses incurred in 2014 and prior years. Thus, if the net loss ratio for premiums written in a given accident year is 40%, we expect that the net loss ratio for premiums written in that same accident year evolving in Year 2 would also be 40%. However, due to the inherent uncertainty in the loss development factors, our actual liabilities may differ significantly from our original estimates.

The reserve range below provides a sensitivity analysis regarding a range of reserve estimates considered to be reasonable based on current information and normal variations in actuals losses and assumptions. This range was developed based on actuarial judgment of the potential variance in key loss reserve factors which influence ultimate frequency and severity that can cause favorable or unfavorable development in loss reserves. However, due to the inherent uncertainty involved with projecting future loss events, the reserve range does not include all possible outcomes, and our actual liabilities may differ significantly from our original reserve estimates. Our analysis does not anticipate any extraordinary changes in the legal, social or economic environments that could affect the ultimate outcome of claims, or the emergence of claims from causes not currently recognized in the historical data. Such extraordinary changes or claim emergence may impact the level of required reserves in ways that are not presently quantifiable. Thus, while we believe our reserve estimates are reasonable given the information currently available, it must be recognized that actual emergence of losses could deviate, perhaps significantly, from our estimates and the amounts recorded by the Company.

Loss Reserves evaluated as of December 31, 2015
($ in millions)

Sensitivity Range	**Net Loss & LAE Reserves**	
Low end of the range	$	12.0
Carried reserves	$	12.8
High end of the range	$	13.9

The resulting range derived from this sensitivity analysis would have increased net reserves by approximately $1.1 million, or decreased net reserves by approximately $0.8 million, at December 31, 2015. The increase would have reduced pre-tax net income and stockholders' equity by approximately $1.1 million. The decrease would have increased pre-tax net income and stockholders' equity by approximately $0.8 million. A change in our reserves for net losses and LAE would not have an immediate impact on our liquidity, but would affect cash flow in future periods as the losses are paid.

Given the numerous factors and assumptions used in our estimates of net reserves for losses and LAE, and consequently this sensitivity analysis, we do not believe that it would be meaningful to provide more detailed disclosure regarding specific factors and assumptions and the individual effects of these factors and assumptions on our net reserves. Furthermore, there is no precise method for subsequently reevaluating the impact of any specific factor or assumption on the adequacy of reserves because the eventual deficiency or redundancy is affected by multiple interdependent factors.

Reconciliation of Loss and Loss Adjustment Expense Reserves

The table below shows the reconciliation of loss reserves on a gross and net basis for the years ended December 31, 2015, 2014 and 2013, reflecting changes in losses incurred and paid losses:

($ in thousands)	**2015**	**2014**	**2013**
Balance at January 1,	$ 1,209,905	$ 1,016,641	$ 975,708
Reinsurance recoverables	(1,199,780)	(1,006,892)	(965,965)
Net balance at January 1,	10,125	9,749	9,743
Incurred related to:			
Current year	53,965	41,314	33,163
Prior year	1,788	(493)	(1,073)
Total incurred	55,753	40,821	32,090
Paid related to:			
Current year	45,239	34,251	27,388
Prior year	7,887	6,194	4,696
Total paid	53,126	40,445	32,084
Net balance at December 31,	12,752	10,125	9,749
Reinsurance recoverables	1,352,022	1,199,780	1,006,892
Balance at December 31,	$ 1,364,774	$ 1,209,905	$ 1,016,641

The table below shows our case reserves and reserves for estimated losses that have been incurred but not reported for the years ended December 31, 2015, 2014 and 2013:

	Years Ended December 31,		
($ in thousands)	2015	2014	2013
Case reserves for unpaid losses and LAE, gross of related reinsurance recoverable	$ 495,260	$ 427,879	$ 444,741
IBNR reserves for unpaid losses and LAE, gross of related reinsurance recoverable	869,514	782,026	571,900
Unpaid losses and LAE, gross of related reinsurance recoverable	$ 1,364,774	$ 1,209,905	$ 1,016,641
Case reserves for unpaid losses and LAE, net of related reinsurance recoverable	$ 8,564	$ 6,383	$ 4,733
IBNR reserves for unpaid losses and LAE, net of related reinsurance recoverable	4,188	3,742	5,016
Unpaid losses and LAE, net of related reinsurance recoverable	$ 12,752	$ 10,125	$ 9,749

Loss Development

Changes in loss reserve estimates are unavoidable because such estimates are subject to the outcome of future events. Loss trends vary and time is required for changes in trends to be recognized and confirmed. Reserve changes that increase previous estimates of ultimate cost are referred to as unfavorable or adverse development or reserve strengthening. Reserve changes that decrease previous estimates of ultimate cost are referred to as favorable development or reserve releases.

The table below shows the gross and net loss development for business written for each period presented. The table reflects the changes in our loss and LAE reserves in subsequent years from the prior loss estimates based on experience as of the end of each succeeding year on a general accepted accounting principles ("GAAP") basis.

The table also sets forth, on a gross and net basis, for the years indicated, the cumulative amounts of loss and LAE payments as of the end of each succeeding year, and the re-estimates in later years of incurred losses, including payments.

The "cumulative redundancy (deficiency)" represents, as of December 31, 2015, the difference between the latest re-estimated liability and the amounts as originally estimated. A redundancy or favorable development means that the original estimate was higher than the current estimate. A deficiency or unfavorable development means that the current estimate is higher than the original estimate.

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Analysis of Loss and Loss Adjustment Expense Reserve Development

	As of and for the Year Ended December 31,										
($ in thousands)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Liability for Unpaid Losses & LAE, Gross of Reinsurance Recoverable	$263,488	$352,154	$ 371,503	$ 444,212	$ 588,490	$ 706,291	$ 806,125	$ 975,708	$1,016,641	$1,209,905	$1,364,774
Cumulative paid losses as of:											
one year later	$103,096	$167,194	$ 105,843	$ 251,230	$ 248,931	$ 311,243	$ 338,802	$ 403,552	$ 371,316	$ 356,019	
two years later	212,616	195,174	235,501	406,219	436,017	527,461	618,016	695,231	636,054		
three years later	204,666	265,355	322,794	523,402	579,798	711,648	823,163	915,124			
four years later	237,723	310,353	371,231	608,414	696,075	825,537	966,306				
five years later	256,728	334,637	402,655	684,832	760,119	892,551					
six years later	268,914	350,658	437,967	728,590	799,697						
seven years later	277,177	365,644	464,258	750,889							
eight years later	283,703	386,881	476,883								
nine years later	298,539	394,870									
ten years later	304,113										
Gross liability re-estimated as of:											
one year later	$267,549	$366,495	$ 346,183	$ 573,859	$ 634,050	$ 881,957	$1,065,701	$1,205,833	$1,222,519	$1,314,556	
two years later	324,739	322,617	412,890	632,382	810,852	1,010,473	1,178,255	1,346,794	1,265,079		
three years later	267,477	360,061	442,691	752,031	869,167	1,064,519	1,257,238	1,371,226			
four years later	284,847	375,753	494,314	794,421	917,196	1,096,044	1,269,396				
five years later	288,240	407,098	516,188	837,368	940,420	1,091,336					
six years later	308,705	425,042	529,987	856,701	934,177						
seven years later	320,549	428,815	550,112	850,902							
eight years later	322,545	445,155	547,014								
nine years later	336,884	443,618									
ten years later	336,763										
Cumulative redundancy/(deficiency)	$(73,275)	$(91,464)	$(175,511)	$(406,690)	$(345,687)	$ (385,045)	$ (463,271)	$ (395,518)	$ (248,438)	$ (104,651)	
Liability for Unpaid Losses & LAE, Net of Reinsurance Recoverable	$ 28,251	$ 23,644	$ 18,959	$ 14,483	$ 13,517	$ 10,121	$ 8,164	$ 9,743	$ 9,749	$ 10,125	$ 12,752
Cumulative paid losses as of:											
one year later	$ 14,744	$ 12,286	$ 11,076	$ 11,484	$ 7,019	$ 4,755	$ 4,018	$ 4,696	$ 6,195	$ 7,880	
two years later	19,739	16,569	13,650	12,720	7,040	5,078	4,854	5,451	6,855		
three years later	23,666	18,899	15,304	13,161	7,461	6,049	5,741	6,395			
four years later	25,847	20,574	15,825	13,496	8,226	6,674	6,576				
five years later	27,514	21,120	16,111	14,096	8,391	7,142					
six years later	27,715	21,428	16,713	14,048	8,575						
seven years later	28,017	21,492	16,662	14,046							
eight years later	28,082	21,443	16,658								
nine years later	28,034	21,439									
ten years later	28,030										
Net liability re-estimated as of:											
one year later	$ 28,906	$ 22,971	$ 18,569	$ 16,482	$ 9,956	$ 7,468	$ 8,260	$ 8,669	$ 9,257	$ 11,910	
two years later	29,575	23,099	17,808	14,766	8,854	7,886	8,261	8,481	10,883		
three years later	29,484	22,893	17,103	14,440	9,026	7,992	8,313	10,403			
four years later	29,259	21,770	16,926	14,368	8,893	8,074	10,181				
five years later	28,672	22,169	16,889	14,159	9,050	9,229					
six years later	28,733	22,190	16,733	14,216	9,173						
seven years later	28,771	21,504	16,806	14,074							
eight years later	28,085	21,449	16,660								

nine years later	28,036	21,439								
ten years later	28,030									
Cumulative redundancy/(deficiency)	$ 221	$ 2,205	$ 2,299	$ 409	$ 4,344	$ 892	$ (2,017)	$ (660)	$ (1,134)	$ (1,785)

The estimate for ultimate losses incurred on a net basis related to prior years increased by $1.8 million in 2015, decreased by $0.5 million in 2014 and decreased by $1.1 million in 2013. The unfavorable development in 2015 is primarily related to reserve strengthening on run-off programs in our Program Services segment ($2.0 million). The favorable development in 2014 is primarily due to $0.7 million of favorable development in our Lender Services segment. The favorable development in 2013 is primarily due to $1.5 million of favorable development in our Lender Services segment, partially offset by unfavorable development of $0.4 million in our Program Services segment. All of these changes were the result of the re-estimation of unpaid losses and LAE due to ongoing analyses of recent loss development trends as new data becomes available. We had no significant changes in reserving assumptions or methodologies.

Technology

Our Lender Services segment uses proprietary systems which are designed to deliver and manage the CPI business. Our proprietary insurance tracking system, InsurTrak, delivers real-time visibility to us and our clients into the most current borrower insurance information. In addition to InsurTrak, the other key aspects of the IT platform include the system of record for policy administration and the claims system. Our Program Services segment also uses proprietary systems. Key systems include the system of record for accounting transactions, the collateral management system and a projection system.

Employees

We had approximately 400 employees at December 31, 2015, none of whom is covered by a collective bargaining agreement. We believe that our employee relationships are good.

Regulation

General

We are subject to extensive regulation in the United States. SNIC, and its wholly-owned subsidiaries, NSIC and USIC, together operate in all fifty states and the District of Columbia. SNIC and NSIC are Texas domiciled insurers while USIC is domiciled in Delaware.

State Insurance Regulation

Insurance companies are subject to regulation and supervision by the department of insurance in the jurisdiction in which they are domiciled and, to a lesser extent, other jurisdictions in which they are authorized to conduct business. The primary purpose of such regulatory powers is to protect individual policyholders. State insurance authorities have broad regulatory, supervisory and administrative powers, including, among other things, the power to (a) grant and revoke licenses to transact business, including individual lines of authority, (b) set the standards of solvency to be met and maintained, (c) determine the nature of, and limitations on, investments and dividends, (d) approve policy rules, rates and forms prior to issuance, (e) regulate and conduct specific examinations regarding marketing, unfair trade, claims and fraud prevention and investigation practices, and (f) conduct periodic comprehensive examinations of the financial condition of insurance companies domiciled in their state. In particular, commercial policy rates and forms are closely regulated in all states.

Financial Oversight

Reporting Requirements

Our insurance subsidiaries are required to file detailed financial statements prepared in accordance with statutory accounting principles and other reports with the departments of insurance in all states in which they are licensed to transact business, either directly or through the NAIC. These reports include details concerning claims reserves held by the insurer, specific investments held by the insurer, and numerous other disclosures about the insurer's financial condition and operations. These financial statements are subject to periodic examination by the department of insurance in each state in which they are filed.

Investments

State insurance laws and insurance departments also regulate investments that insurers are permitted to make. Limitations are placed on the amounts an insurer may invest in a particular issuer, as well as the aggregate amount an insurer may invest in certain types of investments. Certain investments are prohibited.

State Insurance Department Examinations

As part of their regulatory oversight process, state insurance departments conduct periodic detailed financial examinations of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC.

A second type of regulatory oversight examination of insurance companies involves a review by an insurance department of an authorized company's market conduct, which entails a review and examination of a company's compliance with laws governing marketing, underwriting, rating, policy-issuance, claims-handling and other aspects of its insurance business during a specified period of time.

The results of these examinations can give rise to regulatory orders requiring remedial, injunctive or other corrective action on the part of the Company that is the subject of the examination or assessing fines or other penalties against that company.

Risk-Based Capital Regulations

Our insurance subsidiaries are required to report their risk-based capital based on a formula developed and adopted by the NAIC that attempts to measure statutory capital and surplus needs based on the risks in the insurer's mix of products and investment portfolio. The formula is designed to allow insurance regulators to identify weakly-capitalized companies. Under the formula, a company determines its "risk-based capital" by taking into account certain risks related to the insurer's assets (including risks related to its investment portfolio and ceded reinsurance) and the insurer's liabilities (including underwriting risks related to the nature and experience of its insurance business). The departments of insurance in our domiciliary states of Texas and Delaware generally require a minimum total adjusted risk-based capital equal to 200% of an insurance company's authorized control level risk-based capital. Each of our insurance subsidiaries had total adjusted risk-based capital in excess of 200% of the authorized control level as of December 31, 2015.

In our calculation of risk-based capital for SNIC and NSIC, we have deducted amounts for which SNIC and NSIC hold collateral for amounts recoverable from reinsurers. We believe this practice to be appropriate because we bear little credit risk for the related reinsurance balances due to the protection provided by the collateral. This practice differs from NAIC statutory annual statement instructions. There is no monetary effect on net income or statutory surplus from the use of this practice. If we would have used the practice outlined in NAIC annual statement instructions, the risk-based capital calculation for SNIC and NSIC would not have triggered a regulatory event.

Insurance Regulatory Information System Ratios

The NAIC Insurance Regulatory Information System ("IRIS") is part of a collection of analytical tools designed to provide state insurance regulators with an integrated approach to screening and analyzing the financial condition of insurance companies operating in their respective states. IRIS is intended to assist state insurance regulators in targeting resources to those insurers in greatest need of regulatory attention. IRIS consists of two phases: statistical and analytical. In the statistical phase, the NAIC database generates key financial ratio results based on financial information obtained from insurers' annual statutory statements. The analytical phase is a review of the annual statements, financial ratios and other automated solvency tools. The primary goal of the analytical phase is to identify companies that appear to require immediate regulatory attention. A ratio result falling outside the usual range of IRIS ratios is not considered a failing result; rather, unusual values are viewed as part of the regulatory early monitoring system. Furthermore, in some years, it may not be unusual for financially sound companies to have several ratios with results outside the usual ranges. An insurance company may fall out of the usual range for one or more ratios because of specific transactions that are in themselves immaterial or because of certain reinsurance or pooling structures or changes in such structures.

In 2015, SNIC, NSIC and USIC had two ratios departing from the usual range of values. It is not uncommon for our insurance subsidiaries to have unusual values for a few IRIS ratios because of our specialized business model. For example, these deviations are primarily caused by:

(1) The high volume of Program Services ceded premiums causes the 'Surplus Aid to Policyholders' Surplus' ratio to be higher than the usual value. This ratio is an estimate of commissions on unearned ceded reinsurance premiums and measures the degree to which an insurer's surplus has been inflated by the ceding of unearned premiums during the current year. The risk of this higher surplus aid ratio is mitigated by the quality of reinsurers assuming this business and the use of collateral where appropriate.

(2) Investment yield. SNIC's investment yield is impacted by a large portion of its investment portfolio being investment in subsidiaries (NSIC and USIC). The earnings from these companies are reflected as unrealized gains in surplus rather than through investment income. This impacts SNIC's investment yield and contributes to the unusual value. In addition, the insurance companies' investment yields are also impacted by the low interest rate environment over the last few years; however the usual range for this ratio has not been adjusted since it was set in 2005.

In 2014, the insurance subsidiaries had unusual values similar to those noted above for 2015.

Statutory Accounting Principles

Statutory accounting principles ("SAP") are a basis of accounting developed to assist insurance regulators in monitoring and regulating the solvency of insurance companies. SAP is primarily concerned with measuring an insurer's solvency. Statutory accounting focuses on valuing assets and liabilities of insurers at financial reporting dates in accordance with appropriate insurance law and regulatory provisions applicable in each insurer's domiciliary state.

GAAP is concerned with a company's solvency, but is also concerned with other financial measurements, principally income and cash flows. Accordingly, GAAP gives more consideration to appropriately matching revenue and expenses and accounting for management's stewardship of assets than does SAP. As a direct result, different assets and liabilities and different amounts of assets and liabilities will be reflected in financial statements prepared in accordance with GAAP as compared to SAP.

Potential Restrictions on Fronting

In certain states, including Florida and Kentucky, the Insurance Commissioner has the authority to prohibit an authorized insurer from acting as an issuing carrier for an unauthorized insurer. In addition, insurance departments in states in which there is no statutory or regulatory prohibition against an authorized insurer acting as an issuing carrier for an unauthorized insurer could deem the assuming insurer to be transacting insurance business without a license and the issuing carrier to be aiding and abetting the unauthorized sale of insurance. Notwithstanding these state law restrictions on ceding insurers, the Nonadmitted and Reinsurance Reform Act ("NRRA") contained in the Dodd-Frank Act provides that all laws of a ceding insurer's nondomestic state (except those with respect to taxes and assessments on insurers or insurance income) are preempted to the extent that they otherwise apply the laws of the state to reinsurance agreements of nondomestic ceding insurers. The NRRA places the power to regulate reinsurer financial solvency primarily with the reinsurer's domiciliary state and requires credit for reinsurance to be recognized for a nondomestic ceding company if it is allowed by the ceding company's domiciliary state.

Credit for Reinsurance

State insurance laws permit U.S. insurance companies, as ceding insurers, to take financial statement credit for reinsurance that is ceded, so long as the assuming reinsurer satisfies the state's credit for reinsurance laws. The NRRA provides that if the state of domicile of a ceding insurer is an NAIC accredited state, or has financial solvency requirements substantially similar to the requirements necessary for NAIC accreditation, and recognizes credit for reinsurance for the insurer's ceded risk, then no other state may deny such credit for reinsurance. Because all states are currently accredited by the NAIC, the Dodd-Frank Act prohibits a state in which a U.S. ceding insurer is licensed but not domiciled from denying credit for reinsurance for the insurer's ceded risk if the cedant's domestic state regulator recognizes credit for reinsurance. The ceding company in this instance is permitted to reflect in its statutory financial statements a credit in an aggregate amount equal to the ceding company's liability for unearned premium (which are that portion of premiums written which applies to the unexpired portion of the policy period), loss reserves and loss expense reserves to the extent ceded to the reinsurer.

Holding Company Regulation

We qualify as a holding company system under state-enacted legislation that regulates insurance holding company systems. Each insurance company in a holding company system is required to register with the insurance regulatory agency of its state of domicile and periodically furnish information concerning its operations and transactions, particularly with other companies within the holding company system that may materially affect its operations, management or financial condition.

Transactions with Affiliates

The insurance laws in most of those states provide that all transactions among members of an insurance holding company system must be fair and reasonable. These laws require disclosure of material transactions within the holding company system and, in some cases, prior notice of or approval for certain transactions, including, among other things, (a) the payment of certain dividends, (b) cost sharing agreements, (c) intercompany agency, service or management agreements, (d) acquisition or divestment of control of or merger with domestic insurers, (e) sales, purchases, exchanges, loans or extensions of credit, guarantees or investments if such transactions are equal to or exceed certain thresholds, and (f) reinsurance agreements. All transactions within a holding company system affecting an insurer must have fair and reasonable terms and are subject to other standards and requirements established by law and regulation.

Dividends

Our insurance subsidiaries are subject to statutory requirements as to maintenance of policyholders' surplus and payment of dividends. In general, including in our domiciliary states, the maximum amount of dividends that the insurance subsidiaries may pay in any 12-month period without regulatory approval is the greater of adjusted statutory net income or 10% of statutory policyholders' surplus as of the preceding calendar year end. Adjusted statutory net income is generally defined for this purpose to be statutory net income, net of realized capital gains, for the calendar year preceding the date of the dividend. The maximum amount of dividends that our insurance subsidiaries could pay without regulatory approval was $23.0 million and $21.6 million as of December 31, 2015 and 2014, respectively. Also, most states, including Texas and Delaware, restrict an insurance company's ability to pay dividends in excess of its statutory unassigned surplus or earned surplus. In addition, state insurance regulators may limit or restrict an insurance company's ability to pay shareholder dividends or as a condition to issuance of a certificate of authority, as a condition to a change of control approval or for other regulatory reasons.

Enterprise Risk and Other New Developments

In December 2010, the NAIC adopted amendments to the Model Insurance Holding Company System Regulation Act and Regulation (the "Amended Model Act and Regulation") to introduce the concept of "enterprise risk" within an insurance company holding system. "Enterprise risk" is defined as any activity, circumstance, event or series of events involving one or more affiliates of an insurer that, if not remedied promptly, is likely to have a material adverse effect upon the financial condition or the liquidity of the insurer or its insurance holding company system as a whole. The Amended Model Act and Regulation imposes more extensive informational requirements on an insurance holding company system in order to protect the licensed insurance companies from enterprise risk, including requiring it to prepare an annual enterprise risk report that identifies the material risks within the insurance company holding system that could pose enterprise risk to the licensed insurer. In addition, the Amended Model Act and Regulation requires any controlling person of a domestic insurer seeking to divest its controlling interest in the domestic insurer to file a notice of its proposed divestiture, which may be subject to approval by the insurance commissioner. Many states have adopted some or all of the changes in the Amended Model Act and Regulation, including Texas, where SNIC and NSIC are domiciled, and Delaware, where USIC is domiciled. The NAIC has made certain sections of the amendments part of its accreditation standards for state solvency regulation, which may motivate more states to adopt the amendments.

Change of Control

State insurance holding company laws require prior approval by the respective state insurance departments of any change of control of an insurer. "Control" is generally defined as the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the Company, whether through the ownership of voting securities, by contract or otherwise. Control is generally presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of a domestic insurance company or any entity that controls a domestic insurance company. Any person wishing to acquire control of us or of any substantial portion of our outstanding shares would first be required to obtain the approval of the domestic regulators of our insurance subsidiaries or file appropriate disclaimers.

Any future transactions that would constitute a change of control, including a change of control of us and/or any of our domestic insurance subsidiaries, would generally require the party acquiring or divesting control to obtain the prior approval of the department of insurance in the state in which the insurance company being acquired is domiciled (and in any other state in which the Company may be deemed to be commercially domiciled by reason of concentration of its insurance business within such state) and may also require pre-notification in certain other states. Obtaining these approvals may result in the material delay of, or deter, any such transaction.

In addition, insurance laws in many states, including Texas and Delaware (the domiciliary states of our insurance company subsidiaries), contain provisions that require pre- and post-notification to the insurance departments of a change of control of certain non-domestic insurance companies licensed in those states, as well as post-notification of a change of control of certain agencies and third-party administrators. Texas has a prior notification for a change of control of an insurance agency and third party administrator.

These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of us, including through transactions, and in particular unsolicited transactions, that some or all of our shareholders might consider to be desirable.

Market Conduct

Regulation of Insurance Rates and Approval of Policy Forms

The insurance laws of most states in which we conduct business require insurance companies to file insurance rate schedules and insurance policy forms for review and approval. If, as permitted in some states, we begin using new rates before they are approved, we may be required to issue refunds or credits to the policyholders if the new rates are ultimately deemed excessive or unfair and disapproved by the applicable state regulator. In other states, prior approval of rate changes is required and there may be long delays in the approval process or the rates may not be approved. Accordingly, our ability to respond to market developments or increased costs in that state can be adversely affected.

Underwriting

The use of credit in underwriting and rating is the subject of significant regulatory and legislative activity. Regulators and legislators have expressed a number of concerns related to the use of credit, including: questions regarding the accuracy of credit reports, perceptions that credit may have a disparate effect on the poor and certain minority groups, the perceived lack of a demonstrated causal relationship between credit and insurance risk, the treatment of persons with limited or no credit, the impact on credit of extraordinary life events (e.g., catastrophic injury or death of a spouse), and the credit attributes applied in the credit scoring models used by insurers. A number of state insurance departments have issued bulletins, directives, or regulations that regulate or prohibit the use of credit by insurers. In addition, a number of states are considering or have passed legislation to regulate insurers' use of credit information. The use of credit information continues to be a regulatory and legislative issue, and it is possible that the U.S. Congress or one or more states may enact further legislation affecting its use in underwriting and rating limitations on the ability to charge policy fees.

Unfair Claims Practices

Generally, insurance companies, adjusting companies and individual claims adjusters are prohibited by state statutes from engaging in unfair claims practices on a flagrant basis or with such frequency to indicate a general business practice. Unfair claims practices include:

- misrepresenting pertinent facts or insurance policy provisions relating to coverages at issue;

- failing to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies;
- failing to adopt and implement reasonable standards for the prompt investigation and settlement of claims arising under its policies;
- failing to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed;
- attempting to settle a claim for less than the amount to which a reasonable person would have believed such person was entitled;
- attempting to settle claims on the basis of an application that was altered without notice to or knowledge or consent of the insured;
- compelling insureds to institute suits to recover amounts due under policies by offering substantially less than the amounts ultimately recovered in suits brought by them;
- refusing to pay claims without conducting a reasonable investigation;
- making claim payments to an insured without indicating the coverage under which each payment is being made;
- delaying the investigation or payment of claims by requiring an insured, claimant or the physician of either to submit a preliminary claim report and then requiring the subsequent submission of formal proof of loss forms, both of which submissions contains substantially the same information;
- failing, in the case of claim denials or offers of compromise or settlement, to promptly provide a reasonable and accurate explanation of the basis for such actions; and
- not attempting in good faith to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear.

Guaranty Fund Assessments

Most, if not all, of the states where we are licensed to transact business require that property and casualty insurers doing business within the state participate in a guaranty association, which is organized to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by the member insurers in the lines of business in which the impaired, insolvent or failed insurer is engaged. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets.

Property and casualty insurance company insolvencies or failures may result in additional guaranty association assessments to our insurance subsidiaries at some future date. At this time, we are unable to determine the impact, if any, such assessments may have on their financial positions or results of their operations. As of December 31, 2015, each of our insurance subsidiaries has established accruals for guaranty fund assessments with respect to insurers that are currently subject to insolvency proceedings.

Creditor-Placed Insurance

The NAIC Creditor-Placed Insurance Model Act (“Creditor-Placed Model Act”) applies to insurance placed in connection with automobile loans and creates a legal framework within which creditor-placed insurance may be written and helps to maintain the separation between creditors and insurers. It also serves to minimize the possibilities of unfair competitive practices in the sale of creditor-placed insurance. The Creditor-Placed Model Act has only been adopted by a few states, including Arkansas, Michigan, Mississippi, and Tennessee, but other states have also adopted laws and regulations that cover creditor-placed insurance. There could be an effort, especially from consumer groups, to expand the protections and breadth of the Creditor-Placed Model Act. The NAIC Property and Casualty Insurance Committee is currently reviewing the Model Act and is tentatively scheduled to provide its proposed revisions (if any) in 2016.

Restrictions on Withdrawal, Cancellation, and Nonrenewal

In addition, many states have laws and regulations that limit an insurer's ability to withdraw from a particular market. For example, states may limit an insurer's ability to cancel or not renew policies. Furthermore, certain states prohibit an insurer from withdrawing from one or more lines of business written in the state, except pursuant to a plan that is approved by the state insurance department. The state insurance department may disapprove any proposed plan that may lead to market disruption. Laws and regulations that limit cancellation and non-renewal and that subject program withdrawals to prior approval requirements may restrict the ability of our insurance subsidiaries to exit unprofitable markets.

Required Licensing

Our Texas domiciled insurance subsidiaries operate under licenses issued by the department of insurance in the states in which they sell insurance. Our Delaware insurance subsidiary operates under a license issued by the Delaware Department of Insurance, but in all other state and the District of Columbia writes on a nonadmitted and surplus lines basis. If a regulatory authority denies or delays granting a new license, our ability to offer new insurance products in that market may be substantially impaired. In addition, if the department of insurance in any state in which one of our insurance subsidiaries currently operates suspends, non-renews, or revokes an existing license, we would not be able to offer affected products in the state.

Licensing of Producers and Other Entities

Insurance agencies, producers, third-party administrators, claims adjusters and service contract providers and administrators are subject to licensing requirements and regulation by insurance regulators in various states in which they conduct business. Our agency and services company, T.B.A. Insurance Group, Ltd., engages in certain of these functions and is subject to licensing requirements and regulation by insurance regulators in various states.

Federal and State Legislative and Regulatory Changes

From time to time, various regulatory and legislative changes have been proposed in the insurance industry. Among the proposals that have in the past been or are at present being considered are the possible introduction of federal regulation in addition to, or in lieu of, the current system of state regulation of insurers and proposals in various state legislatures (some of which have been enacted) to conform portions of their insurance laws and regulations to various model acts adopted by the NAIC. The NAIC has undertaken a Solvency Modernization Initiative focused on updating the U.S. insurance solvency regulation framework, including capital requirements, governance and risk management, group supervision, accounting and financial reporting and reinsurance. The Amended Model Act and Regulation (discussed above) is a result of these efforts. Additional requirements are also expected. For example, the NAIC has adopted the Risk Management and Own Risk and Solvency Assessment ("ORSA") Model Act, which when adopted by the states, will require insurers to perform an ORSA and, upon request of a state, file an ORSA Summary Report with the state. The Company met the required threshold for filing the ORSA Summary Report in 2015 and expects to file its first report in 2016.

On July 21, 2010, the President signed into law the Dodd-Frank Act that established a Federal Insurance Office within the U.S. Department of the Treasury. The Federal Insurance Office ("FIO") initially is charged with monitoring all aspects of the insurance industry (other than health insurance, certain long-term care insurance and crop insurance), gathering data, and conducting a study on methods to modernize and improve the insurance regulatory system in the United States. On December 12, 2013, the FIO issued a report (as required under the Dodd-Frank Act) entitled "How to Modernize and Improve the System of Insurance Regulation in the United States" (the "Report"), which stated that, given the "uneven" progress the states have made with several near-term state reforms, should the states fail to accomplish the necessary modernization reforms in the near term, "Congress should strongly consider direct federal involvement." The FIO continues to support the current state-based regulatory regime, but will consider federal regulation should the states fail to take steps to greater uniformity (e.g., federal licensing of insurers). The Report also appears to signal greater activity by the federal government in dealing with non-U.S. regulators and regulatory regimes, using the authority expressly given by the Dodd-Frank Act to the U.S. Department of the Treasury and the United States Trade Representative to negotiate "covered agreements" with foreign authorities. The Report also makes recommendations in the areas of insurance sector solvency and marketplace regulation. Each year the FIO also releases an annual report on the insurance industry ("Annual Report"), with its latest Annual Report released in September of 2015. The Annual Report provided a set of recommendations along with providing an overview of the financial performance and condition of the U.S. insurance industry and outlining a number of insurance industry and regulatory developments from the past year.

In addition, the Dodd-Frank Act gives the Federal Reserve supervisory authority over a number of financial services companies, including insurance companies, if they are designated by a two-thirds vote of a Financial Stability Oversight Council as "systemically important." If an insurance company is designated as systemically important, the Federal Reserve's supervisory authority could include the ability to impose heightened financial regulation upon that insurance company and could impact requirements regarding its capital, liquidity and leverage as well as its business and investment conduct.

The Dodd-Frank Act also incorporates the NRRA, which became effective on July 21, 2011. Among other things, the NRRA establishes national uniform standards on how states may regulate and tax surplus lines insurance and sets national standards concerning the regulation of reinsurance. In particular, the NRRA gives regulators in the home state of an insured exclusive authority to regulate and tax surplus lines insurance transactions, and regulators in a ceding insurer's state of domicile the sole responsibility for regulating the balance sheet credit that the ceding insurer may take for reinsurance recoverables.

Other possible federal regulatory developments include the introduction of legislation in Congress that would repeal the McCarran-Ferguson Act antitrust exemption for the insurance industry. The antitrust exemption allows insurers to compile and share loss data, develop standard policy forms and manuals and predict future loss costs with greater reliability, among other things. The ability of the industry, under the exemption permitted in the McCarran-Ferguson Act, to collect loss cost data and build a credible database as a means of predicting future loss costs is an important part of cost-based pricing. If the ability to collect this data were removed, the predictability of future loss costs and the reliability of pricing could be undermined.

Privacy Regulations

In 1999, Congress enacted the Gramm-Leach-Bliley Act, which, among other things, protects consumers from the unauthorized dissemination of certain personal information. Subsequently, states have implemented additional regulations to address privacy issues. Certain aspects of these laws and regulations apply to all financial institutions, including insurance and finance companies, and require us to maintain appropriate policies and procedures for managing and protecting certain personal information of our policyholders. We may also be subject to future privacy laws and regulations, which could impose additional costs and impact our results of operations or financial condition. In 2000, the NAIC adopted the Privacy of Consumer Financial and Health Information Model Regulation, which assisted states in promulgating regulations to comply with the Gramm-Leach-Bliley Act. In 2002, to further facilitate the implementation of the Gramm-Leach-Bliley Act, the NAIC adopted the Standards for Safeguarding Customer Information Model Regulation. Many states have now adopted similar provisions regarding the safeguarding of policyholder information.

Telephone Sales Regulations

The United States Congress, the Federal Communications Commission and various states have promulgated and enacted rules and laws that govern telephone solicitations. There are numerous state statutes and regulations governing telephone sales activities that do or may apply to our operations, including the operations of our call center insurance agencies. For example, some states place restrictions on the methods and timing of calls and require that certain mandatory disclosures be made during the course of a telephone sales call. Federal and state "Do Not Call" regulations must be followed for us to engage in telephone sales activities.

Available Information

Our company website address is www.statenational.com. We use our website as a channel of distribution for important company information. Important information, including press releases, investor presentations and financial information regarding our company, is routinely posted and accessible on the Investor Relations subpage of our website, which is accessible by clicking on the tab labeled "Investor Relations" on our website home page. We also use our website to expedite public access to time-critical information regarding our company in advance of or in lieu of distributing a press release or a filing with the Securities and Exchange Commission disclosing the same information. Therefore, investors should look to the Investor Relations subpage of our website for important and time-critical information. Visitors to our website can also register to receive automatic e-mail notifications alerting them when new information is made available on the Investor Relations subpage of our website. In addition, we make available on the Investor Relations subpage of our website (under the link "Financial Information" and then "SEC Filings"), free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, ownership reports on Forms 3, 4 and 5 and any amendments to those reports as soon as practicable after we electronically file such reports with the Securities and Exchange Commission. Further, copies of our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws, our Code of Business Conduct and Ethics and the charters for the Audit, Compensation and Nominating and Corporate Governance Committees of our Board of Directors are also available through the Investor Relations subpage of our website (under the link "Corporate Governance").

Additionally, the public may read and copy any of the materials we file with the Securities and Exchange Commission at the Securities and Exchange Commission's Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the Securities and Exchange Commission at (800) SEC-0330. Our electronically filed reports can also be obtained on the Securities and Exchange Commission's internet site at http://www.sec.gov.

Item 1A: Risk Factors

You should carefully consider the following risks and all of the other information set forth in this report, including our consolidated financial statements and the notes thereto. The following discussion of risk factors includes forward-looking statements and our actual results may differ substantially from those discussed in such forward-looking statements. See "Note on Forward-Looking Statements" in Item 1 of this report.

Risks Relating to Our Program Services Segment

We may not be able to recover amounts due from our reinsurers, which would adversely affect our financial condition.

Our Program Services segment offers fronting arrangements to domestic and foreign insurers that want to access specific U.S. property and casualty insurance business, which we collectively refer to as "capacity providers," and reinsure on a quota share basis 100% of the risk under these policies with these carriers in exchange for ceding fees. Because we cede all of these risks to capacity providers, we generally hold no net reserves for losses or LAE that might arise as a result of claims made under these policies. However, as the issuer of the policies, we remain directly liable to these policyholders. In 2015, we wrote insurance policies with $1.1 billion in gross written premiums through our issuing carrier, or fronting, business.

We reinsure substantially all of the underwriting and operating risks in connection with our fronting arrangements to our capacity providers. We take the risk of insolvency or other failure to pay by a capacity provider. We generally select either well capitalized, highly rated authorized capacity providers or we require the capacity providers to post substantial collateral to secure the reinsured risks. However, if any of our capacity providers becomes insolvent, or otherwise refuses to reimburse losses paid to these policyholders (or us, to the extent we reimburse or pay policyholders or pay other claims directly) in a timely manner, the corresponding impact to our liability for these claims could materially and adversely affect our financial condition and results of operations. We often hold collateral to protect us against a capacity provider's failure to pay claims. However, collateral may not be sufficient to cover our liability for these claims, and we may not be able to cause the capacity provider to deliver additional collateral.

As of December 31, 2015, we held $2.7 billion in collateral securing $1.5 billion in reinsurance recoverables. In addition, we have $384.3 million of unsecured reinsurance recoverables. Our reinsurance recoverables are based on estimates, and our actual liabilities may exceed the amount that we are able to recover from our capacity providers or any collateral securing the liabilities. This could occur because the loss experience based on the policy terms is higher than expected or due to litigation, regulatory or other extra-contractual liabilities.

If we fail to realize a reinsurance recoverable owed under these arrangements due to insolvency, dispute or other unwillingness or inability of any of our reinsurers to meet their obligations to us, or due to our inability to access sufficient collateral to cover our liabilities, our business, financial condition, results of operations or prospects could be materially and adversely affected. For additional information, see "Business—Reinsurance" in Item 1 of this report.

If market conditions cause our reinsurance to be more costly or difficult to obtain, we may be required to bear increased risks or reduce the level of our underwriting commitments.

In our Program Services segment, we provide access to the U.S. property and casualty markets in exchange for ceding fees through our fronting business by providing access to our "A" (Excellent) A.M. Best rating, expansive licensing and reputation. As part of our business strategy for our Program Services segment, we reinsure substantially all underwriting risk, credit risk and business risk related to our fronting business. We may be unable to maintain our current reinsurance arrangements or to obtain other reinsurance in adequate amounts and at favorable rates, particularly if reinsurers become unwilling or unable to support our specialized fronting model in the future. In recent years, our Program Services segment has benefitted from favorable market conditions, including growth in the role of GAs and of non-U.S. and other alternative sources of reinsurance. A decline in the availability of reinsurance, increases in the cost of reinsurance or a decreased level of activity by GAs could limit the amount of fronting business we could write and materially and adversely affect our business, financial condition, results of operations and prospects.

Regulators may challenge our use of fronting arrangements in states in which our capacity providers are not licensed.

We enter into fronting arrangements with GAs and domestic and foreign insurers that want to access specific U.S. property and casualty insurance business in states in which such capacity provider is not licensed or is not authorized to write particular lines of insurance. The capacity provider or the GA administers the business, settles all claims and reinsures 100% of the risks. We receive ceding fees, but generally do not share in the profits or losses of the business we write for the capacity provider. Some state insurance regulators may object to our fronting arrangements. In certain states, including Florida, the Insurance Commissioner has the authority to prohibit an authorized insurer from acting as an issuing carrier for an unauthorized insurer. In addition, insurance departments in states in which there is no statutory or regulatory prohibition against an authorized insurer acting as an issuing carrier for an unauthorized insurer, such as New York, could deem the assuming insurer to be transacting insurance business without a license and the issuing carrier to be aiding and abetting the unauthorized sale of insurance.

If regulators in any of the states where we conduct our fronting business were to prohibit or limit the arrangement, we would be prevented or limited from conducting that business for which a capacity provider is not authorized in those states, unless and until the capacity provider is able to obtain the necessary licenses. This could have a material and adverse effect on our business, financial condition results of operations and prospects. In particular, we do significant business in Florida. See "We write at least half of our Program Services business in several key states and adverse developments in these key states could have a material and adverse effect on our business, financial condition, results of operations and prospects."

Notwithstanding these state law restrictions on ceding insurers, the Nonadmitted and Reinsurance Reform Act ("NRRA") contained in The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") provides that all laws of a ceding insurer's nondomestic state (except those with respect to taxes and assessments on insurers or insurance income) are preempted to the extent that they otherwise apply the laws of the state to reinsurance agreements of nondomestic ceding insurers. The NRRA places the power to regulate reinsurer financial solvency primarily with the reinsurer's domiciliary state and requires credit for reinsurance to be recognized for a nondomestic ceding company if it is allowed by the ceding company's domiciliary state. A state insurance regulator might not view the NRRA as preempting a state regulator's determination that an unauthorized reinsurer must obtain a license or that a statute prohibited our doing a fronting business. However, such a determination or a conflict between state law and the NRRA could cause regulatory uncertainty about our fronting business, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

Changes in state insurance regulation could materially and adversely affect our business.

Some states have adopted changes to their insurance laws and regulations that permit insurers to obtain credit for reinsurance from reinsurers who are able to post reduced collateral if they satisfy certain requirements, including specific rating criteria. We require many of our capacity providers to post collateral to secure their reinsurance obligations. If regulatory changes are adopted in the states in which our insurance subsidiaries are domiciled that permit non-admitted reinsurers to post reduced or no collateral in order for the insurer to obtain credit for that reinsurance, it may become more difficult for us to obtain collateral from our capacity providers who meet the applicable rating agency requirements, which could materially and adversely affect the amount of business that we can write.

We depend on a limited number of capacity providers and general agents for a large portion of our gross written premium in our Program Services segment, and the loss of business provided by any one of them could materially and adversely affect us.

Our Program Services segment offers fronting arrangements to both general agents ("GAs") and capacity providers. Capacity providers may be under common control with a particular GA or they be independent. An independent capacity provider may reinsure a single book or multiple books with various GAs. A single GA may control a single book with one capacity provider or multiple books with various capacity providers.

Other insurance companies may compete with us for this business. These capacity providers and GAs may choose to enter into fronting arrangements with our competitors or GAs, or capacity providers may terminate fronting arrangements with us if they no longer need access to our fronting capacity or for other reasons.

Our top five GAs measured by premium volume for the year ended December 31, 2015 accounted for approximately 26%, 19%, 12%, 8% and 4% of our gross written premium in our Program Services segment, respectively. For the years ended December 31, 2015, 2014 and 2013 approximately 45%, 55% and 46% of our gross written premium in our Program Services segment was derived from our top two fronting arrangements. Our top GA, controlled by a single capacity provider, for the year ended December 31, 2015 was Meadowbrook at 26% of Program Services gross written premium and 7.5% of total consolidated revenues.

Our top five capacity providers measured by premium volume for the year ended December 31, 2015 accounted for approximately 27%, 26%, 8%, 7%, and 6% of our gross written premium in our Program Services segment. For the years ended December 31, 2015, 2014 and 2013 approximately 53%, 57% and 48% of our gross written premium in our Program Services segment was derived from our top two capacity providers. Much of the business concentrated with these capacity providers is also included in the business concentrated with the GAs noted above.

A significant decrease in business from, or the entire loss of, our largest capacity provider or GA or several of our other large capacity providers or GAs would cause us to lose premium and require us to seek additional capacity providers or GAs or to replace the lost premium. In the event that we are unable to do so, our business, financial condition, results of operations and prospects would be materially and adversely affected.

Failure of capacity providers or GAs to properly market, underwrite or administer policies could adversely affect us.

The marketing, underwriting, claims administration and other administration of policies in our Program Services segment are the responsibility of our capacity providers or our GAs. Any failure by them to properly handle these functions could result in liability to us. Even though they may be required to compensate us for any such liability, there are risks that any such failures could create regulatory or reputational issues for us and that they do not pay us, either of which could materially and adversely affect our business, financial condition, results of operations and prospects.

We write at least half of our Program Services business in several key states and adverse developments in these key states could have a material and adverse effect on our business, financial condition, results of operations and prospects.

For the years ended December 31, 2015, 2014 and 2013 we derived approximately 60%, 56% and 56% of our gross written premium in our Program Services segment in the states of Texas, New York, California and Florida. As a result, our financial results are subject to prevailing regulatory, legal, economic, demographic, competitive, and other conditions in these states. Adverse developments relating to any of these conditions could have a material and adverse impact on our business, financial condition, results of operations and prospects. See "Business—Program Services Segment—Geographic Distribution."

We may not be successful in building more direct relationships with GAs and capacity providers through a direct marketing campaign.

Historically, our fronting capacity has been constrained by the size of our capital base, and we have relied on our relationship-driven channels to generate new fronting business with only a modest sales and marketing effort. In addition, we have historically relied on brokers to identify GAs in need of fronting. Although we continue to build direct relationships with GAs and capacity providers and have hired additional fully-dedicated sales staff, we may not be successful in our efforts to further expand our fronting business.

We may face increased competition in our Program Services segment.

We believe there are relatively few active competitors in our Program Services segment. We compete primarily on the basis of price, customer service, geographic coverage, financial strength ratings, licenses, reputation, business model, experience and generally not offering State National's products for our own account. Our principal competitors are companies such as James River Group Holdings, Ltd., Clear Blue Financial Holdings, LLC., Spinnaker Insurance Company, AmTrust Financial Services, Inc. and Argo Group. Unlike us, some of our competitors may offer policy administration or other services or be willing to take on significant underwriting risk. Any increase in competition in this segment, especially by one or more substantial companies, could materially and adversely affect our business, financial condition, results of operations and prospects.

Some of our fronting arrangements contain limits on the reinsurer's obligations to us.

While we reinsure substantially all of the risks inherent in our fronting programs, we have in certain cases entered into programs that contain limits on our reinsurers' obligations to us, including loss ratio caps or aggregate reinsurance limits. For example, under our program with Nephila Capital Ltd., we bear no business or insurance risk except for annual aggregate agreement year losses in excess of a limit that we believe is highly unlikely to be exceeded. To the extent losses under these programs exceed the prescribed limits, we will be liable to pay the losses in excess of such limits, which could materially and adversely affect our business, financial condition, results of operations and prospects.

Our losses resulting from the run-off of the retained business may exceed our reserves.

In the past, we have participated on a quota share basis to a limited extent in certain programs in the Program Services segment. In early 2012, we reinsured to inception the retained business under most of the active contracts, but others continue to run-off. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Our Operating Results—Run-off of the Retained Business" in Item 7 of this report. As of

December 31, 2015, we had reserves of $4.0 million related to this business. In the event our losses resulting from this business exceeds our reserves, the excess losses could materially and adversely affect our business, financial condition, results of operations and prospects.

Risks Relating to Our Lender Services Segment

Lender-placed residential hazard insurance is under increased regulatory scrutiny and has been subject to regulatory changes at both the federal and state levels. If lender-placed automobile insurance becomes subject to similar regulatory scrutiny and is affected by regulatory changes, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Through our Lender Services segment, we provide collateral protection insurance, or CPI, to financial institutions. Other companies provide similar products to home lenders. Under certain circumstances, when borrowers fail to provide hazard insurance on their residences, the owner or servicer of the loan may place such insurance to protect the collateral and passes on the premium to the borrower. This lender-placed residential hazard insurance has come under increased regulatory scrutiny and has been subject to regulatory changes. For example, on December 18, 2013, Fannie Mae and Freddie Mac announced that effective June 1, 2014, mortgage servicers and their affiliates may not receive commissions or other forms of compensation with lender-placed insurance on GSE loans or ceding premiums to a reinsurer affiliated with the servicers. In addition, state regulators have also taken action to restrict insurance practices related to lender-placed residential hazard insurance.

In the future, states or the federal government may subject lender-placed automobile insurance to similar regulatory scrutiny or propose regulatory changes to related laws. For example, the United States Governmental Accountability Office's ("GAO") September 2015 Report on Lender-Placed Insurance examined both residential and personal property lender-placed insurance. The GAO recommended the NAIC gather additional information on the lender-placed insurance market. In particular, CPI's higher expense ratios and lower loss ratios, as compared to other insurance products, presents a risk that regulatory requirements such as minimum loss ratios could be proposed in the future. Any future proposed or adopted rules relating to automobile CPI could materially and adversely affect our business, financial condition, results of operation and prospects.

The CPI market is highly competitive, and we may not be able to compete effectively against larger companies.

The CPI market is highly competitive. We compete on the bases of price, coverages offered, claims handling, customer service, geographic coverage, financial strength ratings, licenses, reputation, technology, relationships with business partners and experience. Some of our competitors have substantially more capital, comparable or higher ratings and greater resources than we have, and offer a broader range of products than we offer. Many of our competitors invest heavily in advertising and marketing efforts and/or expanding their online service offerings. Some of these competitors may have better brand recognition than we have and have a larger market share than we do. As a result, these larger competitors may be better able to offer lower rates to customers, to withstand larger losses, and to more effectively take advantage of new marketing opportunities. Our ability to compete against these larger competitors depends on our ability to deliver superior service and maintain our relationships with our clients.

We may undertake strategic marketing and operating initiatives to improve our competitive position and drive growth. If we are unable to successfully implement new strategic initiatives or if our marketing campaigns do not attract new customers, our competitive position may be harmed, which could materially and adversely affect our business, financial condition, results of operations and prospects.

The termination of our alliance with CUNA Mutual could materially and adversely affect our growth prospects for our CPI business and our liquidity.

Our alliance with CUNA Mutual has allowed us to significantly increase the amount of CPI business we write due to the business that is generated by CUNA Mutual's sales and marketing efforts. For the years ended December 31, 2015, 2014 and 2013, the CPI gross premiums written through our alliance with CUNA Mutual represented 60.0%, 56.3% and 53.8% of our total CPI business, respectively. During 2014, we amended the alliance agreement to increase our retention of the business subject to the alliance to 70% from 50% for business written on or after July 1, 2014, and in exchange have made payments to CUNA Mutual totaling $17.8 million. In addition, the term of the alliance has been extended at least through July 31, 2018.

If the alliance were to terminate and we no longer had access to those extensive sales and marketing efforts, our ability to continue to grow our CPI business would be materially and adversely affected. CUNA Mutual has the right to terminate its alliance agreement with us upon a change in control of State National or certain of its subsidiaries, which is defined to include any substantial change in the senior management team involving the departure, within any 12-month period, of two or more of the following three executives: John Pearson, Trace Ledbetter and David Hale. See “Business—Lender Services Segment—Business Overview—Relationship with CUNA Mutual” in Item 1 of this report. In addition, if and when the alliance agreement terminates, depending upon the reason for the termination and subject to certain exceptions, we may be required to buy out CUNA Mutual’s right to participate in future alliance business at a price equal to the previous 12 months net premium times a percentage based on the loss ratio of the business during that period. We estimate that the amount of this payment as of December 31, 2015 would be approximately $19 million. If we were required to make this payment, it could have a material and adverse effect on our liquidity.

***We may not be successful in expanding our CPI business within the banking and specialty finance company markets*.**

Because of our exclusive relationship with CUNA Mutual, we have focused our CPI business on credit unions. As a result, our penetration in the CPI market for banks and specialty finance companies has been relatively low. We believe that the CPI market for banks and specialty lenders provides growth opportunities and that the specialty finance company market is more attractive to CPI providers due to potentially higher incidences of borrowers’ failing to obtain or maintain the required insurance. We are devoting additional sales and marketing efforts towards the bank and specialty finance markets. Our efforts to further increase the overall amount of CPI business we write in the bank and specialty finance markets may not be successful, which could materially and adversely affect our business, financial condition, results of operations and prospects.

Changes affecting the automobile loan business generally and the CPI business in particular could materially and adversely affect our business, financial condition, results of operations and prospects.

A number of economic and market conditions affect vehicle sales volume and product mix, the amount of automobile loans and the CPI market, including levels of unemployment, consumer confidence, average age of vehicles on the road, availability and cost of credit, cost of fuel, credit profiles of borrowers and amounts sought to be financed. Our CPI business has benefitted in recent periods from a strong overall automobile loan environment, including increases in vehicle sales and average amounts financed. Any negative changes in market conditions could materially and adversely affect demand for our CPI product offerings and, consequently, our business, financial condition, results of operations and prospects.

If we are unable to establish and maintain accurate allowance for policy cancellations, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our financial statements include an allowance for policy cancellations, which represents our best estimate of the amounts that our insurance subsidiaries will ultimately refund for CPI polices that cancel (net of applicable offsetting expenses) as of the date of the financial statements. There is inherent uncertainty in the process of establishing the allowance.

As a result of these uncertainties, the ultimate refunds paid may deviate, perhaps substantially, from the point-in-time estimates of such refunds and expenses, as reflected in the allowance for policy cancellations included in our financial statements. To the extent that premium refunds exceed our estimates, we will be required to immediately recognize the unfavorable development and increase our allowance for policy cancellations, with a corresponding reduction in our net income in the period in which the allowance is increased. Consequently, ultimate refunds paid could materially exceed the reported allowance for policy cancellations and have a material and adverse effect on our business, financial condition, results of operations and prospects.

Risks Relating to Our Business Generally

A downgrade in the A.M. Best rating of our insurance subsidiaries would reduce the amount of business we are able to write and could materially adversely impact the competitive positions of our insurance subsidiaries.

Rating agencies evaluate insurance companies based on their ability to pay claims. Our insurance subsidiaries have been assigned an "A" (Excellent) rating by A.M. Best Company, Inc. The ratings of A.M. Best are subject to periodic review using, among other things, proprietary capital adequacy models, and are subject to revision or withdrawal at any time. Our competitive position relative to other companies is determined in part by the A.M. Best rating of our insurance subsidiaries. A.M. Best ratings are directed toward the concerns of policyholders and insurance agencies and are not intended for the protection of investors or as a recommendation to buy, hold or sell securities.

We rely on our "A" rating from A.M. Best to operate our Program Services business and our Lender Services business. There can be no assurances that our insurance subsidiaries will be able to maintain this rating. Any downgrade in ratings would likely adversely affect our business through the loss of certain existing and potential policyholders and the loss of relationships with clients that might move to other companies with higher ratings. If we lost our "A" rating, our capacity providers would likely seek a higher rated issuing carrier to write their business.

Our Lender Services segment would also be adversely affected if a large number of our accounts were to require an insurer with an "A" rating. In addition, pursuant to the arrangement with CUNA Mutual, if our A.M. Best rating falls below "A-" for more than 180 consecutive days, CUNA Mutual will be entitled to terminate the arrangement with us and thereafter CUNA Mutual will have the option to purchase our right to participate in the future business of the alliance. We are not able to quantify the percentage of our business, in terms of premiums or otherwise, that would be affected by a downgrade in our A.M. Best ratings.

If we are unable to accurately underwrite risks and charge competitive yet profitable rates to our clients and policyholders, our business, financial condition, results of operations and prospects may be materially and adversely affected.

In general, the premiums for our insurance policies are established at the time a policy is issued and, therefore, before all of our underlying costs are known. Like other insurance companies, we rely on estimates and assumptions in setting our premium rates. Establishing adequate premiums is necessary, together with investment income, to generate sufficient revenue to offset losses, loss adjustment expenses ("LAE") and other underwriting costs and to earn a profit. If we do not accurately assess the risks that we assume, we may not charge adequate premiums to cover our losses and expenses, which would negatively affect our results of operations and our financial condition. Alternatively, we could set our premiums too high, which could reduce our competitiveness and lead to lower revenues. In addition, a variety of economic factors can affect losses in our CPI business. For example, difficult economic conditions could lead to increased losses as a result of increased premium deficiency and conversion/skip claims.

Pricing involves the acquisition and analysis of historical loss data, and the projection of future trends, loss costs and expenses, and inflation trends, among other factors, for each of our products in multiple risk tiers and many different markets. In order to accurately price our policies, we:

- collect and properly analyze a substantial volume of data from our insureds;
- develop, test and apply appropriate projections and rating formulas;
- closely monitor and timely recognize changes in trends; and
- project expected losses for our insureds with reasonable accuracy.

We seek to implement our pricing accurately in accordance with our assumptions. Our ability to undertake these efforts successfully and, as a result, accurately price our policies, is subject to a number of risks and uncertainties, including:

- insufficient or unreliable data;
- incorrect or incomplete analysis of available data;
- uncertainties generally inherent in estimates and assumptions;
- our failure to implement appropriate actuarial projections and rating formulas or other pricing methodologies;
- regulatory constraints on rate increases;
- our failure to accurately estimate investment yields and the duration of our liability for loss and LAE; and
- unanticipated court decisions, legislation or regulatory action.

Our failure to accurately and timely pay claims could materially and adversely affect our business, financial condition, results of operations and prospects.

We must accurately and timely evaluate and pay claims that are made under our CPI and other policies. Many factors affect our ability to pay claims accurately and timely, including the training and experience of our claims representatives, our claims organization's culture and the effectiveness of our management, our ability to develop or select and implement appropriate procedures and systems to support our claims functions and other factors. Our failure to pay claims accurately and timely could lead to regulatory and administrative actions, material litigation, undermining our reputation in the marketplace and materially and adversely affecting our business, financial condition, results of operations and prospects.

In addition, if we do not train new claims employees effectively or lose a significant number of experienced claims employees, our claims department's ability to handle an increasing workload could be adversely affected. In addition to potentially requiring that growth be slowed in the affected markets, our business could suffer from decreased quality of claims work which, in turn, could lower our operating margins.

Our insurance subsidiaries are subject to minimum capital and surplus requirements. Our failure to meet these requirements could subject us to regulatory action.

The laws of the states of domicile of our insurance subsidiaries impose risk-based capital standards and other minimum capital and surplus requirements. Failure to meet applicable risk-based capital requirements or minimum statutory capital requirements could subject us to further examination or corrective action imposed by state regulators, including limitations on our writing of additional business, state supervision or liquidation. Any changes in existing risk-based capital requirements or minimum statutory capital requirements may require us to increase our statutory capital levels, which we may be unable to do.

If we are unable to establish and maintain accurate loss reserves, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our financial statements include loss reserves, which represent our best estimate of the amounts that our insurance subsidiaries ultimately will pay on claims that have been incurred, and the related costs of adjusting those claims, as of the date of the financial statements. There is inherent uncertainty in the process of establishing insurance loss reserves.

As a result of these uncertainties, the ultimate paid loss and LAE may deviate, perhaps substantially, from the point-in-time estimates of such losses and expenses, as reflected in the loss reserves included in our financial statements. To the extent that loss and LAE exceed our estimates, we will be required to immediately recognize the unfavorable development and increase loss reserves, with a corresponding reduction in our net income in the period in which the reserve levels are increased. Consequently, ultimate losses paid could materially exceed reported loss reserves and have a material and adverse effect on our business, financial condition, results of operations and prospects.

Catastrophic losses or the frequency of smaller insured losses may exceed our expectations, which could materially and adversely affect our business, financial condition, results of operations and prospects.

Our insurance business is subject to claims arising from catastrophes, such as hurricanes, tornadoes, windstorms, floods, earthquakes, hailstorms, severe winter weather, and fires, or other events, such as explosions, terrorist attacks, riots, and hazardous material releases. The incidence and severity of such events are inherently unpredictable, and our losses from catastrophes could be substantial. In our Program Services business, although we reinsure substantially all of the underwriting risk through our fronting arrangements, a catastrophe loss could impair the ability of one or more of our reinsurers to pay all of the reinsured claims, in which case we would be responsible for paying any claims not paid by our reinsurer(s). In our Lender Services business, it is possible that we may experience an unusual frequency of smaller losses in a particular period. In either case, the consequences could be substantial volatility in our financial condition or results of operations for any fiscal quarter or year, which could have a material and adverse effect on our business, financial condition, results of operations and prospects or our ability to write new business.

Ongoing economic uncertainty could materially and adversely affect our business, financial condition, results of operations and prospects.

Global economies and financial markets have experienced significant weakness and volatility since 2008, although the most extreme of these circumstances have abated since that time. Despite improved financial market performance since 2009, near-term U.S. economic prospects have only very gradually improved. In addition, U.S. federal and state governments continue to experience significant structural fiscal deficits, creating uncertainty as to levels of taxation, inflation, regulation and other economic fundamentals that may impact future growth prospects. Significantly greater economic, fiscal and monetary uncertainty remains in Europe, due to the combination of poor economic growth, high unemployment and significant sovereign deficits. Continuation of these conditions may potentially affect (among other aspects of our business) the demand for and claims made under our products, the ability of clients, counterparties and others to establish or maintain their relationships with us, our ability to access and efficiently use internal and external capital resources and our investment performance. In the event that these conditions persist and result in a prolonged period of economic uncertainty, our business, financial condition, results of operations, our prospects and competitor landscape could be materially and adversely affected.

Our business is dependent on the efforts of our executive officers and other personnel. If we are unsuccessful in our efforts to attract, train and retain qualified personnel, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our success is dependent on the efforts of our executive officers because of their industry expertise, knowledge of our markets, and relationships with our clients. Our executive officers are Terry Ledbetter, Chairman and Chief Executive Officer, Matthew Freeman, President, David Hale, Executive Vice President, Chief Operating Officer and Chief Financial Officer, John Pearson, Executive Vice President and National Sales Manager, Trace Ledbetter, Executive Vice President of Service, and David Cleff, Executive Vice President of Business Affairs, General Counsel and Secretary. In connection with the private placement in 2014, we amended or entered into agreements with our executive officers that contain certain non-compete and non-solicit provisions. Nonetheless, should any of our executive officers cease working for us, we may be unable to find acceptable replacements with comparable skills and experience in the niche markets that we target. In addition, our business is also dependent on other skilled employees. We cannot assure you that we will be able to attract, train and retain, on a timely basis and on anticipated economic and other terms, experienced and capable senior management, underwriters and support staff. We intend to pay competitive salaries, bonuses and equity-based rewards in order to attract and retain such personnel, but there can be no assurance that we will be successful in such endeavors. The loss of key personnel, or the inability to recruit and retain qualified personnel in the future, could have a material adverse effect on our business, financial condition or operating results. We do not currently maintain life insurance policies with respect to our executive officers or other employees.

If we are unable to maintain our technology platform or our technology platform fails to operate properly, or meet the technological demands of our clients with respect to the products and services we offer, our business, financial condition, results of operations and prospects could be materially and adversely affected.

If we are unable to properly maintain our InsurTrak system and the remainder of our technology systems or if our technology systems otherwise fail to perform in the manner we currently contemplate, our ability to effectively underwrite and issue policies, process claims and perform other business functions, and our CPI clients' ability to track and manage their CPI programs, could be significantly impaired and our business, reputation and financial performance could be materially and adversely affected. In addition, the success of our business is dependent on our ability to resolve any issues identified with our technology arrangements during operations and make any necessary improvements in a timely manner. Further, we will need to match or exceed the technological capabilities of our competitors over time. We cannot predict with certainty the cost of such maintenance and improvements, but failure to make such improvements could have a material and adverse effect on our business, financial condition, results of operations and prospects. See "Business—Technology."

Also, we use e-commerce and other technology to provide, expand and market our products and services. Accordingly, we believe that it will be essential to continue to invest resources in maintaining electronic connectivity with clients and, more generally, in e-commerce and technology. Our business may suffer if we do not maintain these arrangements or keep pace with the technological demands of our clients.

If we experience security breaches or other disruptions involving our technology, our ability to conduct our business could be adversely affected, we could be liable to third parties and our reputation could suffer, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

Our business is dependent upon the uninterrupted functioning of our information technology and telecommunication systems. We rely upon our systems, as well as the systems of our vendors, for all our business operations, including underwriting and issuing policies, processing claims, providing customer service, complying with insurance regulatory requirements and performing actuarial and other analytical functions necessary for underwriting, pricing and product development. Our operations are dependent upon our ability to timely and efficiently maintain and improve our information and telecommunications systems and protect them from physical loss, telecommunications failure or other similar catastrophic events, as well as from security breaches. A shut-down of, or inability to access, one or more of our facilities; a power outage; or a failure of one or more of our information technology, telecommunications or other systems could significantly impair our ability to perform such functions on a timely basis. In the event of a disaster such as a natural catastrophe, terrorist attack or industrial accident, or due to a computer virus, our systems could be inaccessible for an extended period of time. While we have implemented business contingency plans and other reasonable and appropriate internal controls to protect our systems from interruption, loss or security breaches, a sustained business interruption or system failure could adversely impact our ability to process our business, provide customer service, pay claims in a timely manner or perform other necessary business functions.

Our operations depend on the reliable and secure processing, storage and transmission of confidential and other information in our computer systems and networks. Computer viruses, hackers, employee misconduct and other external hazards could expose our data systems to security breaches, cyber-attacks or other disruptions. In addition, we routinely transmit and receive personal, confidential and proprietary information by electronic means. We have implemented security measures designed to protect against breaches of security and other interference with our systems and networks resulting from attacks by third parties, including hackers, and from employee or advisor error or malfeasance. Despite these measures, we cannot assure that our systems and networks will not be subject to breaches or interference. Any such event may result in operational disruptions as well as unauthorized access to or the disclosure or loss of our proprietary information or our clients' or insureds' information, which in turn may result in legal claims, regulatory scrutiny and liability, reputational damage, the incurrence of costs to eliminate or mitigate further exposure, the loss of clients or affiliated advisors or other damage to our business. In addition, the trend toward broad consumer and general public notification of such incidents could exacerbate the harm to our business, financial condition and results of operations. Even if we successfully protect our technology infrastructure and the confidentiality of sensitive data, we could suffer harm to our business and reputation if attempted security breaches are publicized. We cannot be certain that advances in criminal capabilities, discovery of new vulnerabilities, attempts to exploit vulnerabilities in our systems, data thefts, physical system or network break-ins or inappropriate access, or other developments will not compromise or breach the technology or other security measures protecting the networks and systems used in connection with our business.

If we cannot sustain our business relationships, including our relationships with GAs, capacity providers and with clients in our Lender Service segment, we may be unable to compete effectively and operate profitably.

Our relationships with our clients are generally governed by agreements that may be terminated on short notice. As a result, our ability to compete and remain profitable depends, in part, on our maintaining business relationships with our clients, the marketing efforts of our sales professionals, the servicing efforts of our relationship managers and on our ability to offer insurance products and maintain financial strength ratings that meet the requirements and preferences of our clients. Any failure on our part to be effective in any of these areas may have a material and adverse effect on our business, financial condition, results of operations and prospects.

Performance of our investment portfolio is subject to a variety of investment risks that may materially and adversely affect our business, financial condition, results of operations and prospects.

Our results are affected, in part, by the performance of our investment portfolio. Our investment portfolio contains interest rate sensitive investments, such as fixed-income securities. As of December 31, 2015, our investment in fixed-income securities was approximately $329.5 million, or 98.3% of our total investment portfolio. Increases in market interest rates may have an adverse impact on the value of our investment portfolio by decreasing the value of fixed-income securities. Conversely, declining market interest rates could have an adverse impact on our investment income as we invest positive cash flows from operations and as we reinvest proceeds from maturing and called investments in new investments that could yield lower rates than our investments have historically generated. Defaults in our investment portfolio may produce operating losses and materially and adversely impact our business, financial condition, results of operations and prospects.

Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and non-U.S. economic and political conditions, and other factors beyond our control. Although we take measures to manage the risks of investing in a changing interest rate environment, we may not be able to mitigate interest rate sensitivity effectively. Our mitigation efforts include maintaining a high quality portfolio and managing the duration of the portfolio to reduce the effect of interest rate changes. Despite our mitigation efforts, a significant change in interest rates could have a material and adverse effect on our business, financial condition, results of operations and prospects.

In addition, the performance of our investment portfolio generally is subject to other risks, including the following:

- the risk of decrease in value due to a deterioration in the financial condition, operating performance or business prospects of one or more issuers of our fixed-income securities;
- the risk that our portfolio may be too heavily concentrated in the securities of one or more issuers, sectors or industries;
- the risk that we will not be able to convert investment securities into cash on favorable terms and on a timely basis; and
- general movements in the values of securities markets.

If our investment portfolio were to suffer a substantial decrease in value due to market, sector or issuer-specific conditions, our business, financial condition, results of operations and prospects could be materially and adversely affected. A decrease in value of an insurance subsidiary's investment portfolio could also put the subsidiary at risk of failing to satisfy regulatory minimum capital requirements and could limit the subsidiary's ability to write new business.

The insurance industry is subject to extensive regulation, which may affect our ability to execute our business plan and grow our business.

We are subject to comprehensive regulation and supervision by government agencies in Texas and Delaware, states in which our insurance subsidiaries are domiciled, as well as all states in which they are licensed, sell insurance products, issue policies, or handle claims. Some states impose restrictions or require prior regulatory approval of specific corporate actions, which may adversely affect our ability to operate, innovate, obtain necessary rate adjustments in a timely manner or grow our business profitably. These regulations provide safeguards for policyholders and are not intended to protect the interests of shareholders. Our ability to comply with these laws and regulations, and to obtain necessary regulatory action in a timely manner is, and will continue to be, critical to our success. Some of these regulations include:

- *Required Licensing.* We operate under licenses issued by the insurance departments in the states in which we sell insurance. If a regulatory authority denies or delays granting a new license, our ability to enter that market quickly or offer new insurance products in that market may be substantially impaired. In addition, if the insurance department in any state in which we currently operate suspends, non-renews, or revokes an existing license, we would not be able to offer affected products in that state.

- *Transactions between Insurance Companies and Their Affiliates.* Transactions between us or any of our affiliates and our insurance companies generally must be disclosed, and prior approval is required before any material or extraordinary transaction may be consummated. Approval may be refused or the time required to obtain approval may delay some transactions, which may adversely affect our ability to innovate or operate efficiently. Our unregulated entities receive substantial payments for services rendered to our insurance company subsidiaries pursuant to arrangements approved by insurance regulators. Changes in insurance regulation could materially and adversely affect the amount of cash flow we are able to generate outside of our insurance company subsidiaries.

- *Regulation of Insurance Rates and Approval of Policy Forms.* The insurance laws of most states in which we conduct business require insurance companies to file insurance rate schedules and insurance policy forms for review and approval. If, as permitted in some states, we begin using new rates before they are approved, we may be required to issue refunds or credits to the policyholders if the new rates are ultimately deemed excessive or unfair and disapproved by the applicable insurance department. In other states, prior approval of rate changes is required and there may be long delays in the approval process or the rates may not be approved. Accordingly, our ability to respond to market developments or increased costs in that state could be adversely affected.

- *Other Regulations.* We must also comply with regulations involving, among other matters:

  - the use of non-public consumer information and related privacy issues;

  - the use of credit history in underwriting and rating policies;

  - limitations on the ability to charge policy fees;

  - limitations on types and amounts of investments;

  - restrictions on the payment of dividends;

  - the acquisition or disposition of an insurance company or of any company controlling an insurance company;

  - involuntary assignments of high-risk policies, participation in reinsurance facilities and underwriting associations, assessments and other governmental charges;

  - reporting with respect to financial condition;

- periodic financial and market conduct examinations performed by state insurance department examiners;
- reporting with respect to ORSA; and
- reporting with respect to the NAIC model audit rule.

The failure to comply with these laws and regulations may also result in regulatory actions, fines and penalties, and in extreme cases, revocation of our ability to do business in a particular jurisdiction. In the past we have been fined by state insurance departments for failing to comply with certain laws and regulations. In addition, we may face individual and class action lawsuits by insured and other parties for alleged violations of certain of these laws or regulations.

Regulation may become more extensive in the future, which may materially and adversely affect our business, financial condition, results of operations and prospects.

Compliance with applicable laws and regulations is time-consuming and personnel-intensive, and changes in these laws and regulations may materially increase our direct and indirect compliance and other expenses of doing business, thus materially and adversely affecting our business, financial condition, results of operations and prospects.

The NAIC Creditor-Placed Insurance Model Act ("Creditor-Placed Model Act") applies to insurance placed in connection with automobile loans and creates a legal framework within which creditor-placed insurance may be written and helps to maintain the separation between creditors and insurers. It also serves to minimize the possibilities of unfair competitive practices in the sale of creditor-placed insurance. The Creditor-Placed Model Act has only been adopted by a few states, including Arkansas, Michigan, Mississippi, and Tennessee, but other states have also adopted laws and regulations that cover creditor-placed insurance. There could be an effort, especially from consumer groups, to expand the protections and breadth of the Creditor-Placed Model Act. The NAIC Property and Casualty Insurance Committee is currently reviewing the Model Act and is tentatively scheduled to provide its proposed revisions (if any) in 2016.

In the future, states may make existing insurance laws and regulation more restrictive or enact new restrictive laws. In such event, we may seek to reduce our business in, or withdraw entirely from, these states. Additionally, from time to time, the United States Congress and certain federal agencies investigate the current condition of the insurance industry to determine whether federal regulation is necessary. Currently, the U.S. federal government does not directly regulate the property and casualty insurance business. However, Dodd-Frank Act established a Federal Insurance Office ("FIO") within the Department of the Treasury. The FIO initially is charged with monitoring all aspects of the insurance industry (other than health insurance, certain long-term care insurance and crop insurance), gathering data, and conducting a study on methods to modernize and improve the insurance regulatory system in the United States. On December 12, 2013, the FIO issued a report (as required under the Dodd-Frank Act) entitled "How to Modernize and Improve the System of Insurance Regulation in the United States" (the "Report"), which stated that, given the "uneven" progress the states have made with several near-term state reforms, should the states fail to accomplish the necessary modernization reforms in the near term, "Congress should strongly consider direct federal involvement." The FIO continues to support the current state-based regulatory regime, but will consider federal regulation should the states fail to take steps to greater uniformity (e.g., federal licensing of insurers). The Report also appears to signal greater activity by the federal government in dealing with non-U.S. regulators and regulatory regimes, using the authority expressly given by the Dodd-Frank Act to the U.S. Department of the Treasury and the United States Trade Representative to negotiate "covered agreements" with foreign authorities. Each year the FIO also releases an annual report on the insurance industry ("Annual Report"), with its latest Annual Report released in September of 2015. The Annual Report provided a set of recommendations along with providing an overview of the financial performance and condition of the U.S. insurance industry and outlining a number of insurance industry and regulatory developments from the past year. We cannot predict what impact, if any, this guidance or any new legislation would have on our business, financial condition and results of operations. See "Business—Regulation—Federal and State Legislative and Regulatory Changes" in Item 1 of this report.

Our holding company structure and certain regulatory and other constraints, including adverse business performance, could affect our ability to satisfy our obligations.

We are a holding company and conduct our business operations through our various subsidiaries. Our principal sources of funds are payments from our subsidiaries, income from our investment portfolio and funds that may be raised from time to time in the capital markets. We will be largely dependent on amounts from our subsidiaries to pay principal and interest on any indebtedness that we may incur, to pay holding company operating expenses, to make capital investments in our other subsidiaries, repurchase shares and to pay dividends on our common stock.

Our insurance subsidiaries are subject to statutory requirements as to maintenance of policyholders' surplus and payment of dividends, including in their states of domicile, Texas and Delaware. In general, the maximum amount of dividends that the insurance subsidiaries may pay in any 12-month period without regulatory approval is the greater of adjusted statutory net income or 10% of statutory policyholders' surplus as of the preceding calendar year end. Adjusted statutory net income is generally defined for this purpose to be statutory net income, net of realized capital gains, for the calendar year preceding the date of the dividend. In addition, other states may limit or restrict our insurance subsidiaries' ability to pay shareholder dividends generally or as a condition to issuance of a certificate of authority. See "Business—Regulation—State Insurance Regulation" in Item 1 of this report.

We may require additional capital in the future and such additional capital may not be available to us, or only available to us on unfavorable terms.

Our future capital requirements depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. To the extent that the funds generated by our ongoing operations and capitalization are insufficient to fund future operating requirements, we may need to raise additional funds through financings or curtail our growth and reduce our assets. We cannot be sure that we will be able to raise equity or debt financing on terms favorable to us and our shareholders and in the amounts that we require, or at all. If we cannot obtain adequate capital, our business, financial condition, results of operations and prospects could be materially and adversely affected.

In addition, the terms of a capital raising transaction could require us to agree to stringent financial and operating covenants and to grant security interests on our assets to lenders or holders of our debt securities that could limit our flexibility in operating our business or our ability to pay dividends on our common stock and could make it more difficult for us to obtain capital in the future.

The rates we charge under the policies we write in our Program Services segment and our Lender Services segment are subject to prior regulatory approval in most of the states in which we operate.

In most of the states in which we operate through our admitted carriers, we must obtain prior regulatory approval of insurance rates charged to our insureds and our clients' insureds, including any increases in those rates. If we are unable to receive approval for the rate changes we request, or if such approval were delayed, our ability to operate our business in a profitable manner may be limited and our financial condition, results of operations, and liquidity may be adversely affected.

The effects of emerging claim and coverage issues on our business are uncertain and negative developments in this area could have a material and adverse effect on our business, financial condition, results of operations and prospects.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may materially and adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until after we have issued insurance policies that are affected by the changes. As a result, the full extent of our liability under an insurance policy may not be known until many years after the policy is issued. Changes of this nature may expose us to higher claims than we anticipated when we wrote the underlying policy. Unexpected increases in our claim costs many years after policies are issued may also result in our inability to recover from certain of our reinsurers the full amount that they would otherwise owe us for such claims costs because certain of the reinsurance agreements covering our business include commutation clauses that permit the reinsurers to terminate their obligations by making a final payment to us based on an estimate of their remaining liabilities. In addition, the potential passage of new legislation designed to expand the right to sue, to remove limitations on recovery, to deem by statute the existence of a covered occurrence, to extend the statutes of limitations or otherwise repeal or weaken tort reforms could have an adverse impact on our business. The effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict and could be harmful to our business and have a material adverse effect on our results of operations.

We may rely on the use of credit scoring in pricing and underwriting certain of our insurance policies and any legal or regulatory requirements that restrict our ability to access credit score information could decrease the accuracy of our pricing and underwriting process and thus decrease our ability to be profitable.

We use credit scoring as a factor in pricing and underwriting decisions where allowed by state law. Consumer groups and regulators have questioned whether the use of credit scoring unfairly discriminates against some groups of people and are calling for laws and regulations to prohibit or restrict the use of credit scoring in underwriting and pricing. Laws or regulations that significantly curtail or regulate the use of credit scoring, if enacted in a large number of states in which we operate, could impact the integrity of our pricing and underwriting process, which could, in turn, materially and adversely affect our business, financial condition, results of operations and prospects, and make it harder for us to be profitable over time.

Assessments and other surcharges for guaranty funds, second-injury funds, catastrophe funds, and other mandatory pooling arrangements for insurers may reduce our profitability.

Virtually all states require insurers licensed to do business in their state to bear a portion of the loss suffered by some insured parties as the result of impaired or insolvent insurance companies. In addition, as a condition to the ability to conduct business in various states, our insurance subsidiaries must participate in mandatory property and casualty shared market mechanisms or pooling arrangements, which provide various types of insurance coverage to individuals or entities that otherwise are unable to purchase that coverage from private insurers. The effect of these assessments and mandatory shared-market mechanisms or changes in them could reduce our profitability in any given period or limit our ability to grow our business.

The effects of litigation on our business are uncertain and could have a material and adverse effect on our business, financial condition, results of operation and prospects.

Although we are not currently involved in any material litigation with our clients or insureds, other members of the insurance industry are the target of class action lawsuits and other types of litigation, some of which involve claims for substantial or indeterminate amounts. These lawsuits may have outcomes that are unpredictable. This litigation is based on a variety of issues, including claim settlement and insurance practices. We cannot predict with any certainty whether we will be involved in such litigation in the future or what impact such litigation would have on our business.

Risks Related to Our Common Stock

Our revenues and results of operations may fluctuate due to the factors beyond our control, which could cause the price of our common stock to be volatile.

Our common stock is listed on the NASDAQ Global Select Market under the symbol “SNC”. Our performance, as well as government regulatory action, interest rates and general market conditions, could have a significant impact on the future market price of our common stock. Some of the factors that could negatively affect our share price or result in fluctuations in the price of our common stock include:

- our operating results in any future quarter not meeting the expectations of market analysts or investors;
- reductions in our earnings estimates by us or market analysts;

- publication of negative research or other unfavorable publicity or speculation in the press or investment community about our company or the insurance industry in general;
- increases in interest rates causing investors to demand a higher yield or return on investment than an investment in our common stock may be projected to provide;
- changes in market valuations of similar companies;
- additions or departures of key personnel;
- changes in the economic or regulatory environment in the markets in which we operate;
- the occurrence of any of the other risk factors presented in this report; and
- general market, economic and political conditions.

Prior to the completion of the private placement, we were treated for federal income tax purposes as a "Subchapter S corporation" under the Internal Revenue Code, and claims of taxing authorities related to our prior status as an "S" corporation could harm us.

Upon completion of the private placement in 2014, our parent company's "S" corporation status terminated, and State National became treated as a "C" corporation under "Subchapter C" of the income tax provisions of the Internal Revenue Code of 1986, as amended (the "Code"), which is applicable to most corporations and treats the corporation as an entity that is separate and distinct from its shareholders. If the open tax years in which State National was treated as an "S" corporation were audited by the Internal Revenue Service, and we are determined not to have qualified for, or to have violated, our "S" corporation status, we will be obligated to pay back taxes, interest and penalties, and we do not have the right to reclaim tax distributions that we have made to our shareholders during those periods. These amounts could include taxes on all of our taxable income while State National was treated as an "S" corporation. Any such claims could result in additional costs to us and could have a material adverse effect on our results of operations and financial condition.

We have entered into a tax indemnification agreement with our former "S" corporation shareholders and could become obligated to make payments to them for any additional federal, state or local income taxes assessed against them for fiscal periods prior to the completion of the private placement.

In the event of an adjustment to our reported taxable income for a period or periods prior to termination of our "S" corporation status, persons who held shares of our common stock during the time in which it was treated as an "S" corporation could be liable for additional income taxes for those prior periods. Therefore, prior to the completion of the private placement in 2014 we entered into a tax indemnification agreement with our shareholders, who we refer to as our former "S" Corporation Shareholders. Pursuant to the tax indemnification agreement, we will pay each such shareholder on an after-tax (or grossed-up) basis the amount of additional income taxes plus interest and penalties due as a result of adjustments (pursuant to a determination by, or a settlement with, a taxing authority or court, or pursuant to the filing of an amended tax return) to the taxable income of our parent company with respect to taxable periods during which it filed as an "S" corporation. The payments we could be required to make will be reduced by certain tax benefits that may be available to our former "S" Corporation Shareholders as a result of such adjustments. Such payments will also include any reasonable out-of-pocket expenses incurred by the former "S" Corporation Shareholders arising out of a claim for such tax liability.

Compliance with the laws, rules and regulations of being a public company requires significant company resources and management attention.

As a public company with listed equity securities, we need to comply with laws, regulations and requirements, certain corporate governance provisions of The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"), periodic reporting requirements of the Exchange Act and other regulations of the SEC and the requirements of the NASDAQ Global Select Market, with which we were not required to comply as a private company. Complying with these laws, rules and regulations, requires us to incur significant legal, accounting and other expenses. These efforts require a significant amount of time from our board of directors and management, possibly diverting their attention from the implementation of our business plan and growth strategy.

We have made, and will continue to make, changes to our corporate governance standards, disclosure controls, financial reporting and accounting systems to meet our obligations as a public company. We cannot assure you that the changes we have made and will continue to make to satisfy our obligations as a public company will be successful, and any failure on our part to satisfy these obligations could subject us to delisting of our common stock, fines, sanctions and other regulatory action and potential litigation.

Failure to maintain an effective system of internal control over financial reporting may have an adverse effect on the Company's stock price.

Section 404 of Sarbanes-Oxley and the related rules and regulations of the SEC require an annual management assessment of the effectiveness of our internal control over financial reporting. If we fail to maintain the adequacy of our internal control over financial reporting, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of Sarbanes-Oxley and the related rules and regulations of the SEC. If we cannot in the future favorably assess the effectiveness of our internal control over financial reporting, investor confidence in the reliability of our financial reports may be adversely affected, which could have a material adverse effect on the price of our common stock.

We are an "emerging growth company" and are likely to remain one for some period of time. As a result, our shareholders likely will not have the benefit of certain protective provisions that would otherwise apply to most public companies.

The Jumpstart Our Business Startups ("JOBS") Act became law in 2012. The JOBS Act "IPO On-Ramp" provisions provide that companies with less than $1 billion of total annual gross revenues ("emerging growth companies") will be exempted from certain disclosure requirements for up to five years following their initial public offerings. An emerging growth company is subject to reduced disclosure requirements during this period, including:

- fewer years of required financial statements in its registration statement (two years compared to three years by non-emerging growth companies);
- no requirement to present selected financial data for periods preceding the earliest audited period required to be presented in the registration statement for a company's initial public offering;
- exemption from the requirements under Section 404(b) of the Sarbanes-Oxley Act for auditor attestation relating to internal control over financial reporting;
- grandfather provisions allowing a company to forgo compliance with new or revised financial statement or auditing requirements; and
- reduced executive compensation disclosure, including reduction of the number of executive officers whose compensation is required to be described, fewer years of required disclosure, exemption from the requirement to include a compensation disclosure and analysis section and exemption from certain provisions of the Dodd-Frank Act relating to "say-on-pay," "pay-for-performance," comparative pay and golden parachutes.

As a result, for at least some period of years, our shareholders likely will not have the benefit of certain protective provisions and additional disclosures that would otherwise apply to most public companies.

Future sales and issuances of shares of our capital stock may depress our share price.

We may in the future issue our previously authorized and unissued securities. We have an authorized capitalization of 150 million shares of our common stock and 10 million shares of preferred stock with such designations, preferences and rights as are contained in our charter or bylaws and as determined by our board of directors. Issuances of stock may result in dilution of our existing shareholders or a decrease in the per share price of our common stock. It is not possible to state the actual effect of the issuance of any shares of our preferred stock on the rights of holders of our common stock until our board of directors determines the specific rights attached to that class or series of preferred stock.

We cannot predict what effect, if any, future sales of our common stock, or the availability of shares for future sale, will have on the price prospective buyers are willing to pay for our common stock. Sales of a substantial number of shares of our common stock by us or our shareholders, or the perception that such sales could occur, may adversely affect the price prospective buyers are willing to pay for our common stock and may make it more difficult for you to sell your shares at a time and price that you determine appropriate. See “Shares Available for Future Sale” for further information regarding circumstances under which additional shares of our common stock may be sold.

Provisions contained in our organizational documents, as well as provisions of Delaware law, contractual agreements and compensation arrangements, could delay or prevent a change of control of us, which could adversely affect the price of shares of our common stock.

Our bylaws and Delaware law contain provisions that could have the effect of rendering more difficult or discouraging an acquisition deemed undesirable by our board of directors. Our corporate governance documents include provisions that:

- provide that special meetings of our shareholders generally can only be called by the chairman of the board of directors, the chief executive officer, the president or by a resolution approved by our board of directors;
- provide our board of directors the ability to issue undesignated preferred stock, the terms of which may be established and the shares of which may be issued without shareholder approval, and which may grant preferred holders super voting, special approval, dividend or other rights or preferences superior to the rights of the holder of common stock;
- eliminate the ability of shareholders to act by written consent in lieu of a meeting;
- provide our board of directors the ability to issue common stock and warrants within the amount of authorized capital; and
- provide that shareholders seeking to bring business before our annual meeting of shareholders, or to nominate candidates for election as directors at our annual meeting of shareholders, generally must provide timely advance notice of their intent in writing and certain other information not less than 90 days nor more than 120 days prior to the one-year anniversary of the date of the preceding year’s annual meeting of shareholders.

In addition, some of our agreements, such as our alliance agreement with CUNA Mutual, our standard reinsurance agreements and some of our incentive plans contain change of control provisions. In addition, we have certain severance agreements with executives that provide for payments following a change of control.

The provisions discussed above, alone or together, could delay hostile takeovers and changes of control of our company or changes in our management, even if such transactions would be beneficial to our shareholders.

As a Delaware corporation, we will also be subject to anti-takeover provisions of Delaware law. The Delaware General Corporation Law (“DGCL”) provides that shareholders are not entitled to cumulative voting rights in the election of directors unless a corporation’s certificate of incorporation provides otherwise. Our certificate of incorporation does not provide for cumulative voting in the election of directors.

In addition, we are subject to Section 203 of the DGCL, which, subject to certain exceptions, prohibits a public Delaware corporation from engaging in a business combination (as defined in such section) with an "interested shareholder" (defined generally as any person who beneficially owns 15% or more of the outstanding voting stock of such corporation or any person affiliated with such person) for a period of three years following the time that such shareholder became an interested shareholder, unless: (1) prior to such time, the board of directors of such corporation approved either the business combination or the transaction that resulted in the shareholder becoming an interested shareholder; (2) upon consummation of the transaction that resulted in the shareholder becoming an interested shareholder, the interested shareholder owned at least 85% of the voting stock of such corporation at the time the transaction commenced (excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested shareholder) the voting stock owned by directors who are also officers or held in employee benefit plans in which the employees do not have a confidential right to tender or vote stock held by the plan); or (3) on or subsequent to such time the business combination is approved by the board of directors of such corporation and authorized at a meeting of shareholders by the affirmative vote of at least two-thirds of the outstanding voting stock of such corporation not owned by the interested shareholder.

Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our shareholders to receive a premium for their shares of common stock, and could also affect the price that some investors are willing to pay for shares of our common stock. See "Description of Capital Stock—Certain Anti-Takeover Effects of Provisions of Our Organizational Documents and Delaware Law."

Applicable insurance laws may make it difficult to effect a change of control of our company.

State insurance holding company laws require prior approval by the respective state insurance departments of any change of control of an insurer. "Control" is generally defined as the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the Company, whether through the ownership of voting securities, by contract or otherwise. Control is generally presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of a domestic insurance company or any entity that controls a domestic insurance company. Any person wishing to acquire control of us or of any substantial portion of our outstanding shares would first be required to obtain the approval of the domestic regulators (including those asserting "commercial domicile") of our insurance subsidiaries or file appropriate disclaimers.

These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of us, including through transactions, and in particular unsolicited transactions, that some or all of our shareholders might consider to be desirable. See "Regulation—Holding Company Regulation—Change of Control."

Future issuance of debt or preferred stock, which would rank senior to our common stock upon our liquidation, and future offerings of equity securities, which would dilute our existing shareholders, may adversely affect the market value of our common stock.

In the future, we may attempt to increase our capital resources by issuing debt or making additional offerings of equity securities, including bank debt, commercial paper, medium-term notes, senior or subordinated notes and classes of shares of preferred stock. Upon liquidation, holders of our debt securities and preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of shares of our common stock. Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market value of our common stock, or both. Our preferred stock, if issued, could have a preference on liquidating distributions or a preference on dividend payments that would limit amounts available for distribution to holders of shares of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of shares of our common stock bear the risk of our future offerings reducing the market value of our common stock and diluting their stockholdings in us.

Item 1B: Unresolved Staff Comments

None.

Item 2: Properties

We own the headquarters building and land at 1900 L. Don Dodson Drive in Bedford, Texas, which includes approximately 200,000 square feet of office space.

Item 3: Legal Proceedings

We are routinely involved in legal proceedings arising in the ordinary course of business, in particular in connection with claims adjudication with respect to our policies. We believe that there is no individual case pending that is likely to have a material adverse effect on our financial condition or results of operations.

Item 4: Mine Safety Disclosures

Not applicable.

Executive Officers of the Registrant

Name	Age	Offices and Positions Held and Length of Service as Officer
Terry Ledbetter	63	Chairman of the Board of Directors and Chief Executive Officer since June 2014 and a Director for over 15 years; prior thereto, President for over 15 years.
Matthew Freeman	40	President since 2016; prior thereto, from 2008 until 2015, various executive management positions at QBE Insurance Group Limited, a worldwide insurance and reinsurance company, serving most recently as President of QBE Mortgage & Lender Services and prior to that as Executive Vice President of QBE Financial Partner Services.
David Hale	62	Executive Vice President and Chief Financial Officer since 1995 and Chief Operating Officer since 2013.
John Pearson	59	Executive Vice President and National Sales Manager since 2005.
Trace Ledbetter	45	Executive Vice President of Service since 2014; prior thereto, Senior Vice President of Service since 1997. Trace Ledbetter is the nephew of Terry Ledbetter.
David Cleff	49	Executive Vice President of Business Affairs since 2012, General Counsel since 2001 and Secretary since 2014.

All executive officers are elected by the board of directors and hold office until the board meeting held following the next annual meeting of shareholders, and until his or her successor is elected and qualified or until his or her earlier death, resignation or removal.

PART II

Item 5: Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock began trading on the NASDAQ Global Select Market under the symbol "SNC" on November 3, 2014. As of March 4, 2016 there were approximately 323 holders of record of our common stock. This figure does not include beneficial owners who hold shares in the name of nominees.

The following table presents high and low sales prices for our common stock on the NASDAQ Global Select Market for the periods indicated.

	Sales Price	
	High	Low
Fourth Quarter 2014	$ 13.13	$ 11.00
First Quarter 2015	12.64	8.95
Second Quarter 2015	11.41	9.11
Third Quarter 2015	10.94	8.25
Fourth Quarter 2015	10.48	8.33

Dividend Policy

Prior to the completion of the private placement in the second quarter of 2014, it was our policy to pay dividends to our shareholders. Historically, we elected for our parent company to be taxed for federal income tax purposes as a "Subchapter S corporation" under the Internal Revenue Code and our subsidiaries (other than our insurance subsidiaries and their intermediate holding company) to be pass-through entities for federal income tax purposes. We historically made periodic cash distributions to our shareholders that included amounts necessary for them to pay their estimated personal U.S. federal income tax liabilities relating to the items of our income, gain, deductions and losses. Upon completion of the private placement, State National became taxable as a "C" corporation and has discontinued the manner in which it previously made periodic distributions to its shareholders, including distributions to provide shareholders with funds to pay their estimated personal U.S. federal income tax liabilities.

The following table shows quarterly dividends that were paid on our common stock with respect to the periods indicated. The per share amounts set forth in the following table have been adjusted to give effect to the 736 for 1 stock split that we effected prior to the completion of the private placement. Accordingly, the per share amounts are presented to the nearest hundredth of a cent and are not representative of the amount of any future dividends we may pay.

	Dividends Declared Per Share
First Quarter 2014	$ 0.34
Second Quarter 2014	0.14
Third Quarter 2014	—
Fourth Quarter 2014	0.01
First Quarter 2015	0.01
Second Quarter 2015	0.01
Third Quarter 2015	0.06
Fourth Quarter 2015	0.06

The Company is a holding company and has no direct operations. Our ability to pay dividends in the future depends on the ability of our operating subsidiaries, including our insurance subsidiaries, to pay dividends to us. The laws of the jurisdictions in which our insurance subsidiaries are organized regulate and restrict, under certain circumstances, their ability to pay dividends to us. However, our agency, T.B.A. Insurance Group, Ltd. ("TBA"), is not statutorily restricted from paying dividends to us. In addition, future debt agreements may contain certain prohibitions or limitations on the payment of dividends. Any declaration and payment of dividends that may be approved by our board of directors will depend on many other factors, including general economic and business conditions, our strategic plans, our financial results and condition, legal and regulatory requirements and other factors that our board of directors deems relevant. Our board of directors may eliminate the payment of future dividends at its discretion, without notice to our shareholders. Subject to approval by our board of directors and the other factors referenced above, we currently intend to continue to provide for the payment of comparable cash dividends during 2016.

Equity Compensation Plan Information

As of December 31, 2015, the 2014 Long-Term Incentive Plan (the "Plan") was the only compensation plan under which securities of the Company were authorized for issuance. The Plan was approved by the Company's shareholders prior to the completion of the private placement in 2014. The Company has no equity compensation plans that have not been approved by its shareholders. The table below provides information as of December 31, 2015 with respect to the Plan.

Plan Category	Number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of shares of common stock remaining available for future issuance under equity compensation plans
Equity compensation plans approved by shareholders	2,783,873	$ 10.00	1,344,539

Purchases of Equity Securities

On October 12, 2015, the Company announced a share repurchase program authorizing the repurchase up to $50 million in shares of the Company's common stock through December 31, 2016. Repurchases are made in accordance with the guidelines specified under Rule 10b-18 and may be made under Rule 10b5-1, under the Securities Exchange Act of 1934. The following table presents information related to our repurchases of common stock for the periods indicated:

($ in thousands, except share and per share data)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan
November 1 - November 30, 2015	200,000	$ 9.70	200,000	$ 48,060
December 1 - December 31, 2015	1,588,640	9.61	1,588,640	32,797
Total	1,788,640		1,788,640	

The following table presents information related to our repurchases of common stock subsequent to the end of the current reporting period:

($ in thousands, except share and per share data)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan
January 1 - March 4, 2016	173,521	$ 9.31	173,521	$ 31,182

Item 6: Selected Financial Data

The following tables set forth our selected historical consolidated financial information for the periods ended and as of the dates indicated. These selected historical consolidated results are not necessarily indicative of results to be expected in any future period. You should read the following selected consolidated financial information together with the other information contained in this report, including the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included elsewhere in this report.

The income statement data for the years ended December 31, 2015, 2014 and 2013 and the balance sheet data as of December 31, 2015 and 2014 are derived from our audited financial statements included elsewhere in this report. The income statement data for the years ended December 31, 2012 and 2011 and the balance sheet data as of December 31, 2013, 2012 and 2011 are derived from our audited financial statements that are not included in this report.

	For the years ended December 31,				
($ in thousands, except for share information)	2015	2014	2013	2012	2011
OPERATING RESULTS					
Gross written premium (1)	$ 1,265,087	$ 1,034,125	$ 809,965	$ 634,821	$ 712,834
Net written premium (1)	120,508	99,074	86,773	79,165	80,303
Premiums earned	118,068	96,650	84,378	78,096	81,974
Ceding fees (2)	67,956	45,732	32,898	32,379	30,455
Total revenues	198,948	154,527	128,503	122,123	124,749
Reconciliation of adjusted net income:					
Net income	$ 44,666	$ 11,013	$ 22,711	$ 15,882	$ 27,906
Plus (less): Provision for income taxes to reflect change to C corporation status (3)	—	4,090	(6,938)	(2,980)	(6,779)
Less: Recognition of deferred tax asset upon conversion to C corporation (4)	—	14,279	—	—	—
Plus: Founder special compensation (5) (6)	—	11,203	6,311	6,749	443
Plus: Offering-related expenses (6)	—	5,524	—	—	—
Plus: Contract modification expense (6) (8)	—	11,132	—	—	—
Adjusted net income (7)	$ 44,666	$ 28,683	$ 22,084	$ 19,651	$ 21,570
FINANCIAL CONDITION					
Total investments and cash and cash equivalents	$ 386,836	$ 350,901	$ 252,686	$ 241,088	$ 228,933
Reinsurance recoverables (9)	1,911,660	1,656,534	1,372,225	1,201,053	1,074,404
Total assets	2,388,318	2,091,764	1,690,951	1,497,528	1,366,412
Unpaid losses and loss adjustment expenses	1,364,774	1,209,905	1,016,641	975,708	806,125
Unearned premiums	585,448	480,124	386,279	253,638	293,924
Allowance for policy cancellations (10)	59,610	55,500	39,623	32,775	27,511
Subordinated debentures	44,500	44,500	52,000	52,000	52,000
Total shareholders' equity	263,457	240,872	145,354	142,223	140,087
SHARE INFORMATION					
Basic earnings per share	$ 1.01	$ 0.28	$ 0.66	$ 0.46	$ 0.82
Diluted earnings per share	1.01	0.28	0.66	0.46	0.82
Basic weighted average shares outstanding	44,165,458	39,383,641	34,176,896	34,176,896	34,176,896
Diluted weighted average shares outstanding	44,188,593	39,389,855	34,176,896	34,176,896	34,176,896
Cash dividends declared per common share	$ 0.14	$ 0.49	$ 0.45	$ 0.42	$ 0.53

(1) The CPI premiums written presented in this document reflect the effects of the allowance for policy cancellations, including any adjustments related to re-estimation of the allowance. As such, the CPI premiums written are those that we expect to earn, which we refer to as “stick premiums,” while those that are expected to cancel are included in the allowance for policy cancellations.

(2) Ceding fees are fees we receive in the Program Services segment in exchange for providing access to the U.S. property and casualty insurance market and are based on the gross premiums we write on behalf of our GA and capacity provider clients. We earn ceding fees in a manner consistent with the recognition of the gross earned premium on the underlying insurance policies, generally on a pro-rata basis over the terms of the policies reinsured. Typically, the reinsured policies have a term of one year. Minimum capacity fees, which are determined based on the shortfall, if any, between the program’s contractual annual premium minimum and the amount of premium that we estimate will be written in the contract year, are earned over the contract year. See “Management’s Discussion and Analysis of Financial Condition and Results of Operation—Principal Revenue and Expense Items—Minimum ceding fees.” Ceding commissions earned on Lender Services business are not included as ceding fees. CUNA Mutual’s ceding commission is included as a partial offset to commission expense.

(3) Upon the completion of the private placement in 2014, our parent company’s status as a Subchapter S corporation terminated and our consolidated income became fully subject to U.S. federal income taxes. This adjustment represents estimated income taxes as if the Company had been treated as a C Corporation for each period presented. The estimated tax was calculated assuming the Company’s blended statutory federal and state income tax rates of 37.5%, 38.1%, 37.2% and 35.7% for the years ended December 31, 2014, 2013, 2012 and 2011, respectively.

(4) As a result of the Company’s conversion to a C Corporation, the deferred tax asset increased by approximately $14.3 million primarily due to the effects of eliminating deferred tax balances on the insurance subsidiaries related to intercompany transactions. This excludes the tax effect related to contract modification expense as discussed in note (8) below.

(5) Prior to the completion of the private placement in June 2014, we made special compensation payments to our co-founders in recognition of their service to our Company. We refer to these payments as “founder special compensation.” Following the completion of the private placement in 2014, we ceased paying founder special compensation.

(6) Founder special compensation, offering-related expenses, and contract modification expense are shown net of the estimated tax benefit for each period presented. The estimated tax was calculated assuming the Company’s blended statutory federal and state income tax rates of 37.5%, 38.1%, 37.2% and 35.7% for the years ended December 31, 2014, 2013, 2012 and 2011, respectively.

(7) Adjusted net income is considered a non-GAAP financial measure because it reflects the following adjustments to net income, which is the most directly comparable measure calculated in accordance with GAAP: the pro forma provision for income taxes as if the Company had been treated as a C Corporation for each period presented, and the exclusion (net of tax benefit) of the increase in the Company’s deferred tax asset as a result of the conversion to C Corporation status, the amount of founder special compensation and the non-recurring, infrequent or unusual offering-related expenses and contract modification expense related to the amendment to our alliance agreement with CUNA Mutual. Management believes this measure is helpful to investors because it provides comparability in evaluating core financial performance between periods. Management uses adjusted net income to evaluate core financial performance against historical results without the effect of these items.

(8) In connection with the 2014 amendment to the alliance agreement with CUNA Mutual, we paid CUNA Mutual $17.8 million. As a result, we recorded contract modification expense of $17.8 million, or $11.1 million net of tax benefit.

(9) Our reinsurance recoverables are based on estimates, and our actual liabilities may exceed the amount that we are able to recover from our reinsurers or any collateral securing the liabilities. This could occur because the loss

experience based on the policy terms is higher than expected or due to litigation, regulatory or other extra-contractual liabilities. SNIC, NSIC, and USIC remain liable for unearned premiums and unpaid losses and loss adjustment expenses with respect to reinsurance ceded should the reinsurer be unable to meet its obligations. Management considers the possibility of a reinsurer becoming unable to meet its obligations as remote due to the reinsurers' financial stability, A.M. Best Company rating, size, security funds available, and other factors as appropriate.

Following is a summary of these balances as of:

($ in thousands)	December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011
Ceded unearned premiums	$ 559,638	$ 456,754	$ 365,333	$ 235,088	$ 276,443
Ceded loss and loss adjustment expense reserves	1,352,022	1,199,780	1,006,892	965,965	797,961
Total reinsurance recoverables	1,911,660	1,656,534	1,372,225	1,201,053	1,074,404
Secured reinsurance recoverables	(1,527,335)	(1,209,032)	(1,014,947)	(851,045)	(590,609)
Unsecured reinsurance recoverables	$ 384,325	$ 447,502	$ 357,278	$ 350,008	$ 483,795

(10) An allowance for policy cancellations is provided for the estimated amount of return premiums and policy fees, net of commission expense and premium taxes that will be incurred on expected future policy cancellations associated with the Company's CPI business. Premiums and cancellation data are accumulated by accounting month (month in which the premium was written/collected), lending institution and at the corporate level. The estimation methodology utilizes actual cancellation rates (premium refunds divided by premiums written by accounting month) to determine expected future cancellations for that accounting month. The estimate for each accounting month decreases each subsequent month as actual refunds emerge. While management believes the amounts included in the consolidated financial statements are adequate, such estimates may be more or less than the amounts ultimately refunded. The estimates are reviewed quarterly by management, and any changes are reflected in current operations.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking and Other Statements

This discussion and analysis contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that are not historical facts, and involve risks and uncertainties that could cause actual results to differ materially from those expected and projected. See "Note on Forward-Looking Statements" in Part I of this report.

Overview

We are a leading specialty provider of property and casualty insurance operating in two niche markets across the United States. In our Program Services segment, we leverage our "A" (Excellent) A.M. Best rating, expansive licenses and reputation to provide access to the U.S. property and casualty insurance market in exchange for ceding fees. In our Lender Services segment, we specialize in providing collateral protection insurance ("CPI"), which insures personal automobiles and other vehicles held as collateral for loans made by credit unions, banks and specialty finance companies.

Our Program Services segment generates significant fee income, in the form of ceding fees, by offering issuing carrier ("fronting") capacity to both specialty general agents and other producers ("GAs"), who sell, control, and administer books of insurance business that are supported by third parties that assume reinsurance risk. These reinsurers are domestic and foreign insurers and institutional risk investors ("capacity providers") that want to access specific lines of U.S. property and casualty insurance business. Issuing carrier arrangements refer to our business in which we write insurance on behalf of a capacity provider and then reinsure the risk under these policies with the capacity provider in exchange for ceding fees. We reinsure substantially all of the underwriting and operating risks in connection with our fronting arrangements to our capacity providers. As such, this segment generates very large gross premiums with no net premiums (except for the run-off of the retained business as described below). In many cases, we hold significant collateral to secure the associated reinsurance recoverables. Furthermore, since the funds related to settling balances (premiums, commissions and losses) between the GAs and the reinsurers do not flow through the Company, no receivables or payables are reflected in the Company's financial statements for these amounts. In exchange for providing our insurance capacity, licensing and rating to our GA and insurer clients, we receive ceding fees averaging in excess of 5% of gross written premiums.

Our Lender Services segment generates premiums primarily from providing collateral protection insurance, or CPI, to our credit union, bank and specialty finance company clients. Lenders purchase CPI to provide coverage for automobiles or other vehicles of borrowers who do not uphold their obligation to insure the collateral underlying the loan. Our lender clients pay us directly for CPI and then add the cost of CPI to the borrower's loan. Our CPI business is fully vertically integrated: we manage all aspects of the CPI business cycle, including sales and marketing, policy issuance, policy administration, underwriting and claims handling.

Recent Developments

On October 12, 2015, the Company announced a share repurchase program authorizing the repurchase of up to $50 million in shares of the Company's common stock through December 31, 2016. Repurchases are made in accordance with the guidelines specified under Rule 10b-18 and may be made under Rule 10b5-1, under the Securities Exchange Act of 1934. During the year ended December 31, 2015, the Company purchased 1,788,640 shares of its common stock at an aggregate purchase price including commissions of $17.3 million. The excess cost of the repurchased shares over par value was charged to retained earnings.

On November, 12, 2015, the Company announced the extension of the agreement with Nephila Capital, Ltd. ("Nephila") that it entered into in 2014. Nephila is an institutional risk investor that specializes in catastrophe insurance risk. In exchange for the continued exclusive right to produce catastrophe exposed property insurance via State National, Nephila has agreed to pay State National contractual minimum ceding fees through 2019.

New Extended Agreement - Minimum Fees

($ millions)		Prior 2014 Agreement	New Extended Agreement	Change
	2016	$ 19.5	$ 14.0	$ (5.5)
	2017	5.0	10.0	5.0
Two year total		**$ 24.5**	**$ 24.0**	**$ (0.5)**
	2018	—	12.5	12.5
	2019	—	15.0	15.0
Four year total		**$ 24.5**	**$ 51.5**	**$ 27.0**

The minimum ceding fees are subject to State National maintaining its "A" A.M. Best rating and potential reductions to the extent that State National is unable to provide production year capacity or is otherwise constrained from writing premium. Also, under certain circumstances, Nephila may terminate the exclusivity, which would reduce the contractual minimum ceding fees to a total of $32.5 million for 2016 through 2019. In the event of such a termination, State National would have the ability to write the catastrophe exposed property business for other capacity providers.

On February 8, 2016, the Company announced that Matthew Freeman was appointed President of State National Companies, Inc. Mr. Freeman oversees the sales and service operations for both the Program Services and Lender Services segments and reports to Terry Ledbetter, Chairman and Chief Executive Officer.

Factors Affecting Our Operating Results

Trending Market Opportunities. We believe that macroeconomic conditions will provide us with growth opportunities in each of our business segments. Increasing automobile sales and credit availability should expand lenders' loan portfolios to improve our Lender Services results. Increased capital in the reinsurance market, coupled with a decline in reinsurance rates is causing reinsurers to review options for accessing the primary market, should create demand for our fronting services in our Program Services segment.

In our Lender Services business, we believe that organic growth from our existing lender clients will be driven by overall growth in lenders' portfolios as a result of rising automobile sales, higher average auto loan sizes and increasing credit availability resulting in increased premium writings. We expect that new sales from our alliance with CUNA Mutual and potential new business from banks and specialty finance companies will produce additional premiums.

We believe that the increased role of capital market alternatives to reinsurance, including the capitalization of hedge fund-backed reinsurers and the availability of capital in the non-U.S. reinsurance market, is driving demand for our Program Services, as these firms typically do not have direct access to the U.S. insurance market. This increased demand is contributing to an increase in new programs sold.

We currently have a significant program with Nephila under which we granted Nephila the exclusive right to utilize the Company as issuing carrier for U.S. catastrophe exposed property insurance during 2015 and 2016. Nephila is a hedge fund with approximately $11 billion in assets under management that participates in the market for catastrophe exposed property business. The timing and actual amount of gross premiums written for Nephila will impact the timing and amount of ceding fees earned each period under this program. See "—Principal Revenue and Expense Items—Minimum ceding fees." For the year ended December 31, 2015, ceding fees earned for this program were $14.2 million, comprised of premium related fees of $3.2 million and capacity fees of $11.0 million. This program began writing in the second quarter of 2014 and ceding fees were $0.5 million in 2014.

In addition, downgrades of insurance companies may create increased demand for our fronting capacities. For example, we currently have a large active program with certain subsidiaries of Meadowbrook Insurance Group, Inc. ("MIG"), including Century Surety Company, Star Insurance Company and Savers Property & Casualty Insurance Company. This A.M. Best rating-sensitive book of business came to us in August of 2013 after A.M. Best downgraded the rating of the MIG insurance subsidiaries from "A-" to "B++". Ceding fees earned were approximately $14.9 million, $14.3 million and $3.5 million as of December, 31, 2015, 2014 and 2013, respectively. On July 7, 2015, Meadowbrook announced the completion of the acquisition of Meadowbrook by Fosun International Limited. It is unknown if Meadowbrook will seek to terminate our fronting arrangement.

Alliance with CUNA Mutual. The Company's alliance with CUNA Mutual that began in 2009 provides us access to a wider array of clients and added significant additional scale to our CPI business. For the years ended December 31, 2015, 2014 and 2013, we have generated net premiums earned of $59.5 million, $40.7 million and $30.3 million, respectively, through the alliance with CUNA Mutual. Prior to July 1, 2014, this business was subject to a 50% quota share agreement with CUNA Mutual. In May 2014, we amended the alliance agreement to increase our retention of the business subject to the alliance to 70% from 50% for business written on or after July 1, 2014, and in exchange have made payments to CUNA Mutual totaling $17.8 million. The Company's net premiums earned increased $15.8 million and $5.4 million related to the amendment of the alliance agreement for the years ended December 31, 2015 and 2014, respectively. In addition, the term of the alliance has been extended at least through July 31, 2018.

Run-off of the Retained Business. In the past, the Company has participated to a limited extent on a quota share basis in certain programs in the Program Services segment. From 2007 until 2011, California had required USIC to retain 10% of the risks written. After this requirement was lifted in early 2012, the Company reinsured to inception the retained business under most of the active contracts, but others continue to run-off. The Company has no active retained contracts and has no present intention of participating in future contracts. We refer to this business as "the run-off of the retained business." As of December 31, 2015, we had net reserves of $4.0 million related to this business.

Subchapter S Corporation Status. Prior to the completion of the private placement in 2014, we elected for our parent company to be taxed for federal income tax purposes as a "Subchapter S corporation" under the Internal Revenue Code and our subsidiaries (other than our insurance subsidiaries and intermediate holding company) to be pass-through entities for federal income tax purposes. As a result, prior to the completion of the private placement, the income for our parent company and pass-through subsidiaries was not subject to, and we did not pay, U.S. federal income taxes, and no provision or liability for federal or state income tax for our parent company and pass-through subsidiaries has been included in our consolidated financial statements. The tax provision, assets and liabilities that are reflected in our consolidated financial statements for periods prior to the completion of the private placement represent those for our insurance subsidiaries, SNIC, NSIC, and USIC, and their intermediate holding company, State National Intermediate Holdings, Inc. ("SNIH"), as those entities were "C" Corporations. Despite the Subchapter S corporation status, the impact of taxes on our parent company are included in the financial statements in that our shareholders were provided with the cash to pay the taxes that passed through to the shareholders. Prior to the completion of the private placement, we made periodic cash distributions to our shareholders that have included amounts necessary for them to pay their estimated personal U.S. federal income tax liabilities relating to the items of our income, gain, deductions and losses that pass through to them. Upon the completion of the private placement, our parent company's status as a Subchapter S corporation terminated and our parent company became a "C" Corporation for U.S. tax purposes and became subject to a combined federal and state corporate income tax rate between approximately 35% and 38%. We invest a portion of our investment portfolio in tax-exempt municipal securities, which investment may have the effect of lowering our effective tax rate.

Founder Special Compensation. Prior to the completion of the private placement in 2014, we paid special compensation to our co-founders in recognition of their service to our Company. We refer to these payments as "founder special compensation." Founder special compensation payments were discretionary and determined by the Company's owners in the first or second quarter of the year in which they were made, based on current period considerations including capital position, estimated capital needs and liquidity, and earnings for the prior year. We paid founder special compensation in the aggregate amount of $17.9 million and $10.2 million for the years ended December 31, 2014 and 2013, respectively. Following the completion of the private placement in 2014, we ceased paying founder special compensation.

Seasonality of Our Business. Our Lender Services segment typically experiences seasonal fluctuations in written premium. The fourth quarter tends to generate the greatest amount of written premium, whereas the first quarter of the year tends to generate the least. We believe this trend follows loan delinquency patterns for the industry. We generally do not experience seasonality in our Program Services segment.

Principal Revenue and Expense Items

Premiums earned. Premiums earned are the earned portion of our net premiums written, which are predominately CPI premiums. As the CPI product is not a traditional insurance product, the premium recognition is likewise different. First, we do not record premiums until we collect them from our accounts since they have the right to waive the placement of insurance on any of their loans. Our standard premium notice cycles range from 42 to 84 days. Therefore, we earn premiums for such notice periods at the time they are written. Next, there is a high level of policy cancellations since borrowers often purchase insurance at the traditional rates that provides protection for them in addition to their lender. Due to this high level of policy cancellations, we split the premium into two pieces: (1) an allowance for future cancellations and (2) premiums that we expect to earn, which we refer to as "stick premiums." We earn stick premiums on a pro rata basis over the terms of the policies. The CPI premiums written as presented in this document reflect the effects of the allowance for policy cancellations including any adjustments related to re-estimation of the allowance. As such, our recorded CPI premiums written are those that we expect to earn while those that are expected to cancel are included in the allowance for policy cancellations. At the end of each reporting period, stick premium written that is not earned is classified as unearned premium, which is earned in subsequent periods over the remaining terms of the policies. Our policies typically have a term of one year, although the average duration of our CPI policies is typically less than six months due to policy cancellations.

Ceding fees. Ceding fees are fees we receive in the Program Services segment in exchange for providing access to the U.S. property and casualty insurance market and are based on the gross premiums we write on behalf of our GA and capacity provider clients. We earn ceding fees in a manner consistent with the recognition of the gross earned premium on the underlying insurance policies, generally on a pro-rata basis over the terms of the policies reinsured, which policies often have a one year term.

Minimum ceding fees. Minimum ceding fees are fees we receive pursuant to contractual minimum premium requirements for certain of our programs where either significant premium capacity is reserved for that program or where the expected premium volume is not reasonably assured. For those programs where a minimum applies, the ceding fees are considered as two distinct pieces (1) "premium related fees," which are earned as the associated gross written premium is earned, typically pro rata on an annual basis; and (2) "capacity fees," which are determined based on the shortfall, if any, between the program's contractual annual premium minimum and the amount of premium that we estimate will be written in the contract year, which fees are earned over the contract year.

At the end of each quarter during the program contract year, we adjust the capacity fee based upon the re-estimated or actual amount of gross premiums that we expect will be written or that were written for that program for the full contract year. If the estimated annual gross written premiums fall below the minimum contract level in a given period, capacity fees associated with the estimated premium shortfall for that period are earned in that period. If the estimated annual gross written premiums equal or exceed the required minimum level for a given period, no capacity fees are recognized for that period, and the premium related fees are earned as the associated gross written premium is earned. In connection with our re-estimation process, if in a subsequent period we increase our estimate of the amount of gross premiums that we expect will be written under a program for the full contract year, we will reverse a portion of the capacity fees earned in a prior period. Conversely, to the extent that we decrease our estimate of gross premiums, we will recognize capacity fees associated with the additional shortfall in the current period.

Loss and loss adjustment expenses. Loss and loss adjustment expenses ("LAE") include claims paid, estimates of future claim payments, changes in those estimates from prior reporting periods and costs associated with investigating, defending and servicing claims. We record loss and LAE related to estimates of future claim payments based on historical experience. We seek to establish all reserves at the most likely ultimate exposure based on our historical claims experience. We revise our estimates as we receive additional information about claims and the total costs of settlement.

Commissions. Commission expenses are primarily related to our Lender Services segment. A significant portion of these amounts are paid to financial institutions as a means to reimburse the financial institution for costs associated with operating a CPI program. These commissions are partially offset by a 21% ceding commission received under our quota reinsurance agreement with CUNA Mutual and the reimbursement we received from CUNA Mutual for a proportional share of direct commissions and other reimbursable expenses paid to accounts. The ceding commission compensates us for expenses, such as underwriting and policy acquisition expenses, that we incur in connection with the writing of the ceded business.

General and administrative expense. General and administrative expense is composed of all other operating expenses, including various departmental salaries and benefits expenses for employees. General and administrative expenses also include expenses related to our office space, postage, telephone and information technology charges, as well as legal and auditing fees and corporate travel. In addition, general and administrative expense includes those charges that are related to the amortization of tangible and intangible assets.

Stock-based compensation expense. Compensation expense for stock-based payments is recognized based on the measurement-date fair value for awards that will settle in shares. Compensation expense for awards that are settled in equity are recognized on a straight line pro rata basis over the vesting period. Stock-based compensation expense was approximately $4.1 million and $2.0 million for the years ended December 31, 2015 and December 31, 2014, respectively. Upon completion of the private placement in 2014, the Company made grants of non-qualified stock options to certain officers to purchase an aggregate of 2,783,873 shares of our common stock. In addition to the grants of non-qualified stock options, the Company made grants of 12,000 shares of restricted stock to our non-employee directors and 38,500 shares of stock to our employees. These non-qualified stock options and restricted stock grants are classified as equity based awards and will be recognized on a straight-line basis over the vesting period of 3 years and 1 year, respectively. The stock grants made to employees were expensed at their fair value and had no vesting or performance requirements. On March 30, 2015, the Company made grants of 230,060 shares of restricted stock to certain officers. These restricted stock grants are classified as equity-based awards and will be recognized based on achievement of performance objectives over one, two and three year performance periods. On June 25, 2015, the Company granted 11,028 shares of restricted stock to our non-employee directors. These restricted stock grants are classified as equity awards and will be recognized on a straight-line basis over a 1 year vesting period.

Other Measures and Ratios

Non-GAAP Measures

Adjusted pre-tax income. Adjusted pre-tax income is considered a non-GAAP financial measure because it reflects adjustments to pre-tax income, which is the most directly comparable measure calculated in accordance with GAAP, for the amount of founder special compensation and the non-recurring offering-related expenses and contract modification expense related to the amendment to our alliance with CUNA Mutual, as applicable. The Company's management ("Management") believes this measure is helpful to investors because it provides comparability in evaluating core financial performance between periods. Management uses adjusted pre-tax income to evaluate core financial performance against historical results without the effect of these items.

Adjusted net income. Adjusted net income is considered a non-GAAP financial measure because it reflects adjustments to net income, which is the most directly comparable measure calculated in accordance with GAAP for the pro forma provision for income taxes as if the Company had been treated as a C Corporation for each period presented and the exclusion (net of tax benefit) of the increase in the Company's deferred tax asset as a result of the conversion to the C Corporation status, for the amount of founder special compensation and the non-recurring offering-related expenses and contract modification expense related to the amendment to our alliance with CUNA Mutual, as applicable. Management believes this measure is helpful to investors because it provides comparability in evaluating core financial performance between periods. Management uses adjusted net income to evaluate core financial performance against historical results without the effect of these items.

For a reconciliation of these non-GAAP financial measures, see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Results of Operations—Consolidated Results of Operations." These adjustments to the GAAP measures are only applicable to 2014 and prior periods.

Program Services Ratios

Program gross expense ratio. The program gross expense ratio is a measure of our ability to earn increasing amounts of ceding fees with only minimal incremental expense in our Program Services business. Expressed as a percentage, this is the ratio of general and administrative expense incurred to gross written premium. Our GAs and capacity providers are responsible for providing all underwriting, policy administration, claims handling and other traditional insurance company services. As a result, we are able to produce significant premium volume with only minimal operating expenses. In addition, our fixed costs are a large component of the operating expenses while the incremental costs are small and are dependent upon the size and complexity of the programs being supported. For the years ended December 31, 2015, 2014 and 2013, our ratio of operating expenses to gross premiums written, or program gross expense ratio, was 1.1%, 1.2% and 1.6%, respectively. Our objective is to produce a gross expense ratio in a range of 1.0% to 1.5%.

Gross leverage. Gross leverage for the Company is the ratio of gross written premiums and gross liabilities to surplus. A significant portion of our capital is used to support the gross premiums and insurance liabilities in our Program Services segment. Because we retain virtually no risk other than the credit risk of the capacity providers, and we maintain strict credit underwriting standards, broad indemnification agreements and collateral requirements, we are able to maintain significant ceded reinsurance business on a relatively small amount of capital compared to our peers. For the year ended December 31, 2015, our gross leverage ratio was 14 to 1. Our objective is to produce a total company gross leverage ratio of between 13 to 1 and 15 to 1.

Lender Services Insurance Ratios

Net loss ratio. The net loss ratio is a measure of the underwriting profitability of our Lender Services segment. Expressed as a percentage, this is the ratio of net loss and LAE incurred to net premiums earned. For the years ended December 31, 2015, 2014 and 2013, our net loss ratio was 45.5%, 42.0% and 37.3%, respectively.

Net expense ratio. The net expense ratio is a component of our operational efficiency in administering our Lender Services segment. Expressed as a percentage, this is the ratio of net expenses (commissions, taxes, licenses, and fees and general and administrative) to net premiums earned. Our expense ratio is higher than that for most traditional insurance products due to the labor and systems intensive processes involved in monitoring the insurance statuses for the loan portfolios of our Lender Services clients. For the years ended December 31, 2015, 2014 and 2013, our net expense ratio was 41.0%, 47.3% and 47.8%, respectively.

Net combined ratio. The net combined ratio is a measure of the overall profitability of our Lender Services segment. This is the sum of the net loss ratio and the net expense ratio. For the years ended December 31, 2015, 2014 and 2013, our net combined ratio was 86.5%, 89.3% and 85.1%, respectively. Our objective is to price our products to achieve a net combined ratio between 85% to 90%.

Financial Ratios

Return on equity. One of the key financial measures that we use to evaluate our operating performance is return on equity. We calculate return on equity by dividing net income by the average GAAP equity. Our return on equity at December 31, 2015 was 17.7%. Our overall financial objective is to produce a return on equity of at least 15% over the long-term.

Financial leverage ratios. Our financial leverage ratio at December 31, 2015 was 16.9%, as compared to 18.5% at December 31, 2014. Our objective is to maintain a financial leverage ratio in the range of 20% to 40% over the long-term.

Critical Accounting Estimates

Our consolidated financial statements include amounts that, either by their nature or due to the requirements of generally accepted accounting principles in the U.S. ("GAAP"), are determined using estimates and assumptions. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances. While we believe that the amounts included in our consolidated financial statements reflect our best judgment, actual amounts could ultimately materially differ from those currently presented. We believe the items that require the most subjective and complex estimates are: unpaid losses and loss adjustment expense reserves, allowance for policy cancellations, unearned premium reserve, reinsurance recoverable, valuation of our investment portfolio, assessment of other-than-temporary impairments ("OTTI"), and minimum ceding fees.

We believe our accounting policies for these items are of critical importance to our consolidated financial statements. The following discussion provides more information regarding the estimates and assumptions required to arrive at these amounts. For a complete summary of our significant accounting policies, see the notes to the consolidated financial statements.

Unpaid losses and loss adjustment expenses

The liability for unpaid losses and LAE includes an estimate for claims reported and an additional liability for claims incurred but not reported at the balance sheet date, as well as estimates of the expenses associated with processing and settling all reported and unreported claims, less estimates of anticipated salvage and subrogation recoveries. Estimates are based upon past loss experience modified for current trends as well as economic, legal and social conditions. Loss reserves are not discounted to present value, which would involve recognizing the time value of money and offsetting estimates of future payments by future expected investment income.

In establishing these estimates, we make various assumptions regarding a number of factors, including frequency and severity of claims, the length of time needed to achieve ultimate settlement of claims, inflation of medical costs, insurance policy coverage interpretations, jury determinations and legislative changes. Due to the inherent uncertainty associated with these estimates, and the cost of incurred but unreported claims, our actual liabilities may be different from our original estimates. On a quarterly basis, we review our reserves for losses and LAE to determine whether further adjustments are required. Any resulting adjustments are included in the current period's results. Additional information regarding the judgments and uncertainties surrounding our estimated reserves for loss and LAE can be found in "Business—Loss Reserves" in Item 1 of this report.

Allowance for policy cancellations

An allowance for policy cancellations is provided for the estimated amount of return premiums and policy fees, net of commission expense and premium taxes that will be incurred on expected future policy cancellations associated with the Company's business. Premiums and cancellation data are accumulated by accounting month (month in which the premium was written/collected), lending institution and at the corporate level. The estimation methodology utilizes actual cancellation rates (premium refunds divided by premiums written by accounting month) to determine expected future cancellations for that accounting month. The balance for each accounting month decreases each subsequent month as actual refunds emerge.

While management believes the amounts included in the consolidated financial statements are adequate, such estimates may be more or less than the amounts ultimately refunded. The estimates are continually reviewed by management, and any changes are reflected in current operations.

Unearned premium

Unearned premium reserves represent the portion of premiums written applicable to the unexpired terms of the policies. The Lender Services segment calculates this reserve after adjusting for anticipated policy cancellations.

Reinsurance recoverable

The recoverable for ceded unpaid losses and LAE includes an estimate for claims reported and an additional liability for claims incurred but not reported, based on the Company's historical loss experience. While management believes the amounts included in the consolidated financial statements are adequate, such estimates may be more or less than the amount ultimately paid when the claims are settled. These estimates are reviewed and adjusted on a continuing basis, as necessary, as experience develops or as new information becomes known and such adjustments are included in current operations. The recoverable for ceded premium reserves represent the portion of premiums written applicable to the unexpired terms of the policies. The Lender Services segment calculates this reserve after adjusting for anticipated policy cancellations.

Investments

Investments are considered available-for-sale and are carried at fair value. The Company measures the fair value of the investments based upon quoted market prices from an independent pricing service and its third-party investment managers, using observable market information. The cost of securities sold is based on the specific identification method. Unrealized gains and losses associated with the available-for-sale portfolio, as a result of temporary changes in fair value during the period such investments are held, are reflected net of income taxes and reported in other comprehensive income as a separate component of shareholders' equity. Unrealized losses associated with the available-for-sale portfolio that are deemed to be other-than-temporary are charged to income in the period in which the other-than-temporary impairment is determined. Debt security premiums and discounts are amortized into earnings using the effective-interest method.

The Company evaluates its investment portfolio for impairments of individual securities that are deemed to be other-than-temporary. Fixed maturity securities that are determined to have other-than-temporary impairment and it is more likely than not the Company will sell before recovery of their amortized cost, are written down to fair value and the entire amount of the write-down is included in net income, net of realized investment gains. For all other impaired fixed-maturity securities, the impairment loss is separated into the amount representing the credit loss and the amount representing all other factors. The amount of impairment loss that represents the credit loss is included in net income, net of realized investment gains. The amount of the impairment loss that relates to all other factors is included in other comprehensive income. Equity securities that are determined to have other-than-temporary impairment are recognized in net income, net of realized investment gains.

The process for identifying other-than-temporary declines in fair value involves the consideration of several factors, including, but not limited to, whether the issuer has been downgraded to below investment-grade, the length of time in which there has been a significant decline in value, the liquidity and overall financial condition of the issuer, the nature and performance of the collateral or other credit support backing the security, the significance of the decline in value, and whether the Company has the intent to sell the security or may be required to sell the security prior to its anticipated recovery. The Company reviews securities for other-than-temporary impairment internally and with its investment advisors.

The Company invests in convertible securities that have embedded derivatives. Derivatives embedded within non-derivative instruments, such as options embedded in convertible fixed maturity securities, are bifurcated from the host instrument when the embedded derivative meets the criteria for bifurcation. However, for reporting purposes, these embedded derivatives are presented together with the host contract and carried at estimated fair value. Changes in the estimated fair value of the embedded derivatives are reflected in “Realized net investment gains” in the consolidated statements of income, while changes in the estimated fair value of the underlying fixed maturity securities are reflected in “Unrealized holding gains (losses)” in the consolidated statements of comprehensive income.

Minimum ceding fees

Minimum ceding fees are fees the Company receives pursuant to contractual minimum premium requirements for certain programs where either significant premium capacity is reserved for that program or where the expected premium volume is not reasonably assured. For those programs where a minimum applies, the ceding fees are considered as two distinct pieces: 1) “premium related fees,” which are earned as the associated gross written premium is earned, typically pro rata on an annual basis; and (2) “capacity fees,” which are determined based on the shortfall, if any, between the program’s contractual annual premium minimum and the amount of premium estimated to be written in the contract year, which fees are earned over the contract year.

Minimum ceding fees earned are based on estimates of annual premiums to be written for those programs that are subject to a minimum premium levels and related ceding fees. These estimates are based upon various assumptions made regarding the production plans for the underlying program. These assumptions are reviewed by management and the amount of annual premiums expected to be written are re-estimated each quarter. As actual premiums emerge and revisions are made to earlier estimates, minimum ceding fees are earned or reversed and are reflected in current operations.

Consolidated Results of Operations

($ in thousands)	Year Ended December 31, 2015	2014	2013
Revenues:			
Premiums earned	$ 118,068	$ 96,650	$ 84,378
Commission income	1,465	1,533	2,031
Ceding fees	67,956	45,732	32,898
Net investment income	7,948	4,841	4,901
Realized net investment gains (losses)	1,888	1,311	1,764
Other income	1,623	4,460	2,531
Total revenues	198,948	154,527	128,503
Expenses:			
Losses and loss adjustment expenses	55,753	40,821	32,090
Commissions	5,502	3,882	2,378
Taxes, licenses, and fees	3,130	2,832	2,594
General and administrative	62,978	58,891	53,418
Founder special compensation	—	17,914	10,202
Offering-related expenses	—	8,833	—
Contract modification expense	—	17,800	—
Interest expense	2,031	2,237	2,323
Total expenses	129,394	153,210	103,005
Income (loss) before income taxes	69,554	1,317	25,498
Income taxes:			
Current tax expense (benefit)	25,741	11,514	4,845
Deferred tax expense (benefit)	(853)	(21,210)	(2,058)
	24,888	(9,696)	2,787
Net income (loss)	$ 44,666	$ 11,013	$ 22,711
Adjusted pre-tax income (loss)	$ 69,554	$ 45,864	35,700
Reconciliation of adjusted pre-tax income (loss):			
Pre-tax income (loss)	$ 69,554	$ 1,317	$ 25,498
Plus: Founder special compensation (1)	—	17,914	10,202
Plus: Offering-related expenses (2)	—	8,833	—
Plus: Contract modification expense (3)	—	17,800	—
Adjusted pre-tax income (loss)	$ 69,554	$ 45,864	$ 35,700
Adjusted net income (loss)	$ 44,666	$ 28,683	$ 22,084
Reconciliation of adjusted net income (loss):			
Net income (loss)	$ 44,666	$ 11,013	$ 22,711
Plus (less): Provision for income taxes to reflect change to C corporation status (4)	—	4,090	(6,938)
Less: Recognition of deferred tax asset upon conversion to C corporation (5)	—	14,279	—
Plus: Founder special compensation (1) (6)	—	11,203	6,311
Plus: Offering-related expenses (2) (6)	—	5,524	—
Plus: Contract modification expense (3) (6)	—	11,132	—
Adjusted net income (loss)	$ 44,666	$ 28,683	$ 22,084

(1) Prior to the completion of the private placement in June 2014, we made special compensation payments to our co-founders in recognition of their service to our Company. We refer to these as "founder special compensation." Following the completion of the private placement in 2014, we ceased paying founder special compensation.

(2) Offering-related expenses are non-recurring expenses related to the Company's private placement of common stock.

(3) In connection with the 2014 amendment to the alliance agreement with CUNA Mutual, we paid CUNA Mutual $17.8 million. As a result, we recorded non-recurring contract modification expense of $17.8 million.

(4) Upon the completion of the private placement in 2014, our parent company's status as a Subchapter S corporation terminated and our consolidated income became fully subject to U.S. federal income taxes. This adjustment represents estimated income taxes as if the Company had been treated as a C Corporation for each period presented. The estimated tax was calculated assuming the Company's blended statutory federal and state income tax rates of 37.5% and 38.1% for the periods ended December 31, 2014 and 2013, respectively.

(5) As a result of the Company's conversion to a C Corporation, the deferred tax asset increased by approximately $14.3 million primarily due to the effects of eliminating deferred tax balances on the insurance subsidiaries related to intercompany transactions. This excludes the tax effect related to contract modification expense of $6.7 million.

(6) Founder special compensation, offering-related expenses, and contract modification expense are shown net of the estimated tax benefit for each period presented. The estimated tax was calculated assuming the Company's blended statutory federal and state income tax rates of 37.5% and 38.1% for the periods ended December 31, 2014 and 2013, respectively.

Consolidated Results of Operations for the Year Ended December 31, 2015 compared to the Year Ended December 31, 2014

Premiums earned. Premiums earned increased by $21.4 million, or 22.2%, from $96.7 million for the year ended December 31, 2014 to $118.1 million for the year ended December 31, 2015. This increase was due to an increase in Lender Services premiums earned, $10.4 million of which is related to the amendment of the CUNA Mutual alliance agreement. Factors contributing to this increase in premiums earned are new sales and growth in the loan portfolios of existing accounts driven by rising automobile sales and higher average auto loan sizes.

Ceding fees. Ceding fees increased by $22.3 million, or 48.6%, from $45.7 million for the year ended December 31, 2014 to $68.0 million for the year ended December 31, 2015, due to an increase in Program gross earned premium and capacity fees. Program Services gross earned premiums increased from $815.2 million for the year ended December 31, 2014 to $1.0 billion for the year ended December 31, 2015 resulting in an increase in premium related ceding fees of $11.1 million. Capacity fees increased $11.2 million for the year ended December 31, 2015 compared to the year ended December 31, 2014.

Investment income. Investment income increased by $3.1 million, from $4.8 million for the year ended December 31, 2014 to $7.9 million for the year ended December 31, 2015, in part due to an increase in investment holdings as a result of the net proceeds of the private placement and investing operating cash flows.

Other income. Other income decreased by $2.8 million, from $4.4 million for the year ended December 31, 2014 to $1.6 million for the year ended December 31, 2015. This decrease is primarily related to termination of a tenant lease in November 2014.

Losses and loss adjustment expenses. Losses and LAE increased by $15.0 million, or 36.6%, from $40.8 million for the year ended December 31, 2014 to $55.8 million for the year ended December 31, 2015, which is partly the result of increased exposure due to higher earned premiums and an increase in claim frequency and severity. A strengthening economy, an aging automobile fleet, and easier access to credit have contributed to an increase in vehicle sales, resulting in higher loan balances which are the bases upon which we pay claims.

Commissions. Commission expense increased by $1.6 million from $3.9 million for the year ended December 31, 2014 to $5.5 million for the year ended December 31, 2015, primarily due to the increase in Lender Services premiums earned and a reduction to ceding commissions as a result of the amendment to the CUNA Mutual alliance agreement.

General and administrative expense. General and administrative expense increased by $4.1 million or 6.9%, from $58.9 million for the year ended December 31, 2014 to $63.0 million for the year ended December 31, 2015, primarily due to stock-based compensation, employee group insurance and expenses associated with being a public company.

Founder special compensation. We ceased paying founder special compensation following the completion of the private placement in June 2014.

Offering-related expenses. We incurred $8.8 million of non-recurring offering-related expenses related to the private offering of the Company's stock in 2014. We incurred no offering-related expenses in 2015.

Contract modification expense. Contract modification expense decreased by $17.8 million. In connection with the 2014 amendment to the alliance agreement with CUNA Mutual, we paid CUNA Mutual $17.8 million. As a result, we recorded non-recurring contract modification expense of $17.8 million for the year ended December 31, 2014.

Current tax expense (benefit). Current tax expense increased by $14.2 million, from $11.5 million for the year ended December 31, 2014 to $25.7 million for the year ended December 31, 2015, primarily due to the conversion of the Company's tax status from a Subchapter S Corporation to a C Corporation on June 25, 2014.

Deferred tax expense (benefit). Deferred tax benefit decreased $20.4 million, from $21.2 million for the year ended December 31, 2014 to $0.8 million for the year ended December 31, 2015, primarily due to the conversion of the Company's tax status from a Subchapter S Corporation to a C Corporation on June 25, 2014.

Consolidated Results of Operations for the Year Ended December 31, 2014 compared to the Year Ended December 31, 2013

Premiums earned. Premiums earned increased by $12.3 million, or 14.5%, from $84.4 million for the year ended December 31, 2013 to $96.7 million for the year ended December 31, 2014. This increase was primarily due to an $11.8 million increase in Lender Services premiums earned. Contributing to this increase is growth in the loan portfolio of existing accounts driven primarily by rising automobile sales, higher average auto loan sizes and increasing credit availability, and growth relating to the increased retention of premium subject to the CUNA Mutual alliance.

Commission income. Commission income decreased by $0.5 million, or 24.5%, from $2.0 million for the year ended December 31, 2013 to $1.5 million for the year ended December 31, 2014 primarily due to cancellation of an ancillary line program.

Ceding fees. Ceding fees increased by $12.8 million, or 39.0%, from $32.9 million for the year ended December 31, 2013 to $45.7 million for the year ended December 31, 2014, primarily due to an increase in Program Services gross earned premium from $563.0 million for the year ended December 31, 2013 to $815.2 million for the year ended December 31, 2014 related to improvement from two sources. First, one significant program experienced growth in 2014. Second, another significant program was added in mid-2013 and generated a full year of earned premium in 2014.

Other income. Other income increased by $1.9 million, or 76.2%, from $2.5 million for the year ended December 31, 2013 to $4.4 million for the year ended December 31, 2014. This increase consists primarily of an early termination fee related to an operating lease. In November 2013, the Company received an early termination notice from an unaffiliated third party relating to the operating lease between the parties. The Company recognized $1.5 million in lease termination fees in 2014 due to the early termination of the lease. In addition, we recognized a gain of $0.6 million for the year ended December 31, 2014 related to the auction and repurchase of one of the Company's subordinated debentures. The Company repurchased a $7.5 million subordinated debenture for $6.8 million. This transaction resulted in a $0.6 million gain after deducting the unamortized portion of the initial issuance costs from the difference in the par value and the purchase price.

Losses and loss adjustment expenses. Losses and LAE increased by $8.7 million, or 27.2%, from $32.1 million for the year ended December 31, 2013 to $40.8 million for the year ended December 31, 2014, which is partly the result of higher premiums earned. A strengthening economy, an aging automobile fleet, and easier access to credit have contributed to an increase in vehicle sales, resulting in higher loan balances which are the bases upon which we pay claims. In addition, the net loss ratio on the Lender Services segment increased from 37.3% to 42.0% for the years ended December 31, 2013 and December 31, 2014, respectively. This increase is primarily due to an increase in claims frequency and severity.

Commissions. Commissions increased by $1.5 million or 63.2%, from $2.4 million for the year ended December 31, 2013 to $3.9 million for the year ended December 31, 2014, primarily due to the increase in Lender Services premiums earned and a reduction to ceding commissions related to the amendment to the CUNA Mutual alliance.

General and administrative expense. General and administrative expense increased by $5.5 million or 10.2%, from $53.4 million for the year ended December 31, 2013 to $58.9 million for the year ended December 31, 2014, primarily due to an increase in personnel costs, including stock-based compensation expense incurred in 2014. The Company did not have stock-based compensation expense in 2013.

Founder special compensation. Founder special compensation increased by $7.7 million or 75.6% from $10.2 million for the year ended December 31, 2013 compared to $17.9 million for the year ended December 31, 2014. The increase in founder special compensation was primarily due to the favorable capital position and liquidity during the period as well as our expected liquidity needs prior to the completion of the private placement in 2014. This favorable position was partly due to the increased earnings achieved for 2013 as compared to 2012. The assessment was made by the Company's owners in the first and second quarters and was considered along with the capital needs for the coming periods.

Offering-related expenses. Offering-related expenses of $8.8 million at December 31, 2014 are non-recurring expenses associated with the private placement of the Company's stock.

Contract modification expense. Contract modification expense of $17.8 million at December 31, 2014 is associated with the modification of the CUNA Mutual alliance agreement. The Company accrued the expense as of June 30, 2014 and paid the expense on July 8, 2014.

Current tax expense (benefit). Current tax expense increased by $6.7 million, from $4.8 million for the year ended December 31, 2013 to $11.5 million for the year ended December 31, 2014, primarily due to a $7.2 million tax impact of the conversion of the Company's tax status to a C Corporation.

Deferred tax expense (benefit). Deferred tax benefit increased by $19.1 million for the year ended December 31, 2014 compared to the year ended December 31, 2013 primarily due to the recognition of a deferred tax benefit of $20.4 million resulting from the conversion of the Company's tax status to a C Corporation.

Program Services Segment — Results of Operations

($ in thousands)	Year Ended December 31, 2015	2014	2013
Revenues:			
Premiums earned	$ (1)	$ (4)	$ (501)
Ceding fees	67,956	45,732	32,898
Other income	—	—	3
Total revenues	67,955	45,728	32,400
Expenses:			
Losses and loss adjustment expenses	1,987	217	465
Commissions	5	2	389
Taxes, licenses, and fees	14	8	10
General and administrative	12,446	10,855	11,010
Total expenses	14,452	11,082	11,874
Income (loss) before income taxes	$ 53,503	$ 34,646	$ 20,526
Program gross expense ratio	1.1 %	1.2 %	1.6 %
Gross premiums written	$ 1,119,125	$ 909,501	$ 691,067
Gross premiums earned	$ 1,016,693	$ 815,189	$ 562,965

Program Services Segment Results of Operations for the Year Ended December 31, 2015 compared to the Year Ended December 31, 2014

Ceding fees. Ceding fees increased by $22.3 million, or 48.6%, from $45.7 million for the year ended December 31, 2014 to $68.0 million for the year ended December 31, 2015, due to an increase in Program gross earned premium and capacity fees. Program Services gross earned premiums increased from $815.2 million for the year ended December 31, 2014 to $1.0 billion for the year ended December 31, 2015 resulting in an increase in premium related ceding fees of $11.1 million. Capacity fees increased $11.2 million for the year ended December 31, 2015 compared to the year ended December 31, 2014.

Losses and loss adjustment expenses. Losses and LAE incurred in the run-off of the retained business increased by $1.8 million from $0.2 million for the year ended December 31, 2014 to $2.0 million for the year ended December 31, 2015. The increase in losses and LAE for the year ended December 31, 2015, was primarily related to reserve strengthening on run-off programs.

General and administrative expense. General and administrative expense increased by $1.6 million, or 14.7%, from $10.8 million for the year ended December 31, 2014 to $12.4 million for the year ended December 31, 2015. The increase was primarily related to stock-based compensation and consulting fees.

Program Services Segment Results of Operations for the Year Ended December 31, 2014 compared to the Year Ended December 31, 2013

Premiums earned. The Company had virtually no premiums earned in the Program Services segment for the period ending December 31, 2014 compared to negative $0.5 million for the period ending December 31, 2013, which is due to the run-off of retained business. We typically do not earn net premiums in this segment due to ceding 100% of the risk to reinsurers.

Ceding fees. Ceding fees increased by $12.8 million, or 39.0%, from $32.9 million for the year ended December 31, 2013 to $45.7 million for the year ended December 31, 2014, primarily due to an increase in Program Services gross earned premium from $563.0 million for the year ended December 31, 2013 to $815.2 million for the year ended December 31, 2014 related to improvement from two sources. First, one significant program experienced growth in 2014. Second, another significant program was added in mid-2013 and generated a full year of earned premium in 2014.

Loss and loss adjustment expenses. Loss and LAE decreased by $0.3 million from $0.5 million for the year ended December 31, 2013 to $0.2 million for the year ended December 31, 2014 due to run-off of retained business.

Commissions. Commissions decreased by $0.4 million primarily due to a prior year contingent commission expense on a run-off program.

Lender Services Segment — Results of Operations

($ in thousands)	Year Ended December 31, 2015	2014	2013
Revenues:			
Premiums earned	$ 118,069	$ 96,654	$ 84,879
Commission income	1,465	1,533	2,031
Other income	1,498	1,266	1,101
Total revenues	121,032	99,453	88,011
Expenses:			
Losses and loss adjustment expenses	53,766	40,604	31,625
Commissions	5,497	3,880	1,989
Taxes, licenses, and fees	3,116	2,824	2,584
General and administrative	39,837	38,995	36,020
Contract modification expense	—	17,800	—
Total expenses	102,216	104,103	72,218
Income (loss) before income taxes	$ 18,816	$ (4,650)	$ 15,793
Adjusted pre-tax income (loss)	$ 18,816	$ 13,150	$ 15,793
Reconciliation of adjusted pre-tax income (loss):			
Pre-tax income (loss)	$ 18,816	$ (4,650)	$ 15,793
Plus: Contract modification expense (1)	—	17,800	—
Adjusted pre-tax income (loss)	$ 18,816	$ 13,150	$ 15,793
Net loss ratio	45.5 %	42.0 %	37.3 %
Net expense ratio	41.0 %	47.3 %	47.8 %
Net combined ratio	86.5 %	89.3 %	85.1 %
Gross premiums written	$ 145,962	$ 124,624	$ 118,898
Net premiums written	$ 120,511	$ 99,079	$ 87,791

(1) In connection with the amendment to the alliance agreements with CUNA Mutual, we paid CUNA Mutual $17.8 million. As a result, we recorded non-recurring contract modification expense of $17.8 million.

Lender Services Segment Results of Operations for the Year Ended December 31, 2015 compared to the Year Ended December 31, 2014

Premiums earned. Premiums earned increased by $21.4 million, or 22.2%, from $96.7 million for the year ended December 31, 2014 to $118.1 million for the year ended December 31, 2015, $10.4 million of which is related to the amendment of the CUNA Mutual alliance agreement. Factors contributing to this increase in premiums earned are new sales and growth in the loan portfolios of existing accounts driven by rising automobile sales and higher average auto loan sizes.

Losses and loss adjustment expenses. Losses and LAE increased by $13.2 million, or 32.4%, from $40.6 million for the year ended December 31, 2014 to $53.8 million for the year ended December 31, 2015, which is partly the result of increased exposure due to higher earned premiums and an increase in claim frequency and severity. The net loss ratio increased from 42.0% to 45.5% for the years ended December 31, 2014 and December 31, 2015, respectively. A strengthening economy, an aging automobile fleet, and easier access to credit have contributed to an increase in vehicle sales, resulting in higher loan balances which are the bases upon which we pay claims.

Commissions. Commission expense increased by $1.6 million from $3.9 million for the year ended December 31, 2014 to $5.5 million for the year ended December 31, 2015, primarily due to the increase in Lender Services premiums earned and a reduction to ceding commissions as a result of the amendment to the CUNA Mutual alliance agreement.

General and administrative expense. General and administrative expense increased by $0.8 million or 2.2%, from $39.0 million for the year ended December 31, 2014 to $39.8 million for the year ended December 31, 2015. The increase in general and administrative expenses was minimal in relation to our increased premium retention from the Alliance quota share agreement due to our ability to effectively leverage our fixed costs. This contributed to a decrease in our net expense ratio to 41.0% in 2015 compared to 47.3% in 2014.

Contract modification expense. Contract modification expense decreased by $17.8 million. In connection with the 2014 amendment to the alliance agreement with CUNA Mutual, we paid CUNA Mutual $17.8 million. As a result, we recorded non-recurring contract modification expense of $17.8 million for the period ended December 31, 2014.

Lender Services Segment Results of Operations for the Year Ended December 31, 2014 compared to the Year Ended December 31, 2013

Premiums earned. Premiums earned increased by $11.8 million, or 13.9%, from $84.9 million for the year ended December 31, 2013 to $96.7 million for the year ended December 31, 2014. Contributing to this increase is growth in the loan portfolio of existing accounts driven primarily by rising automobile sales, higher average auto loan sizes and increasing credit availability, and growth relating to the increased retention of premium subject to the CUNA Mutual alliance.

Commission income. Commission income decreased by $0.5 million, or 24.5%, from $2.0 million for the year ended December 31, 2013 to $1.5 million for the year ended December 31, 2014 primarily due to a cancellation of an ancillary line program.

Losses and loss adjustment expenses. Losses and LAE increased by $9.0 million, or 28.4%, from $31.6 million for the year ended December 31, 2013 to $40.6 million for the year ended December 31, 2014, which is partly the result of higher premiums earned. A strengthening economy, an aging automobile fleet, and easier access to credit have contributed to an increase in vehicle sales, resulting in higher loan balances which are the bases upon which we pay claims. The net loss ratio increased from 37.3% to 42.0% for the years ended December 31, 2013 and December 31, 2014, respectively. This increase is also due to an increase in claims frequency and severity.

Commissions. Commissions increased by $1.9 million, from $2.0 million for the year ended December 31, 2013 to $3.9 million for the year ended December 31, 2014, primarily due to an increase in Lender Services premiums earned and a reduction to ceding commissions related to the amendment to the CUNA Mutual alliance.

General and administrative expense. General and administrative expense increased by $3.0 million, or 8.3%, from $36.0 million for the year ended December 31, 2013 to $39.0 million for the year ended December 31, 2014 primarily due to an increase in personnel cost.

Contract modification expense. Contract modification expense of $17.8 million at December 31, 2014 is associated with the modification of the CUNA Mutual alliance agreement. The Company accrued the expense as of June 30, 2014 and paid the expense on July 8, 2014.

Corporate Segment — Results of Operations

($ in thousands)	Year Ended December 31, 2015	2014	2013
Revenues:			
Net investment income	$ 7,948	$ 4,841	$ 4,901
Realized net investment gains (losses)	1,888	1,311	1,764
Other income	125	3,194	1,427
Total revenues	9,961	9,346	8,092
Expenses:			
General and administrative	10,695	9,041	6,388
Founder special compensation	—	17,914	10,202
Offering-related expenses	—	8,833	—
Interest expense	2,031	2,237	2,323
Total expenses	12,726	38,025	18,913
Income (loss) before income taxes	(2,765)	(28,679)	(10,821)
Income tax expense (benefit)	24,888	(9,696)	2,787
Net income (loss)	$ (27,653)	$ (18,983)	$ (13,608)
Adjusted pre-tax income (loss)	$ (2,765)	$ (1,932)	(619)
Reconciliation of adjusted pre-tax income (loss):			
Pre-tax income (loss)	$ (2,765)	$ (28,679)	$ (10,821)
Plus: Founder special compensation (1)	—	17,914	10,202
Plus: Offering-related expenses (2)	—	8,833	—
Adjusted pre-tax income (loss)	$ (2,765)	$ (1,932)	$ (619)

(1) Prior to the completion of the private placement in June 2014, we made special compensation payments to our co-founders in recognition of their service to our Company. We refer to these payments as "Founder special compensation." Following the completion of the private placement, we ceased paying Founder special compensation.

(2) Offering-related expenses are non-recurring expenses related to the Company's private placement of common stock.

Corporate Segment Results of Operations for the Year Ended December 31, 2015 compared to the Year Ended December 31, 2014

Investment income. Investment income increased by $3.1 million, from $4.8 million for the year ended December 31, 2014 to $7.9 million for the year ended December 31, 2015, in part due to an increase in investment holdings as a result of the net proceeds of the private placement and investing operating cash flows.

Other income. Other income decreased by $3.1 million, from $3.2 million for the year ended December 31, 2014 to $0.1 million for the year ended December 31, 2015. This decrease is primarily related to termination of a tenant lease in November 2014.

General and administrative expense. General and administrative expense increased by $1.7 million, from $9.0 million for the year ended December 31, 2014 to $10.7 million for the year ended December 31, 2015, primarily due to an increase in stock-based compensation.

Founder special compensation. We ceased paying founder special compensation following the completion of the private placement in June 2014.

Offering-related expenses. We incurred $8.8 million of non-recurring offering-related expenses related to the private offering of the Company's stock in 2014. We incurred no offering-related expenses in 2015.

Income tax expense (benefit). Income tax expense increased by $34.6 million, from a benefit of $9.7 million for the year ended December 31, 2014 to an expense of $24.9 million for the year ended December 31, 2015, primarily resulting from the conversion of the Company's tax status from a Subchapter S Corporation to a C Corporation.

Corporate Segment Results of Operations for the Year Ended December 31, 2014 compared to the Year Ended December 31, 2013

Realized net investment gains (losses). Realized net investment gains decreased by $0.5 million, or 25.7% from $1.8 million for the year ended December 31, 2013 to $1.3 million for the year ended December 31, 2014 primarily due to lower gains in 2014 on sales of bonds, primarily industrial and miscellaneous Bonds.

Other income. Other income increased by $1.8 million, or 123.8%, from $1.4 million for the year ended December 31, 2013 to $3.2 million for the year ended December 31, 2014. This increase consists primarily of an early termination fee related to an operating lease. In November 2013, the Company received an early termination notice from an unaffiliated third party relating to the operating lease between the parties. The Company recognized $1.5 million in lease termination fees in 2014 due to the early termination of the lease. In addition, we recognized a gain of $0.6 million for the year ended December 31, 2014 related to the auction and repurchase of one of the Company's subordinated debentures. The Company repurchased a $7.5 million subordinated debenture for $6.8 million. This transaction resulted in a $0.6 million gain after deducting the unamortized portion of the initial issuance costs from the difference in the par value and the purchase price.

General and administrative expense. General and administrative expense increased by $2.6 million, or 41.5%, from $6.4 million for the year ended December 31, 2013 to $9.0 million for the year ended December 31, 2014. This is primarily due to stock-based compensation expense incurred in 2014. The Company did not have stock-based compensation expense in 2013.

Founder special compensation. Founder special compensation increased by $7.7 million or 75.6% from $10.2 million for the year ended December 31, 2013 compared to $17.9 million for the year ended December 31, 2014. The increase in founder special compensation was primarily due to the favorable capital position and liquidity during the period as well as our expected liquidity needs prior to the completion of the private placement in 2014. This favorable position was partly due to the increased earnings achieved for 2013 as compared to 2012. The assessment was made by the Company's owners in the first and second quarters and was considered along with the capital needs for the coming periods.

Offering-related expenses. Offering-related expenses of $8.8 million as of year ending December 31, 2014 are non-recurring expenses associated with the private placement of the Company's stock.

Income tax expense (benefit). Income taxes decreased by $12.5 million from a $2.8 million expense for the year ended December 31, 2013 to a $9.7 million benefit for the year ended December 31, 2014 from the conversion of the Company's tax status to a C Corporation.

Investment Portfolio

Our investment strategy emphasizes, first, the preservation of capital and, second, the generation of an appropriate risk-adjusted return. We seek to generate investment returns using investment guidelines that stress prudent allocation among cash and cash equivalents, fixed-maturity securities and, to a lesser extent, equity securities. Cash and cash equivalents include cash on deposit and short-term money market funds. As of December 31, 2015, the tax adjusted yield on our fixed maturity and equity securities was 2.7%. Convertible securities represent 12.3% of the portfolio at December 31, 2015, an increase from 5.3% at December 31, 2014. Management increased the convertible portfolio because convertible securities offer the potential for participation in the growth of the equity markets with greater down side protection. The average duration, excluding convertible securities, was 4 years and included obligations of the U.S. Treasury or U.S. government agencies, obligations of U.S. and Canadian corporations, mortgages guaranteed by the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation, Federal Farm Credit entities, and asset-backed securities and commercial mortgage obligations. Our equity securities include preferred stock and common stock of U.S. corporations. Our investment portfolio is managed by Asset Allocation & Management Company, LLC and AAM Advisors, Inc. (collectively, "AAM"). AAM operates under written investment guidelines approved by our board of directors. We pay AAM an investment management fee based on the market value of assets under management.

For each period specified below, the cost, fair value, and gross unrealized gains and losses on available-for-sale securities were as follows:

December 31, 2015 ($ in thousands)	**Cost or Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Total fixed-maturity securities	$ 327,764	$ 5,486	$ (3,728)	$ 329,522
Total equity securities	4,796	836	(88)	5,544
Total investments	$ 332,560	$ 6,322	$ (3,816)	$ 335,066

December 31, 2014 ($ in thousands)	**Cost or Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Total fixed-maturity securities	$ 305,019	$ 6,228	$ (1,336)	$ 309,911
Total equity securities	1,419	1,223	—	2,642
Total investments	$ 306,438	$ 7,451	$ (1,336)	$ 312,553

The table below summarizes the credit quality of our fixed-maturity securities as of December 31, 2015, as rated by Standard and Poor's.

($ in thousands)	Amortized Cost	Fair Value	Percentage of Fixed-Maturity Securities
U.S. Treasury	$ 18,890	$ 18,979	5.76%
AAA	155,198	156,550	47.51%
AA, AA+, AA-	57,436	58,292	17.69%
A, A+, A-	35,185	35,559	10.79%
BBB, BBB+, BBB-	42,405	41,964	12.73%
BB+ and lower	18,650	18,178	5.52%
Total	$ 327,764	$ 329,522	100.00%

The amortized cost and fair value of available-for-sale debt securities held as of December 31, 2015, by contractual maturity, are shown in the table below. Actual maturities may differ from contractual maturities because some borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

($ in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 6,621	$ 6,734
Due after one year through five years	99,836	99,863
Due after five years through ten years	105,469	106,533
Due after ten years	13,037	13,253
Residential mortgage-backed securities	80,566	80,986
Commercial mortgage-backed securities	22,235	22,153
	$ 327,764	$ 329,522

The tables below summarize the gross unrealized losses of fixed-maturity and preferred securities by the length of time the security had continuously been in an unrealized loss position for each year or shorter period specified below:

December 31, 2015	Less than 12 Months		12 Months or More		Total	
($ in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Total fixed-maturity securities	$ 124,035	$ (2,626)	$ 18,031	$ (1,102)	$ 142,066	$ (3,728)
Total equity securities	2,820	(88)	—	—	2,820	(88)
Total investments	$ 126,855	$ (2,714)	$ 18,031	$ (1,102)	$ 144,886	$ (3,816)

December 31, 2014	Less than 12 Months		12 Months or More		Total	
($ in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Total fixed-maturity securities	$ 57,138	$ (538)	$ 28,539	$ (798)	$ 85,677	$ (1,336)
Total equity securities	—	—	—	—	—	—
Total investments	$ 57,138	$ (538)	$ 28,539	$ (798)	$ 85,677	$ (1,336)

There were 237 and 143 securities at December 31, 2015 and December 31, 2014, respectively, that account for the gross unrealized loss, none of which we deemed to be other-than-temporarily impaired. Management believes that the temporary impairments are primarily the result of interest rate fluctuations, current conditions in the capital markets, and the impact of those conditions on market liquidity and prices. The Company does not intend to sell the securities, and it

is not more likely than not that the Company will be required to sell these securities before recovery of their amortized cost. Management has the intent and ability to hold the equity securities in an unrealized loss position until the recovery of their fair value. Therefore, Management does not consider these investments to be other-than-temporarily impaired.

We are required to maintain deposits in various states where the insurance subsidiaries are licensed to operate. These deposits are fixed maturity securities at fair values totaling $53.5 million and $36.9 million at December 31, 2015 and December 31, 2014, respectively. The increase in the amounts on deposit at December 31, 2015 is primarily due to an increase in the required deposits for workers' compensation business.

Fair value of financial instruments. ASC 820, "Fair Value Measurements and Disclosures", provides a definition of fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. The standard applies when GAAP requires or allows assets or liabilities to be measured at fair value; therefore, it does not expand the use of fair value in any new circumstance. Investments measured at fair value on a recurring basis at December 31, 2015 and December 31, 2014 are all considered level 2 investments.

Liquidity

We are organized as a holding company with three domestic insurance company subsidiaries, as well as a wholly-owned subsidiary that operates in an agency capacity. Our principal sources of operating funds are premiums, ceding fees, investment income and proceeds from sales and maturities of investments. Our primary uses of operating funds include payments of claims and operating expenses. We pay claims using cash flow from operations and invest our excess cash primarily in fixed-income securities. We expect that projected cash flows from operations will provide us with sufficient liquidity to fund our anticipated growth and to pay claims, operating expenses, interest on debt facilities and other holding company expenses for the foreseeable future. However, if our growth attributable to potential acquisitions, internally generated growth, or a combination of these factors, exceeds our expectations, we may have to raise additional capital in the near term. If we cannot obtain adequate capital on favorable terms or at all, we may be unable to support future growth or operating requirements and, as a result, our business, financial condition and results of operations could be adversely affected. We may generate liquidity through the issuance of debt or equity securities or financing through borrowings under credit facilities, or a combination thereof.

Our insurance subsidiaries are subject to statutory and regulatory restrictions imposed on insurance companies by their states of domicile which limit the amount of cash dividends or distributions that they may pay to us unless special permission is received from the insurance regulator of the relevant domiciliary state. The aggregate limit imposed by the various domiciliary states of our insurance subsidiaries was approximately $23.0 million and $21.6 million as of December 31, 2015 and 2014, respectively. In addition, we are able to generate substantial cash flow outside of our regulated insurance company subsidiaries through intercompany agency and management agreements between our insurance subsidiaries and our agency, TBA. TBA functions as a managing general agent for SNIC and NSIC in connection with the Lender Services segment. In addition, under the management agreement TBA provides business development, financial monitoring and other oversight functions to our insurance subsidiaries.

The following table is a summary of our consolidated statements of cash flows:

	Year Ended December 31,		
($ in thousands)	2015	2014	2013
Cash and cash equivalents provided by (used in):			
Operating activities	$ 60,996	$ 23,176	$ 33,856
Investing activities	(26,994)	(127,975)	15,791
Financing activities	(20,580)	73,716	(15,295)
Net change in cash and equivalents	$ 13,422	$ (31,083)	$ 34,352

Comparison of Years Ended December 31, 2015 and 2014

Net cash provided by operating activities was $37.8 million higher for the year ended December 31, 2015 compared to the year ended December 31, 2014. The increase is primarily due to nonrecurring cash expenditures for the year ended December 31, 2014 related to founder special compensation, amendment to the CUNA Mutual alliance agreement and offering-related expenses. Also, contributing to the increase is an increase in ceding fees and the change to the Company's retention related to the CUNA Mutual Alliance agreement to 70% from 50%.

Net cash used in in investing activities decreased $101 million from $128 million for year ended December 31, 2014 to $27 million for the year ended December 31, 2015. This decrease is primarily due to investing cash received from the private placement in 2014.

Net cash from financing activities decreased $94.3 million for the year ended December 31, 2015 compared to the year ended December 31, 2014. The decrease is primarily due to proceeds of $97 million received from the private placement in 2014. Other activity impacting cashflows was a decrease in dividends paid of $10.5 million, $14.4 million stock repurchase in 2015 and $6.8 million subordinated debenture repurchase in 2014.

Comparison of Years Ended December 31, 2014 and 2013

Net cash provided by operating activities was approximately $23.2 million for the year ended December 31, 2014, compared with $33.9 million provided by operating activities for the same period in 2013. On July 8, we made payments totaling $17.8 million to CUNA Mutual pursuant to the 2014 amendment of the alliance agreement. In addition, the Company paid offering-related expenses of $8.8 million and had an increase in founder special compensation of $7.7 million as of December 31, 2014. These increases in cash outflows are partially offset by increases in cash inflows related to premium and ceding fee growth through December 31, 2014.

Net cash used in investing activities was $128 million for the year ended December 31, 2014, while net cash provided by investing activities was $15.8 million for the year ended December 31, 2013. The $128 million used in investing activities as of December 31, 2014 is primarily due to investing cash received from the private placement of the Company's stock.

Net cash provided by financing activities was $73.7 million for the year ended December 31, 2014 compared to net cash used in financing activities of $15.3 million for the year ended December 31, 2013. In 2014, cash provided by financing activities increased due to the private placement of the Company's stock, partially offset by the redemption of common shares of existing shareholders. The net increase related to this activity is approximately $97 million. The increase in dividends is primarily related to the first and second quarter payments, which were made in consideration of capital position, estimated capital needs and liquidity, and earnings as of December 31, 2013. In addition, the Company repurchased one of its subordinated debentures at auction for $6.8 million.

Other Material Changes in Financial Position

($ in thousands)	December 31, 2015	December 31, 2014
Selected Assets:		
Accounts receivable from agents, net	$ 23,913	$ 18,528
Reinsurance recoverable on paid losses	1,187	1,200
Reinsurance recoverables	1,911,660	1,656,534
Goodwill and intangible assets, net	5,958	6,683
Deferred income taxes, net	26,208	23,864
Selected Liabilities:		
Unpaid losses and loss adjustment expenses	$ 1,364,774	$ 1,209,905
Unearned premiums	585,448	480,124
Allowance for policy cancellations	59,610	55,500
Deferred ceding fees	29,119	23,612
Subordinated debentures	44,500	44,500
Other liabilities	35,151	28,642

Accounts receivable from agents, net. During the year ended December 31, 2015, accounts receivable from agents increased $5.4 million from December 31, 2014, as a result of growth in Program Services business due to the addition of new programs and expansion of existing programs. This balance reflects ceding fees and premium taxes receivable from agents.

Reinsurance recoverables, unpaid losses and loss adjustment expenses and unearned premiums. As of December 31, 2015, we held $2.7 billion in collateral securing $1.5 billion in reinsurance recoverables. In addition, we had $384.3 million of unsecured reinsurance recoverables, of which $377.2 million related to the Program Services segment and $7.1 million related to our quota share reinsurance with CUNA Mutual, an A.M. Best "A" rated carrier. During the year ended December 31, 2015, reinsurance recoverables increased $255.1 million from December 31, 2014, which was primarily a result of the increase in gross premiums written for Program Services business due to the addition of new programs and expansion of existing programs and gross loss development for prior year claims. These factors also caused an increase in the corresponding unearned premiums and the unpaid losses and loss adjustment expenses of $105.3 million and $154.9 million, respectively.

Allowance for policy cancellations. As of December 31, 2015, the allowance for policy cancellations increased by $4.1 million from December 31, 2014, primarily due to the volume and timing of CPI premiums (gross of cancellations) written in 2015 compared to 2014. On a quarterly basis, we review our estimates for allowance for policy cancellations to determine whether further adjustments are appropriate. Any resulting adjustments are included in the current period's operating results. The allowance for policy cancellations for the year ended December 31, 2015 and December 31, 2014 included upward revisions to prior year estimates of $0.6 million and $4.2 million, respectively. Because of the interplay between the allowance for policy cancellations and the related unearned premium reserve, changes in the allowance for policy cancellations are partially offset by related changes in the unearned premium reserve and amounts ceded to reinsurers. After taking into account the associated changes in unearned premium and amounts ceded to reinsurers, the net impact to the balance sheet and the corresponding reduction in net income from the revised estimates for the year ended December 31, 2015 and 2014 was approximately $0.2 million and $2.2 million, respectively.

Capital Resources

The Company has three statutory business trusts that were formed between 2002 and 2004, for the sole purpose of issuing $44.5 million of trust preferred securities in private offering transactions. The trusts used the proceeds from these offerings, together with the equity proceeds received upon their initial formation from TBA, an indirect wholly-owned subsidiary of State National, to purchase variable-rate subordinated debentures issued by TBA. All voting securities of the trusts are owned by TBA, and the debentures are the sole assets of the trusts. The trusts meet the obligations of the trust preferred securities with the interest and principal paid on the debentures. These trusts' interest rates range from 3.80% to 4.10% plus the 3-month LIBOR. The three month LIBOR at December 31, 2015, was 0.61%. All of the debentures mature between 2032 and 2034.

Contractual Obligations and Commitments

The following table sets forth certain of our contractual obligations as of December 31, 2015:

($ in thousands)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Loss and LAE (1)	$ 1,364,774	$ 543,030	$ 508,975	$ 216,065	$ 96,704
Operating lease obligations	108	26	39	40	3
Employment agreement obligations	4,050	2,450	400	400	800
Debt and interest (2)	84,018	2,045	4,313	4,313	73,347
	$ 1,452,950	$ 547,551	$ 513,727	$ 220,818	$ 170,854

(1) The loss and LAE payments due by period in the table above are based upon the loss and LAE estimates as of December 31, 2015 and actuarial estimates of expected payout patterns and are not contractual liabilities with finite maturities. Our contractual liability is to provide benefits under the policy. As a result, our calculation of loss and LAE payments due by period is subject to the same uncertainties associated with determining the level of loss and LAE generally and to the additional uncertainties arising from the difficulty of predicting when claims (including claims that have not yet been reported to us) will be paid. For a discussion of our loss and LAE estimation process, see "Business—Loss Reserves" in Item 1 of this report. Actual payments of loss and LAE by period will vary, perhaps materially, from the table above to the extent that current estimates of loss and LAE vary from actual ultimate claims amounts and as a result of variations between expected and actual payout patterns. See "Risk Factors—Risks Relating to Our Business—If we are unable to establish and maintain accurate loss reserves, our business, financial condition, results of operations and prospects may be materially and adversely affected." for a discussion of the uncertainties associated with estimating loss and LAE in Item 1A of this report.

(2) The interest related to the debt by period as of December 31, 2014 was as follows: $2.0 million—less than 1 year, $4.3 million—1 – 3 years, $4.3 million—3 – 5 years and $ 28.8 million—more than 5 years.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Liquidity Risk

Liquidity risk represents our potential inability to meet all payment obligations when they become due. We maintain sufficient cash and marketable securities to fund claim payments and operations.

Credit Risk

We are exposed to credit risk from potential losses arising principally from the financial condition of our third party reinsurers, and also from potential losses in our investment portfolio. Although our third party reinsurers are obligated to reimburse us to the extent we cede risk to them, we are ultimately liable to our policyholders on all risks we have ceded. As a result, reinsurance contracts do not limit our ultimate obligations to pay claims covered under the insurance policies we issue and we might not collect amounts recoverable from our reinsurers. We generally address this credit risk by either (1) selecting reinsurers that have an A.M. Best rating of "A-" (Excellent) or better, have $300 million in equity and/or capital and surplus and are a Texas or Delaware (for USIC) authorized reinsurer at the time we enter into the agreement, or (2) requiring that the reinsurer post substantial collateral to secure the reinsured risks. Security can take the form of collateral (in the form of security posted with a trustee pursuant to a related agreement, or evergreen letter of credit), or guaranty by a related third party that we believe has the ability to pay. The security amount is a function of the policyholder liabilities (unearned premiums, loss and LAE reserves) or other amounts that are more representative of the amounts at risk. Excess security is required when a reinsurer does not meet the above financial requirements to provide a "cushion" for inadequate estimates of policyholder liabilities. Unless there is some mitigating factor, we control the ability to set policyholder liability amounts for security purposes.

Security is also immediately required if a reinsurer falls below the benchmark rating during the term of a reinsurance agreement. Existing security may be increased if a reinsurer is downgraded during the term of a reinsurance agreement or experiences a significant loss in policyholder equity and/or capital and surplus.

Collateral levels are reviewed weekly, on each reinsurer on which security is required. Collateral calculations are adjusted as monthly activity reports are received on individual programs and collateral account balance information is available. Collateral is generally obtained a quarter in advance at the end of each calendar quarter.

We also evaluate the credit risk of our investment portfolio. The primary measure we utilize to mitigate credit risk (the risk of principal default on the securities we invested in) involves the credit quality of our portfolio. Approximately 71% of our portfolio is rated AA- or higher (rated by Standard & Poor's), which is consistent with the guidelines provided to our asset managers. Additionally, our Investment Committee reviews the portfolio on a quarterly basis and discusses any securities which have been downgraded in the previous quarter.

Market Risk

The risk of underperformance in the market is addressed by having a quality asset manager administering our portfolio. Additionally, our portfolio is diversified to eliminate exposure to any one particular segment. Finally, as the bulk of our assets support either our surplus or short tailed lines of business, investment performance is a relatively small portion of our profits relative to other property and casualty companies.

Our investment policy is reviewed periodically and updated to meet current needs. However, the primary goal and philosophy of the policy is to be conservative in nature to provide preservation of principal and provide necessary liquidity.

Interest Rate Risk

This is a two-fold risk involving loss of market value due to a rising interest rate environment coupled with a need to liquidate those securities to provide liquidity for operations. Our exposure to extreme shifts in interest rates is mitigated to some extent by selecting a duration target for the portfolio which is relatively short (i.e., approximately four years). The exposure to actually selling underwater securities to gain liquidity is managed by maintaining a laddered portfolio whereby we have securities maturing over the next few years. Further mitigation is provided by maintaining the convexity (i.e., how the duration of a bond changes as the interest rate changes) of the portfolio at relatively low levels.

We had fixed-maturity securities with a fair value of $329.5 million and an amortized cost of $327.8 million as of December 31, 2015 that are subject to interest rate risk. Interest rate risk is the risk that we may incur losses due to adverse changes in interest rates. Fluctuations in interest rates have a direct impact on the market valuation of our fixed-maturity securities. In the management of this risk, the characteristics of duration, credit and variability of cash flows are critical elements.

The table below summarizes the interest rate risk associated with our fixed-maturity securities by illustrating the sensitivity of the fair value of our fixed-maturity securities as of December 31, 2015 to selected hypothetical changes in interest rates, and the associated impact on our shareholders' equity. We anticipate that we will continue to meet our obligations from operating cash flows. We classify our fixed-maturity securities and equity securities as available-for-sale. Temporary changes in the fair value of our fixed-maturity securities impact the carrying value of these securities and are reported in our shareholders' equity as a component of other comprehensive income, net of deferred taxes. The selected scenarios in the table below are not predictions of future events, but rather are intended to illustrate the effect such events may have on the fair value and carrying value of our fixed-maturity securities and on our shareholders' equity, each as of December 31, 2015.

Hypothetical Change in Interest Rates	Fair Value	Estimated Change in Fair Value	Total Return %
($ in thousands)			
300 basis point increase	$ 290,442	$ (39,080)	-11.86 %
200 basis point increase	303,191	(26,331)	-7.99 %
100 basis point increase	316,286	(13,236)	-4.02 %
No change	329,522	—	—
100 basis point decrease	342,559	13,037	3.96 %
200 basis point decrease	355,227	25,705	7.80 %
300 basis point decrease	368,101	38,579	11.71 %

Changes in interest rates would affect the fair market value of our fixed-rate debt instruments but would not have an impact on our earnings or cash flow. As of December 31, 2015, we had $44.5 million of debt instruments. A fluctuation of 100 basis points in interest on our variable-rate debt instruments, which are tied to LIBOR, would affect our earnings and cash flows by $0.4 million before income tax, on an annual basis, but would not affect the fair market value of the variable-rate debt.

Item 8. Financial Statements and Supplementary Data

The financial statements and financial statement schedules required to be filed pursuant to this Item 8 are listed in the accompanying Index to Consolidated Financial Statements and Schedules at page F-1 and are filed as part of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A: Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance that information we are required to disclose in reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. We note that the design of any system of controls is based in part upon assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving the stated goals under all potential future conditions.

Management Report on Internal Control over Financial Reporting

We, as management of the Company, are responsible for establishing and maintaining adequate internal control over financial reporting. Pursuant to the rules and regulations of the SEC, internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree or compliance with the policies or procedures may deteriorate. Management has evaluated the effectiveness of our internal control over financial reporting as of December 31, 2015, based on the control criteria established in a report entitled Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, we have concluded that our internal control over financial reporting is effective as of December 31, 2015.

This annual report does not include an attestation report of the Company's registered public accounting firm due to the exemption provided by the JOBS Act for emerging growth companies.

Changes in Internal Controls over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding our executive officers is included in Part I of this Form 10-K.

Information regarding our directors is incorporated by reference from the information included under the caption "Proposal 1 Election of Directors" in our Proxy Statement for our Annual Meeting of Shareholders to be held June 3, 2016 (the "Proxy Statement"). We plan to file the Proxy Statement within 120 days after December 31, 2015.

Information regarding family relationships between directors and executive officers is incorporated by reference from the information included under the caption "Certain Relationships and Related Transactions" in the Proxy Statement.

Information required regarding compliance with Section 16(a) of the Exchange Act is incorporated by reference from the information included under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

Information regarding our audit committee and our audit committee financial expert is incorporated by reference from the information included under the caption "The Board, Its Committees and Its Compensation—Corporate Governance—Committees of the Board—Audit Committee" in the Proxy Statement.

Information regarding our Code of Business Conduct and Ethics for executive and financial officers and directors is incorporated by reference from the information included under the caption "The Board, Its Committees and Its Compensation—Corporate Governance—Code of Business Conduct and Ethics" in the Proxy Statement.

Item 11. Executive Compensation

Information regarding our executive compensation is incorporated by reference from the information included under the captions "Compensation Discussion and Analysis" and "Executive Compensation" in the Proxy Statement.

Information regarding Compensation Committee interlocks is incorporated by reference from the information included under the caption "Compensation Committee Interlocks and Insider Participation" in the Proxy Statement.

Information regarding the report of our Compensation Committee is incorporated by reference from the information included under the caption "Compensation Committee Report" in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

Information regarding our security ownership is incorporated by reference from the information included under the caption "Security Ownership of Management and Certain Beneficial Holders" in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transaction is incorporated by reference from the information included under the caption "Certain Relationships and Related Transactions" in the Proxy Statement.

Information regarding the independence of our directors is incorporated by reference from the information included under the caption "The Board, Its Committees and Its Compensation—Corporate Governance—Director Independence" in the Proxy Statement.

Item 14. Principal Accountant Fees and Services

Information regarding our principal accountant and its fees is incorporated by reference from the information included under the caption "Independent Registered Public Accounting Firm" in the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this report:

(a) The financial statements and financial schedules listed in the accompanying Index to Financial Statements are filed as part of this report. The exhibits listed in the accompanying Index to Exhibits are filed as part of this report.

(b) Exhibits: See Item 15(a).

(c) Schedules: See Item 15(a).

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description
3.1	Amended and Restated Certificate of Incorporation of State National Companies, Inc. (the “Company”) (incorporated by reference to Exhibit 3.1 to the Company’s Registration Statement on Form S-1 (No. 333-197441) filed on July 15, 2014)
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company’s Registration Statement on Form S-1 (No. 333-197441) filed on July 15, 2014)
4.1	Form of Common Stock Certificate of the Company (incorporated by reference to Exhibit 4.1 to the Company’s Amendment No. 3 to Registration Statement on Form S-1 (No. 333-197441) filed on October 22, 2014)
10.1	Collateral Protection Alliance Agreement, by and between CUMIS Insurance Society, Inc. and State National Insurance Company, Inc., dated July 24, 2009, as amended by that certain First Amendment to Collateral Protection Alliance Agreement dated June 18, 2010, by that certain Second Amendment to Collateral Protection Alliance Agreement dated July 15, 2011, and by that certain Third Amendment to Collateral Protection Alliance Agreement dated May 2014 (incorporated by reference to Exhibit 10.1 to the Company’s Registration Statement on Form S-1 (No. 333-197441) filed on July 15, 2014)
10.2	Indenture, by and between T.B.A. Insurance Group, Ltd., a Texas limited partnership, and State Street Bank and Trust Company of Connecticut, National Association, a national banking association organized under the laws of the United States of America, dated December 4, 2002 (incorporated by reference to Exhibit 10.2 to the Company’s Registration Statement on Form S-1 (No. 333-197441) filed on July 15, 2014)
10.3	Indenture, by and between T.B.A. Insurance Group, Ltd., a Texas limited partnership, and Wilmington Trust Company, a Delaware banking corporation, dated December 16, 2003 (incorporated by reference to Exhibit 10.4 to the Company’s Registration Statement on Form S-1 (No. 333-197441) filed on July 15, 2014)
10.4	Indenture, by and between T.B.A. Insurance Group, Ltd., a Texas limited partnership, and Wilmington Trust Company, a Delaware banking corporation, dated May 26, 2004 (incorporated by reference to Exhibit 10.5 to the Company’s Registration Statement on Form S-1 (No. 333-197441) filed on July 15, 2014)
10.5	Form of Severance Agreement for Named Executive Officers other than Terry Ledbetter and Trace Ledbetter (filed herewith)
10.6	Severance Agreement, dated May 20, 2014, by and between T.B.A. Insurance Group, Ltd. and Terry Ledbetter (incorporated by reference to Exhibit 10.7 to the Company’s Registration Statement on Form S-1 (No. 333-197441) filed on July 15, 2014)
10.7	Severance Agreement, dated May 20, 2014, by and between T.B.A. Insurance Group, Ltd. and Trace Ledbetter (filed herewith)
10.8	Cash Performance Bonus Opportunity Agreement, dated June 1, 2013, by and between T.B.A. Insurance Group, Ltd. and David Hale, as amended by that certain Amendment to Cash Performance Bonus Opportunity Agreement dated May 20, 2014 (incorporated by reference to Exhibit 10.10 to the Company’s Registration Statement on Form S-1 (No. 333-197441) filed on July 15, 2014
10.9	Cash Performance Bonus Opportunity Agreement, dated June 1, 2013, by and between T.B.A. Insurance Group, Ltd. and David Cleff, as amended by that certain Amendment to Cash Performance Bonus Opportunity Agreement dated May 20, 2014 (filed herewith)

Exhibit Number	Exhibit Description
10.10	Cash Performance Bonus Opportunity Agreement, dated June 1, 2013, by and between T.B.A. Insurance Group, Ltd. and John Pearson, as amended by that certain Amendment to Cash Performance Bonus Opportunity Agreement dated May 20, 2014 (filed herewith)
10.11	2014 Long-Term Incentive Plan of the Company (incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 (No. 333-197441) filed on July 15, 2014)
10.12	Form of 2014 Long-Term Incentive Plan Stock Option Award Agreement (incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1 (No. 333-197441) filed on July 15, 2014)
10.13	Second Form of 2014 Long-Term Incentive Plan Stock Option Award Agreement (incorporated by reference to Exhibit 10.13 to the Company's Registration Statement on Form S-1 (No. 333-197441) filed on July 15, 2014)
10.14	Form of 2014 Long-Term Incentive Plan Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.14 to the Company's Registration Statement on Form S-1 (No. 333-197441) filed on July 15, 2014)
10.15	Restricted Stock Award Agreement, dated March 30, 2015, by and between the Company and Terry Ledbetter (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on April 1, 2015)
10.16	Restricted Stock Award Agreement, dated March 30, 2015, by and between the Company and Trace Ledbetter (filed herewith)
10.17	2015 Cash Incentive Plan of the Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on May 21, 2015)
10.18	Form of the 2015 Cash Incentive Plan Award Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on May 21, 2015)
10.19	Form of Indemnification Agreement for Directors and Certain Officers (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 6, 2014)
21.1	List of subsidiaries of the Company (incorporated by reference to Exhibit 21.1, the Company's Registration Statement on Form S-1 (No. 333-197441) filed on July 15, 2014)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Chief Executive Officer pursuant to 18 U.SC. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	Certification of Chief Financial Officer pursuant to 18 U.SC. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101 INS	XBRL Instance Document (filed herewith)
101 SCH	XBRL Taxonomy Extension Schema Document (filed herewith)
101 CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)
101 LAB	XBRL Taxonomy Extension Label Linkbase Document (filed herewith)
101 PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)
101 DEF	XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STATE NATIONAL COMPANIES, INC.

March 10, 2016

By: /s/ Terry Ledbetter

Name: Terry Ledbetter
Title: Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Terry Ledbetter Terry Ledbetter	Chief Executive Officer (Principal Executive Officer)	March 10, 2016
/s/ David Hale David Hale	Executive Vice President, Chief Operating Officer and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 10, 2016
/s/ Gene Becker Gene Becker	Director	March 10, 2016
/s/ Marsha Cameron Marsha Cameron	Director	March 10, 2016
/s/ David King David King	Director	March 10, 2016
/s/ Fred Reichelt Fred Reichelt	Director	March 10, 2016

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of State National Companies, Inc.

We have audited the accompanying consolidated balance sheets of State National Companies, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedules listed in the Index to Consolidated Financial Statements. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of State National Companies, Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Dallas, Texas
March 10, 2016

STATE NATIONAL COMPANIES, INC.
CONSOLIDATED BALANCE SHEETS
($ in thousands, except for share and per share information)

	December 31, 2015	December 31, 2014
Assets		
Investments:		
Fixed-maturity securities – available-for-sale, at fair value (amortized cost – $327,764, $305,019, respectively)	$ 329,522	$ 309,911
Equity securities – available-for-sale, at fair value (cost – $4,796, $1,419, respectively)	5,544	2,642
Total investments	335,066	312,553
Cash and cash equivalents	51,770	38,348
Restricted cash and investments	3,717	6,597
Accounts receivable from agents, net	23,913	18,528
Reinsurance recoverable on paid losses	1,187	1,200
Deferred acquisition costs	1,075	1,036
Reinsurance recoverables	1,911,660	1,656,534
Property and equipment, net (includes land held for sale – $1,034, $1,034, respectively)	17,163	18,397
Interest receivable	2,158	1,795
Income taxes receivable	3,330	—
Deferred income taxes, net	26,208	23,864
Goodwill and intangible assets, net	5,958	6,683
Other assets	5,113	6,229
Total assets	$2,388,318	$2,091,764

The accompanying notes are an integral part of these consolidated financial statements.

STATE NATIONAL COMPANIES, INC.
CONSOLIDATED BALANCE SHEETS (continued)
($ in thousands, except for share and per share information)

	December 31, 2015	December 31, 2014
Liabilities		
Unpaid losses and loss adjustment expenses	$ 1,364,774	$ 1,209,905
Unearned premiums	585,448	480,124
Allowance for policy cancellations	59,610	55,500
Deferred ceding fees	29,119	23,612
Accounts payable to agents	2,458	2,448
Accounts payable to insurance companies	3,801	4,399
Subordinated debentures	44,500	44,500
Income taxes payable	—	1,762
Other liabilities	35,151	28,642
Total liabilities	2,124,861	1,850,892
Shareholders' equity		
Common stock, $.001 par value (150,000,000 shares authorized; 42,699,550 and 44,247,102 shares issued at December 31, 2015 and December 31, 2014, respectively)	43	44
Preferred stock, $.001 par value (10,000,000 shares authorized; no shares issued and outstanding at December 31, 2015 and December 31, 2014)	—	—
Additional paid-in capital	224,719	220,577
Retained earnings	37,322	16,108
Accumulated other comprehensive income	1,373	4,143
Total shareholders' equity	263,457	240,872
Total liabilities and shareholders' equity	$ 2,388,318	$ 2,091,764

The accompanying notes are an integral part of these consolidated financial statements.

STATE NATIONAL COMPANIES, INC.
CONSOLIDATED STATEMENTS OF INCOME
($ in thousands, except for per share information)

	Year Ended December 31, 2015	December 31, 2014	December 31, 2013
Revenues:			
Premiums earned	$ 118,068	$ 96,650	$ 84,378
Commission income	1,465	1,533	2,031
Ceding fees	67,956	45,732	32,898
Net investment income	7,948	4,841	4,901
Realized net investment gains (losses)	1,888	1,311	1,764
Other income	1,623	4,460	2,531
Total revenues	198,948	154,527	128,503
Expenses:			
Losses and loss adjustment expenses	55,753	40,821	32,090
Commissions	5,502	3,882	2,378
Taxes, licenses, and fees	3,130	2,832	2,594
General and administrative	62,978	58,891	53,418
Founder special compensation	—	17,914	10,202
Offering-related expenses	—	8,833	—
Contract modification expense	—	17,800	—
Interest expense	2,031	2,237	2,323
Total expenses	129,394	153,210	103,005
Income (loss) before income taxes	69,554	1,317	25,498
Income taxes:			
Current tax expense (benefit)	25,741	11,514	4,845
Deferred tax expense (benefit)	(853)	(21,210)	(2,058)
	24,888	(9,696)	2,787
Net income (loss)	$ 44,666	$ 11,013	$ 22,711
Net income (loss) per share attributable to common shareholders:			
Basic earnings per share	$ 1.01	$ 0.28	$ 0.66
Diluted earnings per share	1.01	0.28	0.66
Dividends, per share	$ 0.14	$ 0.49	0.45

The accompanying notes are an integral part of these consolidated financial statements.

STATE NATIONAL COMPANIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
($ in thousands)

	Year Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
Net income (loss)	$ 44,666	$ 11,013	$ 22,711
Other comprehensive income (loss), net of tax:			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) during the period	(3,416)	3,998	(5,215)
Tax effect on unrealized holding gains (losses) during the period	1,196	(1,387)	1,773
Less: reclassification adjustments for realized gains included in net income	(845)	(898)	(1,273)
Tax effect on reclassification adjustments for realized gains included in net income	295	314	430
Other comprehensive income (loss)	(2,770)	2,027	(4,285)
Total comprehensive income (loss)	$ 41,896	$ 13,040	$ 18,426

The accompanying notes are an integral part of these consolidated financial statements.

STATE NATIONAL COMPANIES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
($ in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2013	$ 41	$ 24,367	$ 128,830	$(10,000)	$ 2,116	$ 145,354
Retirement of treasury stock	(7)	(9,993)	—	10,000	—	—
Issuance of common stock	31	289,291	—	—	—	289,322
Costs directly attributable to the issuance of common stock	—	(1,578)	—	—	—	(1,578)
Redemption of existing common stock	(21)	(190,574)	—	—	—	(190,595)
Stock-based compensation expense	—	2,012	—	—	—	2,012
Conversion from S corporation to C corporation tax status	—	107,052	(107,052)	—	—	—
Dividends declared	—	—	(16,683)	—	—	(16,683)
Net income	—	—	11,013	—	—	11,013
Other comprehensive income, net of tax	—	—	—	—	2,027	2,027
Balance at December 31, 2014	44	220,577	16,108	—	4,143	240,872
Stock-based compensation expense	—	4,142	—	—	—	4,142
Dividends declared	—	—	(6,196)	—	—	(6,196)
Repurchase of common stock	(1)	—	(17,256)	—	—	(17,257)
Net income	—	—	44,666	—	—	44,666
Other comprehensive loss, net of tax	—	—	—	—	(2,770)	(2,770)
Balance at December 31, 2015	$ 43	$ 224,719	$ 37,322	$ —	$ 1,373	$ 263,457

The accompanying notes are an integral part of these consolidated financial statements.

STATE NATIONAL COMPANIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
($ in thousands)

	Year Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
Operating activities			
Net income	$ 44,666	$ 11,013	$ 22,711
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	4,173	4,993	4,717
Stock-based compensation	4,142	2,012	—
Bad debt expense	—	—	(14)
Deferred income taxes	(853)	(21,210)	(2,058)
Realized net investment gains	(1,888)	(1,311)	(1,764)
Realized gains and losses on property and equipment	(107)	47	(30)
Realized gain on subordinated debenture repurchase	—	(610)	—
Changes in:			
Restricted cash and investments	2,880	203	1,271
Accounts receivable from agents	(5,385)	(1,222)	(8,373)
Reinsurance recoverable on paid losses	13	(320)	41
Deferred acquisition costs	(39)	59	81
Reinsurance recoverables	(255,126)	(284,309)	(171,172)
Income taxes receivable	(5,092)	3,213	(1,740)
Interest receivable	(363)	(462)	(69)
Other assets	1,116	47	(859)
Unpaid losses and loss adjustment expenses	154,869	193,264	40,933
Unearned premiums	105,324	93,845	132,641
Allowance for policy cancellations	4,110	15,877	6,848
Deferred ceding fees	5,507	4,877	6,773
Accounts payable to agents	10	(116)	500
Accounts payable to insurance companies	(598)	(886)	1,209
Other liabilities	3,637	4,272	2,247
Other liabilities, affiliate	—	(100)	(37)
Net cash provided by (used in) operating activities	60,996	23,176	33,856
Investing activities			
Purchase of investments	(98,856)	(170,250)	(46,836)
Proceeds from sale of investments	39,121	14,782	16,032
Proceeds from maturities and principal receipts	33,186	28,494	28,237
Proceeds from sale of short-term investments	—	—	12,490
Proceeds from maturities of short-term investments	—	—	6,495
Proceeds from dispositions of property and equipment	448	981	46
Purchase of property and equipment	(893)	(1,982)	(673)
Net cash provided by (used in) investing activities	(26,994)	(127,975)	15,791
Financing activities			
Dividends paid	(6,165)	(16,683)	(15,295)
Proceeds from issuances of common stock	—	289,322	—
Costs directly attributable to the issuance of common stock	—	(1,578)	—
Repurchase of common stock	(14,415)	(190,595)	—
Repurchase of subordinated debentures	—	(6,750)	—
Net cash provided by (used in) financing activities	(20,580)	73,716	(15,295)
Net change in cash and cash equivalents	13,422	(31,083)	34,352
Cash and cash equivalents at beginning of period	38,348	69,431	35,079
Cash and cash equivalents at end of period	$ 51,770	$ 38,348	$ 69,431
Supplemental disclosures of cash flow information			
Interest paid	$ 1,980	$ 2,269	$ 2,277
Taxes paid	$ 30,833	$ 8,301	$ 6,584

The accompanying notes are an integral part of these consolidated financial statements.

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Description of Business

State National Companies, Inc. (the "Company") refers to a group of companies that conduct insurance-related activities along two major segments. The Company's Program Services segment generates fee income, in the form of ceding fees, by offering issuing carrier capacity to both specialty general agents and other producers ("GAs"), who sell, control, and administer books of insurance business that are supported by third parties that assume reinsurance risk. Substantially all of the risk associated with the Program Services segment is ceded to unaffiliated, highly rated reinsurance companies or other reinsurers that provide collateral. The Company's Lender Services segment involves the writing and insuring of lines of insurance marketed to lending institutions, primarily collateral protection insurance ("CPI") policies.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), which, as to our insurance company subsidiaries, differ from statutory accounting practices prescribed or permitted for insurance companies by insurance regulatory authorities.

Estimates

The preparation of financial statements in conformity with GAAP requires the Company's management ("Management") to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from these estimates.

Fair Value of Financial Instruments

Cash and Cash Equivalents: The carrying amounts reported in the consolidated balance sheets approximate fair value.

Restricted Cash and Investments: The carrying amounts reported in the consolidated balance sheets approximate fair value.

Short-term Investments: The carrying amounts reported in the consolidated balance sheets approximate fair value.

Investments: See Note 9 – "Fair Value Measurements"

Land held for sale: The land held for sale is carried at fair value less expected selling costs.

Payables and Receivables: Reinsurance recoverable on paid losses, reinsurance recoverables, agents' balances receivable and payable, and payable to insurance companies are carried at cost, which approximates fair value.

Subordinated Debentures: The amounts reported in the consolidated balance sheets are carried at par, which approximates their estimated fair value due to the floating interest rate provisions of the debt instruments.

Income taxes receivable/payable: The carrying amounts reported in the consolidated balance sheets approximate fair value.

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

Other assets/liabilities: The carrying amounts reported in the consolidated balance sheets approximate fair value.

Cash and Cash Equivalents

All highly liquid investments with an original maturity of three months or less are considered cash equivalents.

Short-Term Investments

Short-term investments represent liquid investments with original maturities of more than three months but less than one year.

Restricted Cash and Investments

Restricted cash and investments are primarily comprised of deposits made by a reinsurer that cover losses for a program up to the contractual threshold. These fiduciary cash and investment balances are invested at the direction of the reinsurer for this program; accordingly, income earned on these balances inures to the benefit of the reinsurer.

Investments

Investments are considered available-for-sale and are carried at fair value. The Company measures the fair value of the investments based upon quoted market prices from an independent pricing service and its third-party investment managers, using observable market information. The cost of securities sold is based on the specific identification method. Unrealized gains and losses associated with the available-for-sale portfolio, as a result of temporary changes in fair value during the period such investments are held, are reflected net of income taxes and reported in other comprehensive income as a separate component of shareholders' equity. Unrealized losses associated with the available-for-sale portfolio that are deemed to be other-than-temporary are charged to income in the period in which the other-than-temporary impairment is determined. Debt security premiums and discounts are amortized into earnings using the effective-interest method.

The Company evaluates its investment portfolio for impairments of individual securities that are deemed to be other-than-temporary. Fixed maturity securities that are determined to have other-than-temporary impairment and it is more likely than not the Company will sell before recovery of their amortized cost, are written down to fair value and the entire amount of the write-down is included in net income, net of realized investment gains. For all other impaired fixed-maturity securities, the impairment loss is separated into the amount representing the credit loss and the amount representing all other factors. The amount of impairment loss that represents the credit loss is included in net income, net of realized investment gains. The amount of the impairment loss that relates to all other factors is included in other comprehensive income. Equity securities that are determined to have other-than-temporary impairment are recognized in net income, net of realized investment gains.

The process for identifying other-than-temporary declines in fair value involves the consideration of several factors, including, but not limited to, whether the issuer has been downgraded to below investment-grade, the length of time in which there has been a significant decline in value, the liquidity and overall financial condition of the issuer, the nature and performance of the collateral or other credit support backing the security, the significance of the decline in value, and whether the Company has the intent to sell the security or may be required to sell the security prior to its anticipated recovery. The Company reviews securities for other-than-temporary impairment internally and with its investment advisors.

The Company invests in convertible securities that have embedded derivatives. Derivatives embedded within non-derivative instruments, such as options embedded in convertible fixed maturity securities, are bifurcated from the host instrument when the embedded derivative meets the criteria for bifurcation. However, for reporting purposes, these embedded derivatives are presented together with the host contract and carried at estimated fair value. Changes in the estimated fair value of the embedded derivatives are reflected in "Realized net investment gains" in the consolidated statements of income, while changes in the estimated fair value of the underlying fixed maturity securities are reflected in “Unrealized holding gains (losses)” in the consolidated statements of comprehensive income.

Deferred Acquisition Costs

Certain costs, primarily premium taxes, commissions, and general expenses that are directly related to the successful acquisition of new or renewal business are deferred to the extent recoverable from future premiums earned. Deferred acquisition costs are amortized in proportion to the related unearned premium reserve over the terms of the related policies. Investment income is not included in the Company’s recoverability analysis of deferred acquisition costs.

Deferred Ceding Fees

Ceding fees that are associated with unearned premiums are established as a liability and earned pro rata over the life of the underlying business.

Property, Equipment, and Depreciation

Property and equipment are recorded at cost and depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (ranging from three to twenty years). The Company changed its capitalization threshold as of January 1, 2014 from $1 thousand to $5 thousand per item. Gains and losses on the disposition of fixed assets are determined on a specific asset identification basis and are included in net income. Land held for sale is carried at fair value less expected selling costs.

Goodwill and Intangible Assets

Goodwill is the difference between the purchase price in a business combination and the fair value of assets acquired and liabilities assumed, and is not amortized. Intangible assets include assets with a finite life, primarily customer relationships/lists, and are amortized over the estimated useful life of the asset in proportion to the expected benefit.

Goodwill is tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment test is performed using a two-step process. In the first step, the fair value of a reporting unit is compared to its carrying value. If the carrying value of a reporting unit exceeds its fair value, the second step of the impairment test is performed for purposes of measuring the impairment.

In the second step, the fair value of the reporting unit is allocated to all of the assets and liabilities of the reporting unit to determine an implied goodwill value. If the carrying amount of the reporting unit goodwill exceeds the implied goodwill value, an impairment loss is recognized in an amount equal to that excess.

As of December 31, 2015, the Company performed the first step of its annual goodwill assessment for the individual reporting units to which goodwill is allocated and determined there is no impairment of goodwill.

The Company periodically evaluates the recoverability of intangible assets and takes into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. No impairments were recognized in 2015, 2014 or 2013.

Unpaid Losses and Loss Adjustment Expenses

The liability for unpaid losses and loss adjustment expenses (“LAE”) includes an estimate for claims reported and an additional liability for claims incurred but not reported, based on the Company’s historical loss experience. While Management believes the amounts included in the consolidated financial statements are adequate, such estimates may be more or less than the amount ultimately paid when the claims are settled. These estimates are continually reviewed and

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

adjusted, as necessary, as experience develops or as new information becomes known; such adjustments are included in current operations.

Allowance for Policy Cancellations

An allowance for policy cancellations is provided for the estimated amount of return premiums and policy fees, net of commission expense and premium taxes that will be incurred on expected future policy cancellations associated with the Company’s CPI business. The allowance is based on the Company’s historical cancellation experience.

While Management believes the amounts included in the consolidated financial statements are adequate, such estimates may be more or less than the amounts ultimately refunded. The estimates are continually reviewed by Management, and any changes are reflected in current operations.

Reinsurance

Reinsurance premiums, losses, and loss adjustment expenses are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Earnings Per Share

The computation of earnings per share is based upon the weighted average number of common shares outstanding during the period plus the effect of common shares potentially issuable (in periods in which they have a dilutive effect). Earnings per share have been adjusted to reflect a 736 for 1 stock split in the form of a stock dividend on June 23, 2014.

Income Taxes

Prior to June 25, 2014, the Company had elected for its parent company to be taxed for federal income tax purposes as a “Subchapter S corporation” under the Internal Revenue Code. On June 25, 2014, the Company completed a private placement of common stock, which resulted in the termination of its Subchapter S corporation status. Prior to this change in tax status, deferred income taxes were recorded only on the Company’s insurance subsidiaries (and their immediate parent) to reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end. Prior to June 25, 2014 all other entities included in the consolidated group filed under Subchapter S Corporation status; therefore, no provision for income taxes had been recorded for these entities. On June 25, 2014 the Company recorded a net deferred income tax benefit related to this change in tax status to reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts.

For any uncertain tax positions not meeting the “more likely than not” recognition threshold, accounting standards require recognition, measurement, and disclosure in the financial statements. There were no uncertain tax positions at December 31, 2015 and December 31, 2014.

Income Recognition

Premiums on CPI business are earned on a pro rata basis over the terms of the policies after taking into consideration the allowance for policy cancellations. Premiums on Program Services business are earned on a pro rata basis over the terms of the policies. Ceding fees are earned on the same basis as the underlying premiums.

Program Services

In connection with writing Program Services business, the Company enters into contractual agreements with both the producing general agents and the reinsurers, whereby the general agents and reinsurers are obligated to each other for payment of insurance amounts, including premiums, commissions, and losses. These funds do not flow through the

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

Company, but are settled directly between the general agent and the reinsurer; accordingly, no receivables or payables are recorded for these amounts. All obligations of SNIC, NSIC, and USIC owed to or on behalf of their policyholders are recorded by the Company and, to the extent appropriate, offsetting reinsurance recoverables are recorded.

Minimum Ceding Fees

Minimum ceding fees are fees the Company receives pursuant to contractual minimum premium requirements for certain programs where either significant premium capacity is reserved for that program or where the expected premium volume is not reasonably assured. For those programs where a minimum applies, the ceding fees are considered as two distinct pieces: 1) "premium related fees," which are earned as the associated gross written premium is earned, typically pro rata on an annual basis; and (2) "capacity fees," which are determined based on the shortfall, if any, between the program's contractual annual premium minimum and the amount of premium estimated to be written in the contract year, which fees are earned over the contract year.

Minimum ceding fees earned are based on estimates of annual premiums to be written for those programs that are subject to minimum premium levels and related ceding fees. These estimates are based upon various assumptions made regarding the production plans for the underlying program. These assumptions are reviewed by Management and the amount of annual premiums expected to be written are re-estimated as needed. As actual premiums emerge and revisions are made to earlier estimates, minimum ceding fees are earned or reversed and are reflected in current operations.

Stock-based Compensation

Compensation expense for stock-based payments is recognized based on the measurement-date fair value for awards that will settle in shares. Compensation expense for awards that are settled in equity are recognized on a straight line pro rata basis over the vesting period. See Note 15 — "Stock-based Payments" for related disclosures.

Recent Accounting Pronouncements

In May 2014, the FASB issued an accounting standards update (ASU 2014-09), "Revenue from Contracts with Customers" (Topic 606). The core guidance of the ASU presents a comprehensive revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The ASU provides a five-step analysis of transactions to determine when and how revenue is recognized and requires additional disclosures sufficient to describe the nature, amount, timing and uncertainty of revenue and cash flows for these transactions. In August 2015, the FASB issued ASU 2015-14 to defer the effective date to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. As insurance contracts are excluded from this ASU, the Company is currently evaluating what impact, if any, this ASU will have on financial results and disclosures and which adoption method to apply.

In June 2014, the FASB issued an accounting standards update (ASU 2014-12), "Compensation – Stock Compensation" (Topic 718). The main provision of this ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. This ASU is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those annual periods. The Company awarded performance based stock compensation on March 30, 2015. The Company expects the impact of this pronouncement to be minimal.

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

In April 2015, the FASB issued an accounting standards update (ASU 2015-03), "Interest – Imputation of Interest" (Topic 835). The new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The guidance in ASU 2015-03 does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. The FASB therefore issued ASU 2015-15 "Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements," which clarified that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. For public business entities, the guidance is effective for annual and interim periods beginning after December 15, 2015. Early adoption is permitted. The Company does not plan to early adopt and expects the impact of this pronouncement to be minimal.

In May 2015, the FASB issued an accounting standards update (ASU 2015-09), "Disclosures about Short-Duration Contracts" (Topic 944) intended to make targeted improvements to disclosure requirements for insurance companies that issue short-duration contracts. The amendments in this update are expected to increase transparency of significant estimates made in measuring those liabilities, improve comparability by requiring consistent disclosure of information, and provide financial statement users with additional information to facilitate analysis of the amount, timing, and uncertainty of cash flows arising from contracts issued by insurance entities and the development of loss reserve estimates. This ASU will be effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. The Company is currently evaluating what impact this ASU will have on disclosures.

In June 2015, the FASB issued an accounting standards update (ASU 2015-10), "Technical Corrections and Improvements." The amendments in this update represent changes to clarify the codification, correct unintended application of guidance, or make minor improvements to the codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Additionally, some of the amendments will make the codification easier to understand and easier to apply by eliminating inconsistencies, providing needed clarifications, and improving the presentation of guidance in the codification. This ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The Company does not plan to early adopt and expects the impact of this pronouncement to be minimal.

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

2. Investments

The following table summarizes information on the amortized cost, gross unrealized gains and losses, and the fair value of investment securities by class:

December 31, 2015 ($ in thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed-maturity securities				
Government	$ 18,890	$ 124	$ (35)	$ 18,979
Government agency	2,025	31	(7)	2,049
State and municipality	68,461	1,895	(14)	70,342
Industrial and miscellaneous	132,797	2,139	(2,618)	132,318
Residential mortgage-backed	80,566	1,213	(793)	80,986
Commercial mortgage-backed	22,235	68	(150)	22,153
Redeemable preferred stock	2,790	16	(111)	2,695
Total fixed-maturity securities	327,764	5,486	(3,728)	329,522
Equity securities				
Non-redeemable preferred stock	4,012	422	(69)	4,365
Common stock	784	414	(19)	1,179
Total equity securities	4,796	836	(88)	5,544
Total investments	$ 332,560	$ 6,322	$ (3,816)	$ 335,066

December 31, 2014 ($ in thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed-maturity securities				
Government	$ 13,896	$ 195	$ (49)	$ 14,042
Government agency	2,325	57	(9)	2,373
State and municipality	61,179	1,200	(27)	62,352
Industrial and miscellaneous	108,125	2,582	(460)	110,247
Residential mortgage-backed	96,610	1,825	(764)	97,671
Commercial mortgage-backed	22,483	339	(27)	22,795
Redeemable preferred stock	401	30	—	431
Total fixed-maturity securities	305,019	6,228	(1,336)	309,911
Equity securities				
Non-redeemable preferred stock	1,407	806	—	2,213
Common stock	12	417	—	429
Total equity securities	1,419	1,223	—	2,642
Total investments	$ 306,438	$ 7,451	$ (1,336)	$ 312,553

Investment securities are exposed to various risks such as interest rate, market, and credit risk. Fair values of securities fluctuate based on the magnitude of changing market conditions; significant changes in market conditions could materially affect the portfolio fair value in the near term.

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

The following tables show the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

December 31, 2015	Less than 12 Months		12 Months or More		Total	
($ in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed-maturity securities						
Government	$ 2,757	$ (23)	$ 1,290	$ (12)	$ 4,047	$ (35)
Government agency	665	(7)	—	—	665	(7)
State and municipality	405	(1)	369	(13)	774	(14)
Industrial and miscellaneous	74,782	(2,139)	2,440	(479)	77,222	(2,618)
Residential mortgage-backed	31,090	(258)	13,227	(535)	44,317	(793)
Commercial mortgage-backed	13,317	(147)	413	(3)	13,730	(150)
Redeemable preferred stock	1,020	(51)	292	(60)	1,312	(111)
Total fixed-maturity securities	$ 124,036	$ (2,626)	$ 18,031	$ (1,102)	$ 142,067	$ (3,728)
Equity securities						
Non-redeemable preferred stock	2,067	(69)	—	—	2,067	(69)
Common stock	753	(19)	—	—	753	(19)
Total equity securities	2,820	(88)	—	—	2,820	(88)
	$ 126,856	$ (2,714)	$ 18,031	$ (1,102)	$ 144,887	$ (3,816)

December 31, 2014	Less than 12 Months		12 Months or More		Total	
($ in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed-maturity securities						
Government	$ 522	$ (2)	$ 3,094	$ (47)	$ 3,616	$ (49)
Government agency	—	—	685	(9)	685	(9)
State and municipality	4,164	(10)	2,001	(17)	6,165	(27)
Industrial and miscellaneous	34,433	(418)	2,637	(42)	37,070	(460)
Residential mortgage-backed	15,491	(94)	19,428	(670)	34,919	(764)
Commercial mortgage-backed	2,528	(14)	694	(13)	3,222	(27)
Total fixed-maturity securities	$ 57,138	$ (538)	$ 28,539	$ (798)	$ 85,677	$ (1,336)

The determination that a security has incurred an other-than-temporary decline in fair value and the associated amount of any loss recognition requires the judgment of Management and a continual review of its investments. Management reviewed all securities with unrealized losses in accordance with the Company's impairment policy described in Note 1 — "Summary of Significant Accounting Policies". Management believes that the temporary impairments are primarily the result of interest rate fluctuations, current conditions in the capital markets, and the impact of those conditions on market liquidity and prices. There are 237 securities in an unrealized loss position at December 31, 2015. Over 87% of these investments are investment-grade at December 31, 2015. The Company does not intend to sell the securities, and it is not more likely than not that the Company will be required to sell these securities before recovery of their amortized cost. Management has the intent and ability to hold the equity securities in an unrealized loss position until the recovery of their fair value. Therefore, Management does not consider these investments to be other-than-temporarily impaired at December 31, 2015.

Proceeds from sales of investments in fixed-maturity, equity and short-term securities during 2015, 2014, and 2013 were $39.1 million, $14.8 million, and $16.0 million respectively.

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

The following table presents the Company's gross realized gains (losses) for the periods ended December 31:

($ in thousands)	Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Realized gains:			
Fixed-maturity securities	$ 3,101	$ 1,388	$ 1,861
Equity securities	548	34	171
Gross realized gains	3,649	1,422	2,032
Realized losses:			
Fixed-maturity securities	(1,557)	(92)	(149)
Equity securities	(108)	(19)	—
Other-than-temporary impairment losses on fixed-maturity securities	(96)	—	(119)
Gross realized losses	(1,761)	(111)	(268)
Net realized investment gains (losses)	$ 1,888	$ 1,311	$ 1,764

The Company had eleven and ten non-cash exchanges of investment securities for each of the periods ending December 31, 2015 and December 31, 2014, respectively. Non-cash consideration received for these exchanges was $4.9 million and $2.8 million in 2015 and 2014, respectively. Gains of $33 thousand and $320 thousand were recognized on these exchanges and are reflected in the "Realized net investment gains" balance shown on the consolidated statements of income.

The following schedule details the maturities of the Company's fixed-maturity securities, available-for-sale, as of December 31, 2015:

($ in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 6,621	$ 6,734
Due after one year through five years	99,836	99,863
Due after five years through ten years	105,469	106,533
Due after ten years	13,037	13,253
Residential mortgage-backed securities	80,566	80,986
Commercial mortgage-backed securities	22,235	22,153
	$ 327,764	$ 329,522

Expected maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

The Company's investment portfolio includes approximately $1.0 million of mortgage-backed securities collateralized by subprime residential loans, which represent approximately 0.31% of the Company's total investments as of December 31, 2015. The Company does not own mortgage derivatives.

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Net investment income for the periods ended December 31, consists of the following:

($ in thousands)	Year Ended December 31, 2015	December 31, 2014	December 31, 2013
Interest on investments	$ 8,357	$ 5,254	$ 5,202
Dividends	301	135	107
Gross investment income	8,658	5,389	5,309
Investment expenses	(710)	(548)	(408)
Net investment income	$ 7,948	$ 4,841	$ 4,901

The Company's insurance subsidiaries, State National Insurance Company, Inc. ("SNIC"), National Specialty Insurance Company ("NSIC") and United Specialty Insurance Company ("USIC") are required to maintain deposits in various states where they are licensed to operate. These deposits are comprised of fixed-maturity securities at fair values totaling $53.5 million and $36.9 million at December 31, 2015 and December 31, 2014, respectively.

The Company holds convertible securities with embedded derivatives. The embedded derivative is bifurcated from the host contract if all of the following criteria are met: the combined instrument is not accounted for in its entirety at fair value with changes in fair value recorded in earnings; the terms of the embedded derivative are not clearly and closely related to the economic characteristics of the host contract; and a separate instrument with the same terms as the embedded derivative would qualify as a derivative instrument. These embedded derivatives are presented together with the host contract and carried at estimated fair value. Changes in the estimated fair value of the embedded derivatives are reflected in "Realized net investment gains" in the consolidated statements of income, while changes in the estimated fair value of the underlying fixed maturity securities are reflected in "Unrealized holding gains (losses) in the consolidated statements of comprehensive income. Net gains recognized in the consolidated statements of income related to embedded derivatives were $1.8 million for the year ended December 31, 2015.

3. Deferred Acquisition Costs

Certain costs, primarily premium taxes, commissions, and general expenses that are directly related to the successful acquisition of new or renewal business are deferred to the extent recoverable from future premiums earned. Deferred acquisition costs are amortized in proportion to the related unearned premium reserve over the terms of the related policies. Deferred acquisition costs are as follows for the years ended December 31:

($ in thousands)	2015	2014	2013
Balance, beginning of year	$ 1,036	$ 1,095	$ 1,176
Capitalized costs	5,359	4,907	4,818
Amortization	(5,320)	(4,966)	(4,899)
Balance, end of year	$ 1,075	$ 1,036	$ 1,095

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

4. Property, Equipment, and Depreciation

The following is a summary of property, equipment, and depreciation at December 31:

($ in thousands)	2015	2014
Land held for use	$ 3,443	$ 3,443
Land held for sale	1,034	1,034
Building and improvements	15,234	15,127
Transportation equipment	873	1,578
Furniture and fixtures	3,241	3,208
Computer equipment and software	7,457	6,849
	31,282	31,239
Accumulated depreciation and amortization	(14,119)	(12,842)
Property and equipment, net	$ 17,163	$ 18,397

Depreciation and amortization expense for 2015, 2014 and 2013 was $1.8 million, $1.8 million and $1.9 million, respectively.

The Company purchased a tract of land in 2007 with a plan to build a new home office building for its own use. During 2009, the Company classified this land as held for sale, since it had abandoned its plan to build a new home office and purchased an existing building for its own use. Gains of $107 thousand, $454 thousand and $30 thousand were recognized at December 31, 2015, 2014 and 2013, respectively, from the sale of property and equipment.

5. Goodwill and Intangible Assets

($ in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
December 31, 2015			
Goodwill	$ 2,565	$ —	$ 2,565
Customer relationships/lists	19,000	(15,607)	3,393
	$ 21,565	$ (15,607)	$ 5,958
December 31, 2014			
Goodwill	$ 2,565	$ —	$ 2,565
Customer relationships/lists	20,450	(16,332)	4,118
Non-compete agreements	3,339	(3,339)	—
	$ 26,354	$ (19,671)	$ 6,683

As of December 31, 2015 and 2014, goodwill of $2.1 million is attributable to our Program Services segment and $450 thousand is attributable to the Lender Services segment. Definite-lived intangible assets total $3.4 million and $4.1 million, net of amortization, as of December 31, 2015 and 2014, respectively, and are fully attributable to our Lender Services segment.

Customer relationships/lists are amortized based on discounted cash flow estimates over their expected useful lives of 15 years. Amortization expense related to the customer relationships/lists was $725 thousand, $765 thousand, and $854 thousand for the years ended December 31, 2015, 2014, and 2013, respectively. The non-compete agreements were amortized based on the discounted cash flow estimates over their expected useful lives of five to nine years. Amortization expense related to the non-compete agreements was zero, $458 thousand, and $481 thousand for the years ended December 31, 2015, 2014, and 2013, respectively.

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

Expected amortization expense over the next five years for the Company's definite-lived intangible assets is as follows: 2016 – $720 thousand; 2017 –$682 thousand; 2018 – $637 thousand; 2019 – $256 thousand; and 2020 – $243 thousand.

6. Subordinated Debentures

Between 2002 and 2004, the Company formed four business trusts (the "Trusts") for the sole purpose of issuing, in private placement transactions, $52 million of trust preferred securities ("TPS"). In turn, the Trusts then used the proceeds thereof, together with the equity proceeds received from the Company upon their initial formation, to purchase $53.6 million of variable-rate subordinated debentures ("TPS Debentures") issued by the Company. All voting securities of the Trusts are owned by the Company, and the TPS Debentures are the sole assets of the Trusts. The Trusts meet the obligations of the TPS with the interest and principal paid on the TPS Debentures. The Company does not have a variable interest in the Trusts and therefore does not consolidate the Trusts.

Subordinated debentures with a carrying value of $7.5 million were repurchased for $6.75 million (plus accrued interest of approximately $49 thousand) on October 8, 2014. The debentures were issued on May 15, 2003 with an original maturity of May 15, 2033. This transaction resulted in a gain of approximately $610 thousand after deducting the unamortized portion of the initial issuance costs from the difference in the par value and the purchase price.

The following is a summary of the TPS Debentures at December 31:

($ in thousands)	2015	2014
Floating Rate Capital Securities at LIBOR plus 4.00%, issued December 4, 2002, maturing on December 4, 2032	$ 17,500	$ 17,500
Floating Rate Capital Securities at LIBOR plus 4.10%, issued December 16, 2003, maturing on January 8, 2034	12,000	12,000
Floating Rate Capital Securities at LIBOR plus 3.80%, issued May 26, 2004, maturing on May 24, 2034	15,000	15,000
	$ 44,500	$ 44,500

The TPS Debentures and the TPS are uncollateralized, do not require maintenance of minimum financial covenants, and carry nearly identical terms. The TPS mature based on the schedule above, but early redemption is allowed beginning five years after issue date. If the Company chooses to redeem before the stated maturity date, it must redeem on a normal quarterly interest payment date and in multiples of $1 thousand (and include accrued interest).

Interest is payable quarterly (see rates above) and set and paid quarterly. The three-month LIBOR rate at December 31, 2015, was 0.61%. Payment of interest may be deferred for up to 20 consecutive quarters; however, the Company may not declare or pay any dividends or distributions, nor make any guarantee payments or payments on fixed-maturity securities, unless senior in interest to the TPS Debentures. These same limitations apply during an event of default.

Debt issuance costs paid to placement agents with an initial cost of $1.3 million are included in the consolidated financial statements in other assets, net of accumulated amortization of $529 thousand and $486 thousand at December 31, 2015 and 2014, respectively. The debt issuance costs are being amortized over 30 years using the straight-line method, which approximates the effective interest method.

The Company, through a subsidiary, has guaranteed that amounts paid to the Trusts under the TPS Debentures will be remitted to the holders of the TPS. These guarantees, when taken together with the obligations of the Company under the TPS Debentures, the indentures pursuant to which those debentures were issued, and the related trust agreements (including obligations to pay related trust costs, fees, expenses, debt, and other obligations for the Trusts other than with respect to the common and trust preferred securities of the Trusts), provide a full and unconditional guarantee of amounts due on the TPS.

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

7. Income Tax Provision

The shareholders previously consented to elections for certain entities in the Company to be treated as S Corporations under Internal Revenue Code Section 1362(a). As a result of these elections, 2013 federal income taxes are recorded only for State National Intermediate Holdings, Inc. ("SNIH"), SNIC, NSIC and USIC, as they remained C Corporations and filed a consolidated federal income tax return. On June 25, 2014, the Company completed a private placement of common stock which resulted in termination of its S Corporation status. As a result, the Company is taxed as a C Corporation and filed a consolidated short period federal income tax return with its subsidiaries for the period June 26 through December 31, 2014. Income for the Company's pass-through entities was taxed (for federal purposes) to the individual owners during 2013 and the short period January 1 through June 25, 2014. The Company recorded a net deferred income tax benefit of $19.3 million related to this change in tax status.

The components of income tax expense for the years ended December 31 are as follows ($ in thousands):

2015

($ in thousands)	Federal	State	Total
Federal and state income tax expense (benefit)			
Current	$ 24,019	$ 1,722	$ 25,741
Deferred	(794)	(59)	(853)
Total income tax expense (benefit)	$ 23,225	$ 1,663	$ 24,888

2014

($ in thousands)	Federal	State	Total
Federal and state income tax expense (benefit)			
Current	$ 10,827	$ 687	$ 11,514
Deferred	(21,156)	(54)	(21,210)
Total income tax expense (benefit)	$ (10,329)	$ 633	$ (9,696)

2013

($ in thousands)	Federal	State	Total
Federal and state income tax expense (benefit)			
Current	$ 6,014	$ (1,169)	$ 4,845
Deferred	(2,058)	—	(2,058)
Total income tax expense (benefit)	$ 3,956	$ (1,169)	$ 2,787

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

Deferred income taxes reflect the effect of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The components of the net deferred income tax asset are as follows at December 31:

($ in thousands)	2015	2014
Deferred income tax assets:		
Allowance for policy cancellations	$ 20,864	$ 19,425
Unpaid losses and loss adjustment expenses	156	172
Deferred ceding fees	10,192	8,264
Management fee	111	3,702
Compensation	3,638	2,034
Intangible assets	376	273
Unrealized losses on fixed maturities and other investment securities	1,305	471
Write-down of other-than-temporarily impaired investment securities	249	254
Other	147	34
Total deferred income tax assets	37,038	34,629
Deferred income tax liabilities:		
Unearned premiums	7,522	7,136
Unrealized gains on equity securities	292	428
Unrealized gains on fixed maturities and other investment securities	1,920	2,183
Deferred acquisition costs	376	363
Fixed assets	302	525
Other	418	130
Total deferred income tax liabilities	10,830	10,765
Net deferred income tax asset	$ 26,208	$ 23,864

No valuation allowance was recorded at December 31, 2015 and 2014, as the temporary differences disclosed above relate to deferred income tax assets that are more-likely-than-not to be realized in future years.

In the second quarter of 2014, the Company revised its provision for income taxes to reflect a change in the federal statutory rate from 34.3% to 35.0%, effective January 1, 2014. During 2013 the Company computed its income tax provision using a 34.3% federal statutory tax rate as its taxable income was within the graduated rates of 34.0% to 35.0%. A reconciliation of federal income tax expense computed by applying the federal statutory tax rate to income before federal income tax expense for the periods ended December 31 follows:

	2015		2014		2013	
($ in thousands)	Amount	Effective Tax Rate	Amount	Effective Tax Rate	Amount	Effective Tax Rate
Expected tax expense (benefit)	$ 24,344	35.0 %	$ 461	35.0 %	$ 8,746	34.3 %
Exclusion of Subchapter S income	—	—	8,465	643.0	(4,478)	(17.6)
Change in tax status	—	—	(19,316)	(1,467.2)	—	—
Change in federal statutory rate	—	—	(75)	(5.7)	—	—
Accrual/adjustment prior year	(175)	(0.2)	174	13.2	(39)	(0.2)
Tax-exempt income	(432)	(0.6)	(304)	(23.1)	(275)	(1.1)
State income taxes	1,060	1.5	826	62.8	(1,205)	(4.7)
Meals and entertainment	94	0.1	61	4.6	36	0.1
Other	(3)	—	12	0.8	2	—
Total income tax expense	$ 24,888	35.8 %	$ (9,696)	(736.6)%	$ 2,787	10.8 %

The Company recognizes interest and penalties related to uncertain tax positions in general and administrative expenses. There were no uncertain tax positions at December 31, 2015.

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

The Company had no net operating loss or capital loss carry-forwards at December 31, 2015.

As of December 31, 2015, the Company's U.S. federal income tax returns for tax years that ended December 31, 2012 through December 31, 2014, remain open under the normal three year statute of limitations and, therefore, are subject to examination by the Internal Revenue Service.

8. Reinsurance

Through unaffiliated general agents, SNIC, NSIC, and USIC write primarily commercial lines of business. This business is written and reinsured pursuant to quota share and excess of loss reinsurance contracts and general agency agreements that are tripartite agreements executed by SNIC, NSIC, or USIC, the reinsurer, and the general agent. Substantially all of the risk associated with this business is borne by the reinsurer. As compensation for writing this business, SNIC, NSIC, and USIC receive ceding fees from the general agents and, accordingly, the related ceding fees receivable are reflected as accounts receivable from agents. If the general agent defaults on its obligation to pay these commissions (or any other amount due), the reinsurer is obligated to make the payment under the guarantee contained in the contracts.

SNIC and NSIC write business in the Lender Services segment through an affiliated general agent. The Company is party to a reinsurance agreement in which it cedes a percentage of certain CPI policies to CUMIS Insurance Society, Inc. ("CUNA Mutual") and receives a ceding commission related to these policies. On May 19, 2014, the company signed an amendment to alter certain provisions of the July 24, 2009 Alliance with CUNA Mutual. The amendment, effective July 1, 2014, reduces CUNA Mutual's quota share under the reinsurance agreement from 50% to 30% for all policies written on or after July 1, 2014 (see Note 18 – Commitments and Contingencies).

SNIC, NSIC, and USIC remain liable for unearned premiums and unpaid losses and LAE with respect to reinsurance ceded should the reinsurer be unable to meet its obligations. Management considers the possibility of a reinsurer becoming unable to meet its obligations as remote due to the reinsurers' financial stability, A.M. Best Company rating, size, collateral held, and other factors as appropriate. Following is a summary of these balances:

($ in thousands)	December 31, 2015	December 31, 2014
Ceded unearned premiums	$ 559,638	$ 456,754
Ceded loss and loss adjustment expense reserves	1,352,022	1,199,780
Total reinsurance recoverables	1,911,660	1,656,534
Secured reinsurance recoverables	(1,527,335)	(1,209,032)
Unsecured reinsurance recoverables	$ 384,325	$ 447,502

The fair value of the collateral held by SNIC, NSIC and USIC is approximately 177% of the secured reinsurance recoverables as of December 31, 2015.

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

9. Fair Value Measurements

Assets and liabilities reported in the consolidated financial statements at fair value are required to be classified according to a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into three levels. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Level 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

- Level 1: Inputs are quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date.

- Level 2: Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. These inputs include market interest rates and volatilities, spreads, and yield curves.

- Level 3: Inputs are unobservable. Unobservable inputs reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

A description of the Company's valuation techniques used to measure its assets at fair value is as follows:

- Available-for-sale, fixed-maturity securities: All fixed-maturity investments are currently reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from either an independent pricing service using quoted prices or from its third-party investment managers. These Level 2 inputs are valued by either the pricing service or the investment managers utilizing observable data that may include dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus, prepayment speeds, credit information, and the security's terms and conditions, among other things.

- Available-for-sale equity securities: Equity securities are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service using quoted prices or from its third-party investment managers. These Level 2 inputs are valued by either the pricing service or the investment managers utilizing observable data that may include dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus, prepayment speeds, credit information, and the security's terms and conditions, among other things.

- Embedded derivatives: The Company invests in convertible securities that have embedded derivatives. Embedded derivatives are recorded at estimated fair value with changes in estimated fair value reported in the consolidated statements of net income. The estimated fair value of the embedded derivatives is calculated by the Company's third-party investment managers using observable inputs.

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Management has reviewed the processes used by the pricing services and has determined that they result in fair values consistent with requirements for Level 2 investment securities. Based on an analysis of the inputs, the Company's investments measured at fair value on a recurring basis have been categorized as follows:

December 31, 2015

($ in thousands)	Level 1	Level 2	Level 3	Total
Fixed-maturity securities				
Government	$ —	$ 18,979	$ —	$ 18,979
Government agency	—	2,049	—	2,049
State and municipality	—	70,342	—	70,342
Industrial and miscellaneous	—	132,318	—	132,318
Residential mortgage-backed	—	80,986	—	80,986
Commercial mortgage-backed	—	22,153	—	22,153
Redeemable preferred stock	—	2,695	—	2,695
Total fixed-maturity securities	—	329,522	—	329,522
Equity securities				
Non-redeemable preferred stock	—	4,365	—	4,365
Common stock	—	1,179	—	1,179
Total equity securities	—	5,544	—	5,544
Total investments	$ —	$ 335,066	$ —	$ 335,066

December 31, 2014

($ in thousands)	Level 1	Level 2	Level 3	Total
Fixed-maturity securities				
Government	$ —	$ 14,042	$ —	$ 14,042
Government agency	—	2,373	—	2,373
State and municipality	—	62,352	—	62,352
Industrial and miscellaneous	—	110,247	—	110,247
Residential mortgage-backed	—	97,671	—	97,671
Commercial mortgage-backed	—	22,795	—	22,795
Redeemable preferred stock	—	431	—	431
Total fixed-maturity securities	—	309,911	—	309,911
Equity securities				
Non-redeemable preferred stock	—	2,213	—	2,213
Common stock	—	429	—	429
Total equity securities	—	2,642	—	2,642
Total investments	$ —	$ 312,553	$ —	$ 312,553

At December 31, 2015, the fair value of embedded derivatives included in Level 2 securities was $8.6 million.

There was no Level 3 activity including gains or losses recognized purchases, or sales transaction during the periods ending December 31, 2015 and December 31, 2014.

Transfers between levels are recognized at the end of the reporting period. There were no transfers between Level 1, Level 2, and Level 3 at December 31, 2015 and December 31, 2014.

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

10. Premiums Earned

Premiums earned consist of the following for the years ended December 31:

($ in thousands)	2015	2014	2013
Premiums written	$ 1,262,990	$ 1,032,608	$ 806,732
Premiums assumed	2,097	1,517	3,233
Premiums ceded	(1,144,579)	(935,051)	(723,192)
Net premiums retained	120,508	99,074	86,773
Change in net unearned premiums	(2,440)	(2,424)	(2,395)
Total premiums earned	$ 118,068	$ 96,650	$ 84,378
Premiums assumed as a % of net premiums retained	1.7 %	1.5 %	3.7 %

Premiums written for CPI include an allowance for return premiums and policy fees related to expected future policy cancellations. Original estimates are adjusted as the policies develop and additional information becomes known regarding actual cancellation rates.

11. Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses consist of the following for the years ended December 31:

($ in thousands)	2015	2014	2013
Direct losses and loss adjustment expenses	$ 696,249	$ 714,708	$ 561,347
Assumed losses and loss adjustment expenses	1,225	2,469	193
Ceded losses and loss adjustment expenses	(641,721)	(676,356)	(529,450)
Total net losses and loss adjustment expenses	$ 55,753	$ 40,821	$ 32,090

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

Activity in the liability for unpaid losses and loss adjustment expenses at December 31, is summarized as follows:

($ in thousands)	2015	2014	2013
Balance at January 1,	$ 1,209,905	$ 1,016,641	$ 975,708
Reinsurance recoverables	(1,199,780)	(1,006,892)	(965,965)
Net balance at January 1,	10,125	9,749	9,743
Incurred related to:			
Current year	53,965	41,314	33,163
Prior year	1,788	(493)	(1,073)
Total incurred	55,753	40,821	32,090
Paid related to:			
Current year	45,239	34,251	27,388
Prior year	7,887	6,194	4,696
Total paid	53,126	40,445	32,084
Net balance at December 31,	12,752	10,125	9,749
Reinsurance recoverables	1,352,022	1,199,780	1,006,892
Balance at December 31,	$ 1,364,774	$ 1,209,905	$ 1,016,641

The estimate for ultimate losses incurred on a net basis related to prior years increased by $1.8 million in 2015, decreased by $0.5 million in 2014 and decreased by $1.1 million in 2013. The unfavorable development in 2015 is primarily related to reserve strengthening on run-off programs in our Program Services segment ($2.0 million). The favorable development in 2014 is primarily due to $706 thousand of favorable development in our Lender Services segment. The favorable development in 2013 is primarily due to $1.5 million of favorable development in our Lender Services segment, partially offset by unfavorable development of $0.4 million in our Program Services segment. All of these changes were the result of the re-estimation of unpaid losses and LAE due to ongoing analyses of recent loss development trends as new data becomes available. We had no significant changes in reserving assumptions or methodologies.

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

12. Statutory Accounting

A reconciliation of the Company's insurance subsidiaries' (SNIC, NSIC, and USIC) shareholders' equity and net income as of and for the years ended December 31 from Statutory Accounting Principles (SAP) to GAAP is as follows:

($ in thousands)	2015	2014
Shareholders' equity (insurance subsidiaries only):		
Per statutory basis	$ 229,830	$ 215,842
Adjustments for:		
Allowance for return commissions	31,001	28,846
Allowance for policy cancellations	(26,009)	(23,672)
Commissions payable	14,681	14,105
Deferred acquisition costs	14,616	13,149
Deferred income taxes	(6,754)	(7,430)
Unrealized gain on investments available-for-sale	2,075	5,586
Management fees	(18,208)	(16,813)
Intangible assets	1,947	1,947
Nonadmitted assets	—	13
Convertible securities	1,142	—
Other	—	16
Shareholders' equity in accordance with GAAP	$ 244,321	$ 231,589

($ in thousands)	2015	2014	2013
Net income (insurance subsidiaries only):			
Per statutory basis	$ 15,922	$ 6,780	$ 5,047
Adjustments for:			
Allowance for return commissions	2,155	7,571	3,987
Allowance for policy cancellations	(2,337)	(7,028)	(2,551)
Commission expense	576	3,508	1,874
Deferred acquisition costs	1,467	(84)	1,952
Deferred income taxes	(2,353)	195	2,058
Management fees	(1,395)	(2,975)	(3,947)
Convertible securities	1,142	—	—
Other	(16)	(129)	(38)
Net income in accordance with GAAP	$ 15,161	$ 7,838	$ 8,382

At December 31, 2015 and 2014, the amount of statutory capital and surplus for the consolidated insurance subsidiaries was $229.8 million and $215.8 million, respectively. At December 31, 2015 and 2014, minimum statutory capital and surplus required for SNIC, NSIC, and USIC was $5.0 million, $5.0 million and $750 thousand, respectively. The Texas Department of Insurance (the "Department") requires approval for dividends from insurance subsidiaries that exceed statutory guidelines. The maximum dividend that may be paid without prior approval of the Commissioner of Insurance is limited to the greater of 10% of statutory surplus at the end of the preceding calendar year or the statutory net income of the preceding calendar year. At December 31, 2015, unrestricted net assets available for dividends were $23.0 million.

The Company is required to comply with the NAIC's Risk-Based Capital ("RBC") requirements. Under the RBC standards, risks specific to the Company in such areas as asset risk, insurance risk, interest rate risk, and business risk are evaluated and compared to the Company's capital and surplus to determine solvency margins. In its calculation of risk-based capital for SNIC and NSIC, the Company has deducted amounts for which it holds collateral (either trust funds in the name of the Company or irrevocable letters of credit) for amounts recoverable from reinsurance companies. The Company believes this practice to be appropriate because the credit risk for the related reinsurance balances is virtually eliminated due to the protection provided by the collateral. This practice differs from NAIC annual statement

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instructions. There is no monetary effect on net income or statutory surplus from the use of this practice. If the Company had not used this practice, the RBC calculations would not have resulted in a regulatory event in 2015 or 2014.

At periodic intervals, the Department routinely examines the insurance subsidiaries' statutory financial statements as part of its legally prescribed oversight of the insurance industry. Based on these examinations, regulators can direct that the statutory-basis financial statements be adjusted in accordance with their findings. The Texas Department of Insurance completed its examination of the December 31, 2006 through December 31, 2010, statutory-basis financial statements of NSIC and SNIC in 2012, with no significant findings reported. The Delaware Insurance Department also completed its examination of the December 31, 2006 through December 31, 2010, statutory-basis financial statements of USIC in 2012, with no significant findings reported. These insurance departments have notified the Company of their intent to examine the insurance subsidiaries' statutory-basis financial statements as of December 31, 2015.

13. Related-Party Transactions

The accompanying consolidated financial statements include transactions with a former affiliate, Trace Air, Inc. The Company was party to an aircraft lease with a term expiring in 2020. Pursuant to the lease agreement, the Company leased the aircraft at a rate of $1,800 per hour of use, subject to a minimum monthly lease rate of $36 thousand. In addition, the Company was responsible for operating and maintenance costs associated with the aircraft. Under this agreement, we made aggregate payments to Trace Air, Inc. of zero, $359 thousand, and $692 thousand in 2015, 2014, and 2013, respectively. This lease agreement was terminated following the completion of the private placement of company stock (See Note 20 — "Common Stock").

Prior to the private placement in 2014, we entered into a one-year consulting agreement with Lonnie Ledbetter that became effective upon his resignation as a director, officer and employee of the Company. This agreement became effective upon completion of the private placement, pursuant to which we paid Lonnie Ledbetter a total of $500 thousand ($250 thousand in 2015 and 2014, respectively) in exchange for him providing certain consulting services to us during the term of the agreement. Lonnie Ledbetter completed his one-year consultancy with the Company on June 25, 2015.

In 2014, prior to the completion of the private placement, the Company transferred real estate and certain vehicles valued at $513 thousand, equally to Trace Ledbetter and Luke Ledbetter, which amounts were included in founder special compensation in the 2014 consolidated statement of income.

14. 401(k) Profit-Sharing Plan and Trust

The Company has a 401(k) profit-sharing plan for employees that covers all officers and employees who are at least 18 years of age. Effective January 1, 2015, the Company is required to make a matching contribution of 100% of the first 1% and 50% of the next 5% of employees' contributions. For employee contributions made prior to January 1, 2015, the Company was required to make matching contributions of 50% of employees' contributions, limited to 6% of eligible employees' compensation. Also, the Company may make additional matching and profit-sharing contributions that are discretionary and are determined at the end of each plan year. The employer contribution expense included in general and administrative expenses is $1.2 million, $1.1 million and $1.0 million of December 31, 2015, 2014, and 2013, respectively.

15. Stock-based Payments

On May 29, 2014, the Company's shareholders approved the 2014 Long-Term Incentive Plan ("2014 Plan"), which provides for an aggregate of 4.4 million shares of our common stock that may be issued to employees and non-employee directors. Awards under the 2014 Plan may be in the form of stock options (including incentive stock options that meet the requirements of Section 422 of the Internal Revenue Code and non-statutory stock options), restricted stock, restricted stock units, stock appreciation rights and performance units.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Upon completion of the private placement in 2014, the Company made grants of non-qualified stock options to our executive officers and certain employees to purchase an aggregate of 2,783,873 shares of our common stock. In addition to the grants of non-qualified stock options, the Company made grants of 12,000 shares of restricted stock to our non-employee directors. These non-qualified stock options and restricted stock grants are classified as equity based awards and will be recognized on a straight-line basis over the vesting period of 3 years and 1 year, respectively. The fair value of each stock option grant was established on the grant date using the Black-Scholes option pricing model with the following weighted-average assumptions. The expected volatility is 32.96%, based on historical volatility of similar entities that are publicly traded for a period equal to the expected term. The estimated term of the options, all of which expire ten years after the grant date, is 5.5 years based on expected behavior of the group of option holders. The assumed risk-free interest rate is 1.85%, based on rates for U.S. Treasury Notes with maturity dates corresponding to the estimated term of the options on the date of grant. The assumed dividend yield was 0.40% and no forfeitures are expected.

On July 9, 2014 the Company granted 38,500 shares of common stock to employees under the 2014 Plan. The fair value of the shares was determined based on the trading price of the stock as of the grant date.

On March 30, 2015, the Company awarded 230,060 shares of performance-based restricted stock to certain officers under the 2014 Plan. The fair value of the shares was determined based on the trading price of the stock as of the grant date. These restricted stock grants are classified as equity based awards and will vest based on achievement of performance objectives over one, two and three year performance periods.

On June 25, 2015, the Company granted 11,028 shares of restricted stock to non-employee directors. These restricted stock grants are classified as equity awards and will be recognized on a straight line basis over a 1 year vesting period.

The Company measures compensation cost for stock awards at fair value and recognizes it over the service period for awards expected to vest. Total stock-based compensation expense related to stock options and stock grants for the year ended December 31, 2015 and 2014 was $4.1 million and $2.0 million, respectively. There was no stock-based compensation expense for the year ended December 31, 2013. Total recognized tax benefit related to the stock options and stock grants was $1.4 million and $688 thousand for the years ended December 31, 2015 and 2014, respectively. There was no recognized tax benefit related to stock options and stock grants for the year ended December 31, 2013.

As of December 31, 2015, there was $4.9 million of total unrecognized compensation cost related to non-vested share-based compensation grants. This unrecognized compensation is expected to be recognized over a weighted-average period of 1.5 years.

The total fair value of stock awards that vested during the year ended December 31, 2015 was $3.9 million. No awards vested during the years ended December 31, 2014 and 2013. A summary of nonvested stock activity, including stock options and restricted stock grants, for the year ended December 31, 2015 is as follows:

	Restricted Shares	Weighted-Average Grant Date Fair Value per Restricted Share	Stock Options	Weighted-Average Grant Date Fair Value per Stock Option
Nonvested at January 1, 2015	12,000	$ 10.00	2,783,873	$ 3.22
Granted	241,088	10.02	—	—
Forfeited	(17,152)	9.98	—	—
Vested	(91,574)	9.98	(927,955)	3.22
Nonvested at December 31, 2015	144,362	10.05	1,855,918	3.22

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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A summary of stock option activity for the year ended December 31, 2015 is as follows:

	Number of Awards	Weighted Average Exercise Price	Weighted Average Share Price on Date of Exercise	Weighted Average Fair Value	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding, beginning of period	2,783,873	$ 10.00	$ —	$ 3.22	9.5	$ 5,512,069
Granted	—	—	—	—	—	—
Exercised/Released	—	—	—	—	—	—
Outstanding, end of period	2,783,873	10.00	—	3.22	8.5	—
Vested and exercisable, end of the period	927,955	10.00	—	3.22	8.5	—
Vested and unvested exercisable, end of the period	927,955	10.00	—	3.22	8.5	—
Vested and expected to vest, end of the period	2,783,873	10.00	—	3.22	8.5	—

As of December 31, 2015, there were approximately 1.3 million shares of common stock available for future grants under the 2014 Plan.

16. Concentration of Risk

The Company maintains cash and cash equivalents in accounts with financial institutions in excess of the amount insured by the Federal Deposit Insurance Corporation. The Company monitors the financial stability of these institutions regularly, and Management does not believe there is significant credit risk associated with deposits in excess of federally insured amounts.

The Company's writings in California, Texas, New York and Florida comprised 57%, 53% and 52% of gross premiums written for the years ending December 31, 2015, 2014 and 2013, respectively. The five largest reinsurers with unsecured reinsurance recoverables, all of which are rated A- or higher by A.M. Best, accounted for approximately 14%, 14%, 8%, 8%, and 7% of the Company's unsecured reinsurance recoverables at December 31, 2015.

17. Leases

The Company previously leased a portion of its home office building to an unaffiliated third party under the terms of an operating lease. Rental income for the years ended December 31, 2014 and 2013 is $2.1 million and $1.4 million, respectively.

In November 2013, the Company received an early termination notice from the unaffiliated third party relating to the operating lease between the parties. The early termination notice was in compliance with the terms of the lease. The Company recognized $1.5 million in lease termination fees in 2014 due to the early termination of the lease. The lease was considered an operating lease through the early termination date of November 30, 2014.

18. Commitments and Contingencies

The Company is involved in various legal proceedings incidental to its normal business activities. Management of the Company does not anticipate that the outcome of such legal actions will have a material effect on the Company's consolidated financial position or results of operations.

SNIC, NSIC, and USIC are subject to assessments from various insurance regulatory agencies related to insurance company insolvencies. Management is not aware of any material assessments for which notice has not yet been received.

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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However, to the extent that such assessments are made, the Company has the contractual right to recover these amounts from the underlying reinsurers.

In July 2009, the Company formed a Collateral Protection Alliance (the "Alliance") with CUMIS Insurance Society, Inc., a subsidiary of CUNA Mutual, to administer and write CPI business for CUNA Mutual's customers. The Alliance includes an agency agreement and a reinsurance agreement whereby the Company cedes a portion of the business back to CUNA Mutual. In connection with the Alliance, the Company has a purchase option and CUNA Mutual has a put option, whereby the Company is obligated to purchase CUNA Mutual's right to participate in future Program Services business at a specified price in the event of termination of the Alliance. The terms of the Alliance with CUNA Mutual were modified on May 19, 2014, whereby CUNA Mutual's quota share percentage under the reinsurance agreement was reduced; the Alliance was extended through July 31, 2018 with an automatic three-year renewal (subject to the right of either party to give notice of nonrenewal); the termination rights for each party were modified, and the purchase price calculation was modified. In consideration of these changes, State National paid contract modification expense of $17.8 million.

19. Earnings Per Share

We have adopted the provisions of ASC 260, "Earnings Per Share," requiring presentation of both basic and diluted earnings per share. Earnings per share have been adjusted to reflect a 736 for one stock split in the form of a stock dividend on June 23, 2014. A reconciliation of the numerators and denominators of the basic and diluted per share calculations is presented below:

	Year Ended		
($ in thousands, except for per share amounts)	December 31, 2015	December 31, 2014	December 31, 2013
Numerator for both basic and diluted earnings per share:			
Net income (loss)	$ 44,666	$ 11,013	$ 22,711
Denominator for both basic and diluted earnings per share:			
Weighted-average common shares outstanding	44,165,458	39,383,641	34,176,896
Dilutive effect of outstanding securities (determined using the treasury stock method)	23,135	6,214	—
Weighted-average common shares outstanding and potential common shares outstanding	44,188,593	39,389,855	34,176,896

20. Common Stock

On June 25, 2014, the Company completed the sale of an aggregate of 31,050,000 shares of our common stock in a private placement exempt from registration under the Securities Act and received net proceeds of approximately $280.6 million. Of the net proceeds from the private placement, the Company used approximately (i) $190.6 million to purchase 21,030,294 shares of common stock from certain of our shareholders pursuant to a stock redemption agreement entered into prior to the private placement, (ii) $17.8 million to make pre-tax payments to CUNA Mutual pursuant to a recent amendment of the alliance agreement (See Note 18 — "Commitments and Contingencies") and (iii) $50 million to contribute to the capital of our insurance subsidiaries.

On October 12, 2015, the Company announced a share repurchase program authorizing the repurchase up to $50 million in shares of the Company's common stock through December 31, 2016. Repurchases are made in accordance with the guidelines specified under Rule 10b-18 and may be made under Rule 10b5-1, under the Securities Exchange Act of 1934. During the year ended December 31, 2015, the Company purchased 1,788,640 shares of its common stock at an

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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aggregate purchase price including commissions of $17.3 million (including $2.8 million that was settled on January 4, 2016). The excess cost of the repurchased shares over par value was charged to retained earnings.

A summary of common stock repurchases for the period January 1, 2016 through March 10, 2016 (subsequent to December 31, 2015) and for the year ended December 31, 2015 is as follows:

($ in thousands, except share and per share data)		January 1 - March 4, 2016		2015
Shares repurchased		173,521		1,788,640
Average price per share	$	9.31	$	9.62
Aggregate cost	$	1,615	$	17,203
Authorization remaining at end of period	$	31,182	$	32,797

21. Segment Information

The Company’s reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and business strategies. The Company operates through three business segments of which the two operating segments are Program Services and Lender Services. In the Program Services segment, the Company operates an issuing carrier (“fronting”) business that leverages our “A” (Excellent) A.M. Best rating, expansive licenses and reputation to provide insurance capacity access to U.S. property and casualty insurance markets. In the Lender Services segment, the Company specializes in providing collateral protection insurance, which insures automobiles held as collateral for loans made by financial institutions. The other segment is the Corporate segment. This segment consists of the investment portfolio, subordinated debentures, and includes rental income, investment income, interest expense, and corporate expenses.

The Company’s Corporate segment includes an asset for Property and equipment, net. The depreciation of this asset is allocated to all segments based on estimated usage. The depreciation allocated to the Lender Services segment was $1.4 million, $1.4 million and $1.3 million for the years ended December 31, 2015, 2014 and 2013, respectively. The depreciation allocated to the Program Services segment was $343 thousand, $397 thousand and $286 thousand for the years ended December 31, 2015, 2014 and 2013, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The following is business segment information for the twelve months ended December 31, 2015, 2014 and 2013:

December 31, 2015 ($ in thousands)	**Program**	**Lender**	**Corporate**	**Total**
Revenues:				
Premiums earned	$ (1)	$ 118,069	$ —	$ 118,068
Commission income	—	1,465	—	1,465
Ceding fees	67,956	—	—	67,956
Net investment income	—	—	7,948	7,948
Realized net investment gains	—	—	1,888	1,888
Other income	—	1,498	125	1,623
Total revenues	67,955	121,032	9,961	198,948
Expenses:				
Losses and loss adjustment expenses	1,987	53,766	—	55,753
Commissions	5	5,497	—	5,502
Taxes, licenses, and fees	14	3,116	—	3,130
General and administrative	12,446	39,837	10,695	62,978
Interest expense	—	—	2,031	2,031
Total expenses	14,452	102,216	12,726	129,394
Income (loss) before income taxes	53,503	18,816	(2,765)	69,554
Income tax expense	—	—	24,888	24,888
Net income (loss)	$ 53,503	$ 18,816	$ (27,653)	$ 44,666
Supplemental Information:				
Gross premiums written	$ 1,119,125	$ 145,962	$ —	$ 1,265,087
Net premiums written	$ (3)	$ 120,511	$ —	$ 120,508

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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December 31, 2014 ($ in thousands)	**Program**	**Lender**	**Corporate**	**Total**
Revenues:				
Premiums earned	$ (4)	$ 96,654	$ —	$ 96,650
Commission income	—	1,533	—	1,533
Ceding fees	45,732	—	—	45,732
Net investment income	—	—	4,841	4,841
Realized net investment gains	—	—	1,311	1,311
Other income	—	1,266	3,194	4,460
Total revenues	45,728	99,453	9,346	154,527
Expenses:				
Losses and loss adjustment expenses	217	40,604	—	40,821
Commissions	2	3,880	—	3,882
Taxes, licenses, and fees	8	2,824	—	2,832
General and administrative	10,855	38,995	9,041	58,891
Founder special compensation	—	—	17,914	17,914
Offering-related expenses	—	—	8,833	8,833
Contract modification expense	—	17,800	—	17,800
Interest expense	—	—	2,237	2,237
Total expenses	11,082	104,103	38,025	153,210
Income (loss) before income taxes	34,646	(4,650)	(28,679)	1,317
Income tax expense/(benefit)	—	—	(9,696)	(9,696)
Net income (loss)	$ 34,646	$ (4,650)	$ (18,983)	$ 11,013
Supplemental Information:				
Gross premiums written	$ 909,501	$ 124,624	$ —	$ 1,034,125
Net premiums written	$ (5)	$ 99,079	$ —	$ 99,074

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

December 31, 2013 ($ in thousands)	**Program**	**Lender**	**Corporate**	**Total**
Revenues:				
Premiums earned	$ (501)	$ 84,879	$ —	$ 84,378
Commission income	—	2,031	—	2,031
Ceding fees	32,898	—	—	32,898
Net investment income	—	—	4,901	4,901
Realized net investment gains	—	—	1,764	1,764
Other income	3	1,101	1,427	2,531
Total revenues	32,400	88,011	8,092	128,503
Expenses:				
Losses and loss adjustment expenses	465	31,625	—	32,090
Commissions	389	1,989	—	2,378
Taxes, licenses, and fees	10	2,584	—	2,594
General and administrative	11,010	36,020	6,388	53,418
Founder special compensation	—	—	10,202	10,202
Interest expense	—	—	2,323	2,323
Total expenses	11,874	72,218	18,913	103,005
Income (loss) before income taxes	20,526	15,793	(10,821)	25,498
Income tax expense/(benefit)	—	—	2,787	2,787
Net income (loss)	$ 20,526	$ 15,793	$(13,608)	$ 22,711
Supplemental Information:				
Gross premiums written	$691,067	$118,898	$ —	$809,965
Net premiums written	$ (1,018)	$ 87,791	$ —	$ 86,773

The following tables summarize the financial position of the Company's segments as of December 31, 2015 and 2014.

December 31, 2015 ($ in thousands)	**Program**	**Lender**	**Corporate**	**Total**
Assets:				
Accounts receivable from agents, net	$ 23,869	$ 44	$ —	$ 23,913
Reinsurance recoverable on paid losses	92	1,095	—	1,187
Reinsurance recoverables	1,904,605	7,055	—	1,911,660
Deferred income taxes, net	—	—	26,208	26,208
Goodwill and intangible assets, net	2,115	3,843	—	5,958
Other assets	4,423	4,557	410,412	419,392
Total assets	$1,935,104	$ 16,594	$436,620	$2,388,318
Liabilities:				
Unpaid losses and loss adjustment expenses	$1,354,211	$ 10,563	$ —	$1,364,774
Unearned premiums	554,425	31,023	—	585,448
Allowance for policy cancellations	—	59,610	—	59,610
Deferred ceding fees	29,119	—	—	29,119
Other liabilities	21,088	6,176	58,646	85,910
Total liabilities	$1,958,843	$107,372	$ 58,646	$2,124,861

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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December 31, 2014

($ in thousands)	Program	Lender	Corporate	Total
Assets:				
Accounts receivable from agents, net	$ 18,349	$ 179	$ —	$ 18,528
Reinsurance recoverable on paid losses	57	1,143	—	1,200
Reinsurance recoverables	1,650,205	6,329	—	1,656,534
Deferred income taxes, net	—	—	23,864	23,864
Goodwill and intangible assets, net	2,115	4,568	—	6,683
Other assets	7,245	4,051	373,659	384,955
Total assets	$1,677,971	$16,270	$397,523	$2,091,764
Liabilities:				
Unpaid losses and loss adjustment expenses	$1,201,279	$ 8,626	$ —	$1,209,905
Unearned premiums	451,993	28,131	—	480,124
Allowance for policy cancellations	—	55,500	—	55,500
Deferred ceding fees	23,612	—	—	23,612
Other liabilities	19,990	6,603	55,158	81,751
Total liabilities	$1,696,874	$98,860	$ 55,158	$1,850,892

22. Condensed Quarterly Financial Data - Unaudited

The following tables summarize our quarterly financial data:

	2015 Quarters Ended			
($ in thousands)	Mar 31	Jun 30	Sep 30	Dec 31
Total revenues	$ 46,129	$ 46,368	$ 51,151	$ 55,300
Total expenses	32,384	31,028	31,856	34,126
Income (loss) before income taxes	13,745	15,340	19,295	21,174
Income tax expense (benefit)	5,071	5,658	6,899	7,260
Net income (loss)	8,674	9,682	12,396	13,914
Basic earnings per share	$ 0.20	$ 0.22	$ 0.28	$ 0.32
Diluted earnings per share	0.20	0.22	0.28	0.32

	2014 Quarters Ended			
($ in thousands)	Mar 31	Jun 30	Sep 30	Dec 31
Total revenues	$ 35,527	$ 35,403	$ 40,571	$ 43,026
Total expenses	37,791	54,481	29,221	31,717
Income (loss) before income taxes	(2,264)	(19,078)	11,350	11,309
Income tax expense (benefit)	1,136	(19,685)	4,391	4,462
Net income (loss)	(3,400)	607	6,959	6,847
Basic earnings per share	$ (0.10)	$ 0.02	$ 0.16	$ 0.15
Diluted earnings per share	(0.10)	0.02	0.16	0.15

The Company earns minimum ceding fees on certain programs based on estimates of annual premiums to be written for those programs that are subject to minimum premium levels and related ceding fees. The company re-estimated its 2015 annual projection for such programs during the second, third and fourth quarters of 2015, which resulted in $1.3 million,

STATE NATIONAL COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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$1.9 million and $1.0 million of additional minimum ceding fees earned for the quarters ending June 30, 2015, September 30, 2015 and December 31, 2015, respectively.

For the year ended December 31, 2014, the Company's non-recurring, unusual or infrequently occurring items recognized in total expenses included offering related expenses in connection with the private placement of its stock, founder special compensation expenses and contract modification expense related to the amendment to the Company's alliance agreement with CUNA Mutual. The effect of offering related expenses was $7.1 million, $1.1 million, and $603 thousand for the quarters ended June 30, 2014, September 30, 2014 and December 31, 2014, respectively. The effect of founder special compensation expenses was $11.2 million and $6.7 million for the quarters ended March 31, 2014 and June 30, 2014, respectively. The Company recognized contract modification expenses of $17.8 million for the quarter ended June 30, 2014.

For the year ended December 31, 2013, the Company's non-recurring, unusual or infrequently occurring items included in total expenses was founder special compensation expenses. The effect of these expenses was $10.0 million and $202 thousand for the quarters ended March 31, 2013 and June 30, 2013, respectively.

23. Subsequent Events

No items were identified in the period subsequent to the financial statement date that required adjustment or disclosure.

Annual Schedules

State National Companies, Inc.
Parent Company Only

Balance Sheets
($ in thousands, except for per share information)

	December 31	
	2015	2014
Assets		
Cash and cash equivalents	$ 982	$ 57
Investment in subsidiaries	262,892	241,167
Income taxes receivable	—	57
Deferred income taxes, net	1,968	552
Other assets	533	717
Total assets	$ 266,375	$ 242,550
Liabilities		
Income taxes payable	$ 11	$ —
Other liabilities	2,873	—
Other payables, affiliate	34	1,678
Total liabilities	2,918	1,678
Shareholders' equity		
Common stock, $.001 par value (150,000,000 shares authorized; 42,699,550 and 44,247,102 shares issued at December 31, 2015 and December 31, 2014, respectively)	43	44
Preferred stock, $.001 par value (10,000,000 shares authorized; no shares issued and outstanding at December 31, 2015 and December 31, 2014)	—	—
Additional paid-in capital	224,719	220,577
Retained earnings	37,322	16,108
Accumulated other comprehensive income	1,373	4,143
Total shareholders' equity	263,457	240,872
Total liabilities and shareholders' equity	$ 266,375	$ 242,550

State National Companies, Inc.
Parent Company Only
Statements of Income
($ in thousands)

	Year Ended December 31,		
	2015	2014	2013
Revenues:			
Equity in earnings of subsidiaries	$ 48,896	$ 13,019	$ 22,711
Total revenues	48,896	13,019	22,711
Expenses:			
General and administrative	6,503	3,086	—
Total expenses	6,503	3,086	—
Income before income taxes	42,393	9,933	22,711
Income taxes:			
Current	(858)	(528)	—
Deferred	(1,415)	(552)	—
Net income	$ 44,666	$ 11,013	$ 22,711

State National Companies, Inc.
Parent Company Only

Statements of Cash Flows
($ in thousands)

	Year Ended December 31,		
	2015	2014	2013
Operating activities:			
Net income	$ 44,666	$ 11,013	$ 22,711
Adjustments to reconcile net income to net cash used in operating activities:			
Equity in earnings of subsidiaries	(48,896)	(13,019)	(22,711)
Deferred income taxes, net	(1,415)	(552)	—
Share-based compensation	4,142	2,012	—
Change in:			
Income taxes receivable	68	(57)	—
Other assets	184	(717)	—
Other payables, affiliate	2,216	(8,328)	—
Net cash used in operating activities	965	(9,648)	—
Investing activities:			
Capital contribution to subsidiary	—	(87,000)	—
Net cash used in investing activities	—	(87,000)	—
Financing activities:			
Distributions received	3,500	16,239	15,295
Dividends paid	(3,540)	(16,683)	(15,295)
Proceeds from issuances of common stock	—	289,322	—
Costs directly attributable to issuance of common stock	—	(1,578)	—
Redemption of existing common stock	—	(190,595)	—
Net cash provided by financing activities	(40)	96,705	—
Net change in cash and cash equivalents	925	57	—
Cash and cash equivalents at beginning of year	57	—	—
Cash and cash equivalents at end of year	$ 982	$ 57	$ —

State National Companies, Inc.

Supplementary Insurance Information

December 31, 2015 ($ in thousands)	DAC	Loss and LAE Reserves	UPR	Earned Premium	Net Investment Income	Loss and LAE Incurred	DAC Amortization	General and Administrative Expenses	Net Written Premium
Program	$ —	$1,354,211	$554,425	$ (1)	$ —	$ 1,987	$ —	$ 12,446	$ (3)
Lender	1,075	10,563	31,023	118,069	—	53,766	5,320	39,837	120,511
Corporate	—	—	—	—	7,948	—	—	10,695	—
Total	$1,075	$1,364,774	$585,448	$118,068	$ 7,948	$ 55,753	$ 5,320	$ 62,978	$120,508

December 31, 2014 ($ in thousands)	DAC	Loss and LAE Reserves	UPR	Earned Premium	Net Investment Income	Loss and LAE Incurred	DAC Amortization	General and Administrative Expenses	Net Written Premium
Program	$ —	$1,201,279	$451,993	$ (4)	$ —	$ 217	$ —	$ 10,855	$ (5)
Lender	1,036	8,626	28,131	96,654	—	40,604	4,966	38,995	99,079
Corporate	—	—	—	—	4,841	—	—	26,955	—
Total	$1,036	$1,209,905	$480,124	$96,650	$ 4,841	$ 40,821	$ 4,966	$ 76,805	$ 99,074

December 31, 2013 ($ in thousands)	DAC	Loss and LAE Reserves	UPR	Earned Premium	Net Investment Income	Loss and LAE Incurred	DAC Amortization	General and Administrative Expenses	Net Written Premium
Program	$ 1	$1,009,068	$357,681	$ (501)	$ —	$ 465	$ 163	$ 11,010	$ (1,018)
Lender	1,094	7,573	28,598	84,879	—	31,625	4,736	36,020	87,791
Corporate	—	—	—	—	4,901	—	—	16,590	—
Total	$1,095	$1,016,641	$386,279	$84,378	$ 4,901	$ 32,090	$ 4,899	$ 63,620	$ 86,773

State National Companies, Inc.

Supplementary Schedule of Allowance for Policy Cancellations

($ in thousands)	Year Ended December 31, 2015	2014	2013
Beginning balance	$ 55,500	$ 39,623	$ 32,775
Additions	253,879	209,335	165,030
Deductions	(250,412)	(197,678)	(160,940)
Prior year development	643	4,220	2,758
Ending balance	$ 59,610	$ 55,500	$ 39,623

Allowance for policy cancellations is established based on estimates of expected future policy cancellations associated with new business written. Deductions are made as policy cancellations occur and return premiums are paid in subsequent months. The allowance for policy cancellations in 2015, 2014, and 2013 included upward revisions to prior year estimates of $0.6 million, $4.2 million and $2.8 million, respectively. Because of the interplay between the allowance for policy cancellations and the related unearned premium reserve, changes in the allowance for policy cancellations are partially offset by related changes in the unearned premium reserve and amounts ceded to reinsurers. After taking into account the associated changes in unearned premium and amounts ceded to reinsurers, the net negative impact to the balance sheet and the corresponding reduction in net income from the revised estimates in each of the years ending December 31, 2015, 2014, and 2013 was approximately $0.2 million, $2.2 million and $1.6 million, respectively.

Cash Performance Bonus Opportunity Agreement

This Cash Performance Bonus Opportunity Agreement (this "***Agreement***") is made as of June 1, 2013, by and between T.B.A. Insurance Group, Ltd., a Texas limited partnership (the "***Employer***"), and you, the undersigned executive employee of the Employer (the "***Employee***" or "***you***").

Agreement

This Agreement and the Notice of Award of Cash Performance Bonus Opportunity (the "***Notice***") that was provided to you by the Employer along with this Agreement govern the award of the contingent cash bonus opportunity specified in the Notice, which contingent cash bonus opportunity, as so specified, shall hereinafter be referred to as the "***Award***." The Notice is hereby incorporated into and made a part of this Agreement. Capitalized terms not defined in this Agreement are defined in the Notice. In the event of a conflict between the terms of this Agreement and the Notice, the terms of this Agreement shall prevail.

Vesting; Amount of Bonus

No part of the cash bonus specified in the Award will be paid to you unless and until you satisfy the vesting conditions set forth in the Notice. If you satisfy the conditions specified in the Notice, the amount of the bonus is determined from the table in Exhibit A to this Agreement.

If you die or you terminate your employment with the Employer on account of Disability before June 1, 2016, but on or after December 31, 2015, then, even though your employment will have terminated before June 1, 2016, you or your estate will nevertheless be entitled to the same bonus you would have become entitled to if you had remained employed by the Employer until June 1, 2016.

If you die or you terminate employment on account of Disability before December 31, 2015, then, if the Performance Goal is attained, you or your estate will be entitled to a reduced bonus equal to (a) the bonus you would have been entitled to if you had not ceased to be employed by the Employer before June 1, 2016, multiplied by (b) a fraction, the numerator of which is the number of consecutive days commencing with January 1, 2013 and ending with the date on which you died or terminated employment on account of Disability, and the denominator of which is 1,096.

Forfeiture

Generally and except as otherwise expressly provided in this Agreement, if either (a) 2013-15 CCUM is not at least $80 million, or (b) your employment terminates for any reason other than death or Disability before June 1, 2016, then you will not receive any portion of the cash bonus that is the subject of the Award, and you will receive no payment or other benefit to compensate you for your failure to receive any portion of the cash bonus. The Employer will determine when your employment has terminated and whether your termination of employment was on account of death or Disability.

Definition of Disability

For the purposes of this Agreement, "***Disability***" means a condition in which you are unable, by reason of a medically determinable physical or mental impairment, to discharge substantially all of the duties of your position with the Employer, which condition, in the opinion of a physician selected by the Employer, is expected to have a duration of 180 days or more.

Leaves of Absence and Part-Time Work

For the purposes of the Award, your employment will not terminate when you go on military leave, sick leave, or any other *bona fide* leave of absence, but only if and to the extent that continued crediting of service for purposes of the Award is required by applicable law, or the leave is approved by the Employer and continued crediting of service for purposes of the Award is specified in a written agreement between you and the Employer governing or supplementing the written terms of the leave. However, your employment will be treated as being terminated when the leave ends, unless you immediately return to active work for the Employer.

If you go on a leave of absence or begin working on a part-time basis, then except as required by law, the Employer may in its discretion reduce the amount of your bonus (including to $0), except to the extent it is prohibited from doing so by law or by the terms of a written agreement between you and the Employer governing or supplementing the written terms of your leave or part-time schedule.

Confidentiality and Ownership of Information; Pre- and Post-Employment Restrictive Covenants

During the course of your employment, you will have access to and become familiar with various confidential information, including the Employer's and/or its affiliates' proprietary information, technical data, trade secrets, confidential knowledge, know-how or any other confidential technical or business information ("***Confidential Information***"). By way of example, the term "***Confidential Information***" may include: formulas, patterns, devices, secret inventions, processes, computer programs, compilations of information, records, specifications, sales procedures, customer requirements, pricing techniques, customer (and prospective customer) and supplier lists, methods of doing business, research, designs, data, charts, budgets, distributor names, pricing and cost information, development information, production and manufacturing information, sales and marketing information and other confidential information. You acknowledge that such Confidential Information is owned and shall continue to be owned solely by the Employer and/or its respective affiliate, and you agree that you do not have any ownership or other rights in or to the Confidential Information.

During your employment with the Employer, you shall not, without the prior written consent of the Employer, either directly or indirectly: (a) disclose or divulge to any person, firm, corporation or other entity any of the Confidential Information of the Employer and/ or its affiliates or use such information for any purpose whatsoever except as required in the course and scope of your employment under this Agreement; (b) make known to any person, firm, corporation or other entity the names and/or addresses of any of the customers or prospective customers of the Employer or any of its affiliates or any other confidential or business information pertaining to said customers or prospective customers; (c) invest, participate, or engage in any business that is competitive with that of the Employer or any of its affiliates or otherwise accept employment with or render services to a competitor of the Employer or any of its affiliates as a director, manager, officer, agent, employee, consultant, or otherwise; (d) solicit or attempt to solicit or accept business that is competitive with the business being conducted by the Employer or any of its affiliates from any of the customers or prospective customers of the Employer or its affiliates; or (e) engage in other activity or conduct which creates a conflict of interest between you and the business interests of the Employer and/or its affiliates.

All files, records, documents, drawings, specifications, information, data and similar items relating to the business of the Employer and/or its affiliates, whether prepared by you or otherwise coming into your possession, shall remain the exclusive property of the Employer and/or such applicable affiliate. Under no circumstances shall you remove from the premises of the Employer or any of its affiliates any of the Employer's or the respective affiliate's books, records, documents or customer (or prospective customer) lists without the prior written permission of the Employer, nor shall you make any copies of such books, records, documents or customer (or prospective customer) lists for use outside of the Employer's office, except as specifically authorized in writing by Employer. Any such books, records, documents or other materials or copies thereof in your possession or under your control shall be immediately returned to the Employer upon termination or cessation of your employment.

In consideration of the mutual promises herein, including the Employer's promise to provide you with Confidential Information, upon termination or cessation of employment with the Employer for any reason and for a period of two (2) years immediately thereafter (except with respect to sub-section (a) of this section, which covenant period shall be perpetual), you shall not, without the prior written consent of the Employer, directly or indirectly:

(a) disclose or divulge to any person, firm, company, corporation or other entity any of the Confidential Information of the Employer unless compelled to disclose such information by law, or otherwise use such information for any purpose whatsoever;

(b) within the states the Employer and/or any of its affiliates now or hereafter conducts business or actively prospects for business (the "***Territory***"), invest or engage in, start, conduct, operate, manage, or control any business that is competitive with the Employer or any of its affiliates, including any business that markets products and/or performs services in competition with those marketed and/or performed by Employer and/or its affiliates within the Territory;

(c) within the Territory, accept employment with or render services to a competitor of the Employer or any of its affiliates as a director, manager, officer, agent, employee, consultant or otherwise, including accepting employment with or rendering services to a person, firm, company, corporation or other entity that markets products and/or performs services in competition with those marketed and/or performed by the Employer and/or its affiliates within the Territory;

(d) disclose to any person, firm, company, corporation or other entity the names and/or addresses of any of the customers or prospective customers of the Employer or any of its affiliates or any other Confidential Information or business information acquired by you during the course of your employment with the Employer pertaining to said customers or prospective customers;

(e) on your own behalf or on the behalf of any person, firm, company, corporation or other entity, contact, call on, solicit or take away or attempt to contact, call on, solicit or take away, or accept business from, any of the customers or prospective customers of the Employer or any of its affiliates or any other person, firm, company, corporation or other entity whose business the Employer or any of its affiliates was soliciting; or

(f) on your own behalf or on the behalf of any other person, firm, company, corporation or other entity, hire or solicit or in any manner whatsoever attempt to influence or induce any current employee of the Employer or its affiliates, or any person who has been an employee of the Employer and/or one of its affiliates at any time during the twelve (12) months prior to your date of termination or cessation of employment, to leave the employment of the Employer or its affiliates.

The post-employment restrictive covenants contained in this Agreement are intended to limit your right to compete only to the extent necessary to protect the Employer's business and goodwill. The parties hereto agree that if any post-employment restrictive covenant set forth in this Agreement is found to be unreasonable as to scope, time period, territorial restraint or otherwise by a court of competent jurisdiction, then you and Employer agree and submit to the reduction thereof to such scope, time period, or territory as is deemed reasonable by such court.

You hereby acknowledge that your employment with the Employer is not for any definite period or successions of periods and that no representative of the Employer, other than the President or Chief Executive Officer of the Employer, has any authority to enter into any agreement for employment for any specified period of time or to make an agreement contrary to the terms and provisions of this Agreement. You further acknowledge: (a) that in the event your employment with Employer terminates for any reason, you will be able to earn a livelihood without violating the post-employment restrictive covenants contained in this Agreement; (b) that you are capable of pursuing a career and earning a livelihood in other businesses or industries within the Territory which are not competitive with the business of the Employer or its affiliates; and (c) that your ability to earn a livelihood without violating such restrictive covenants is a material condition to the Employer's extending this bonus opportunity to you.

The obligations contained in this Agreement regarding confidentiality, documents, and restrictive covenants shall survive cessation of employment and the termination of this Agreement. In addition, the termination of this Agreement shall not affect any of the rights or obligations of either party arising prior to or at the time of the termination of this Agreement. The existence of any claim or cause of action that you may have against the Employer, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Employer of the restrictive covenants contained in this Agreement.

You and Employer agree that the services to be rendered by you on behalf of Employer are strictly personal and that you have special and peculiar fitness and experience therefor, and as a result of a breach of any of the restrictive covenants set forth in this Agreement, the

Employer will suffer irreparable harm which cannot be adequately or solely measured by rules of law. Therefore, you and the Employer agree that, in the event you shall breach or violate any of the restrictive covenants set forth in this Agreement, the Employer, in addition to all the remedies which may be available to it, and without waiver of any claim for money damages or the necessity of securing or posting a bond or any other security in connection with such remedy, may proceed against you by injunction or other appropriate remedy to prevent you from violating such provisions.

Nontransferability This Award represents your personal contingent right to receive a cash payment in the future from the Employer, if certain conditions are satisfied. This Award is not transferable by you except to your estate following your death, and as otherwise required by law.

Change of Control Reference is hereby made to that certain agreement, dated June 1, 2013 by and between Employee and Employer (the "***Severance Agreement***"), which, among other things, provides for certain payments in connection with a Change of Control (as defined in the Severance Agreement). Notwithstanding anything to the contrary herein, if Employee has not received a payment pursuant to this Agreement and the Award, and this Agreement is in effect, and Employee is entitled to receive a Severance Payment (as defined in the Severance Agreement) pursuant to the terms and upon the events specified in the Severance Agreement, Employee shall be entitled to receive $300,000 in lieu, substitution and replacement of any other amounts or payments pursuant to this Agreement and the Notice (the "***Change of Control Payment***"). The Change of Control Payment shall be due and payable in a single, lump sum cash payment to Employee at the same time the Severance Payment is due and payable under Section 9(d) of the Severance Agreement. In addition, if, in connection with a Change of Control, this Agreement is terminated (in accordance with Treasury Regulation Section 1.409A-3(j)(4)(ix)(B)) and not replaced by a plan, agreement or arrangement that offers substantially similar compensation or payments to Employee under terms similar to the terms of this Agreement, Employee shall be entitled to receive $300,000 in lieu, substitution and replacement of any other amounts or payments pursuant to this Agreement and the Notice (the "***Change of Control Termination Payment***"). The Change of Control Termination Payment shall be due and payable in a single, lump sum cash payment to Employee within thirty (30) days of the effective date of (i) the Change of Control, if this Agreement is terminated on or within thirty (30) days before the Change of Control, or (ii) the termination of this Agreement following the Change of Control. Notwithstanding any provision herein to the contrary, in the case of a Change of Control Payment, on the one hand, or a Change of Control Termination Payment, on the other hand, the exact date of payment shall be determined by the Company in its sole discretion and the Change of Control must be considered a change of control under Treasury Regulation Section 1.409A-3(a)(5). Notwithstanding any provision herein to the contrary, Employee may, in accordance with the foregoing, be entitled to a Change of Control Payment or a Change of Control Termination Payment, but not both such payments.

Effect of Employer's Change of Control, or Dissolution; Ability of Employer to Terminate Award Prematurely for Any Reason

If the Employer is a party to a Change of Control, then the Award will be subject to Change of Control, but generally must either (a) remain an obligation of the Employer or (b) become an obligation of any successor to, or assignee of, the Employer, either by express written contract or by operation of law.

If the Employer is dissolved or liquidated (in accordance with Treasury Regulation Section 1.409A-3(j)(4)(ix)(A)) before June 1, 2016, and you are still employed by the Employer on the date of such dissolution or liquidation, or you terminated employment with the Employer before the date of such dissolution or liquidation on account of death or Disability, then you will vest in the Award on the date of such dissolution or liquidation, but (a) the definition of 2013-15 CCUM shall be changed so that it means the Employer's cumulative corporate underwriting margin for each year or fraction of a year in the period beginning with January 1, 2013 and ending with the date of dissolution or liquidation, (b) all of the amounts in each of the three columns in Exhibit A shall be adjusted by multiplying each such amount by a fraction the numerator of which is the number of days in the period beginning January 1, 2013 and ending with the date of dissolution or liquidation and the denominator of which is 1,096, and (c) the resulting bonus amount will be paid in a single payment as soon as administratively feasible following the Employer's dissolution or liquidation.

Additionally, the Employer is free to terminate this Award (in accordance with Treasury Regulation Section 1.409A-3(j)(4)(ix)(C)) at any time before June 1, 2016, without your consent, but in such a case, unless you have previously terminated employment other than on account of death or Disability, you will vest in the same adjusted bonus amount that you would have if the Employer had dissolved or liquidated on the date on which the Employer provides you with a written notice of such termination of the Award, and the entire resulting bonus will be paid in a single payment as soon as administratively feasible following the Employer's written notice to you of the termination of the Award.

Federal Income Tax Treatment

No portion of the bonus that is the subject of the Award is includable in your or, if paid after your death, your beneficiary's gross income for Federal income tax purposes until such portion is paid to you or your estate in cash. However, when the bonus is paid to you in cash, it will be ordinary income to you and will be included in an IRS Form W-2, Wage and Tax Statement, issued to you by the Employer for the calendar year in which the payment occurs.

Because of Section 409A of the Internal Revenue Code of 1986, as amended, generally neither you nor the Employer may defer any portion of the bonus to a taxable year other than the taxable year in which it would otherwise be paid pursuant to the Notice and this Agreement.

You understand that you (and not the Employer) are responsible for your own Federal, state, local, or foreign tax liabilities and any other tax consequences that may arise as a result of the bonus that is the subject of this Agreement.

Withholding of Taxes

The Employer will withhold from the amount of any payment that otherwise would be paid to you on account of this Award the amount of your withholding tax liability (generally, Federal income tax and FICA tax withholding) and pay the withheld amount to the Internal Revenue Service on your behalf.

No Right to Continued Employment

Neither the Award nor this Agreement gives you any right to be retained by the Employer in any capacity until June 1, 2016 or any earlier or later date.

Applicable Law

This Agreement will be interpreted and enforced under the laws of the State of Texas, without regard to its choice of law provisions.

Notices from Employer

The Employer may deliver by email, personal delivery by hand of a paper copy, or first class mail, all electronic or paper documents relating to the Award, either at the Employer's premises (including your work email address) or at your home address (including a personal email address) as contained in the Employer's then current personnel records.

Entire Understanding; No Changes Unless Agreed To In Writing

This Agreement and the Notice constitute the entire understanding between you and the Employer regarding the Award. This Agreement may be amended only by another written agreement between the parties.

(Remainder of Page Intentionally Left Blank – Signature Page Follows)

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered as of the date first set forth above.

EMPLOYEE:

/s/ John Pearson
John Pearson

T.B.A. INSURANCE GROUP, LTD.

By: SNC Financial GP, LLC, its general partner

By: /s/ Terry Ledbetter

Name: Terry Ledbetter

Title: President

Exhibit A

If 2013-15 CCUM is equal to or greater than	But less than	The bonus amount will be
NA	$80 million	$0
$80 million	$81 million	$150,000
$81 million	$82 million	$165,000
$82 million	$83 million	$180,000
$83 million	$84 million	$195,000
$84 million	$85 million	$210,000
$85 million	$86 million	$225,000
$86 million	$87 million	$240,000
$87 million	$88 million	$255,000
$88 million	$89 million	$270,000
$89 million	$90 million	$285,000
$90 million	$91 million	$300,000
$91 million	$92 million	$322,500
$92 million	$93 million	$345,000
$93 million	$94 million	$367,500
$94 million	$95 million	$390,000
$95 million	$96 million	$412,500
$96 million	$97 million	$435,000
$97 million	$98 million	$457,500
$98 million	$99 million	$480,000
$99 million	$100 million	$502,500
$100 million	$101 million	$525,000
$101 million	$102 million	$547,500
$102 million	$103 million	$570,000
$103 million	$104 million	$592,500
$104 million	$105 million	$615,000
$105 million	$106 million	$637.500
$106 million	$107 million	$660,000
$107 million	$108 million	$682,500
$108 million	$109 million	$705,000
$109 million	$110 million	$727.500
$110 million	NA	$750,000

Amendment to

Cash Performance Bonus Opportunity Agreement

This Amendment (this "Amendment") is dated as of May __20, 2014, and confirms the discussions between John Pearson ("Employee") and T.B.A. Insurance Group, Ltd., a Texas limited partnership (the "Employer"), regarding, among other things, the possible bonus payable to Employee based on the Employer's cumulative corporate underwriting margin over the 2013-2015 period.

WHEREAS, Employer and Employee are parties to that certain Cash Performance Bonus Opportunity Agreement dated as of June 1, 2013 (the "Bonus Agreement");

WHEREAS, Employer and Employee now desire to amend the Bonus Agreement in certain respects; and

WHEREAS, the Bonus Agreement provides that it may be amended pursuant to a written agreement between Employee and the Employer:

NOW, THEREFORE, BE IT RESOLVED that for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties covenant and agree to amend the Bonus Agreement in the following respects:

1. The Section of the Bonus Agreement entitled "**Change of Control**" is deleted in its entirety.

2. The Section of the Bonus Agreement entitled "**Effect of Employer's Change of Control, or Dissolution; Ability of Employer to Terminate Award Prematurely for Any Reason**" is amended by adding at the end thereof the following new paragraph:

For purposes of this Agreement, the term "Change of Control" shall have the meaning set forth in the State National Companies, Inc. 2014 Long-Term Incentive Plan.

3. The Section of the Bonus Agreement entitled "**Federal Income Tax Treatment**" is amended by adding at the end thereof the following new paragraph:

   Notwithstanding anything herein to the contrary, if the Employer reasonably anticipates that if a distribution were made as scheduled under the Agreement it would result in a loss of the Employer's tax deduction due to the application of Section 162(m) of the Internal Revenue Code, such distribution may be delayed and paid during the Employer's first taxable year in which the Employer reasonably anticipates that the Employer's tax deduction will not be limited or eliminated by the application of Section 162(m) of the Internal Revenue Code. Notwithstanding the foregoing, no distribution under the Agreement may be deferred in accordance with this paragraph unless all scheduled distributions to the Employee and all similarly situated individuals that could be delayed in accordance with Treas. Reg. Section 1.409A-2(b)(7)(i) are also delayed.

RESOLVED FURTHER that the amendments to the Bonus Agreement set forth above shall be effective immediately upon the closing of the proposed private common stock offering (the "Private Offering") by the Company's ultimate parent entity, State National Companies, Inc., a Delaware corporation ("SNCI"), provided (1) that such closing occurs prior to July 30, 2014 and (2) the purchase price per share of common stock sold to investors in the Private Offering implies an enterprise value for SNCI immediately prior to such closing of at least $300 million. If the Private Offering is not completed upon these terms, this Amendment shall be void ab initio and of no further force or effect and the Bonus Agreement shall remain in effect unchanged.

(Remainder of Page Intentionally Left Blank – Signature Page Follows)

IN WITNESS WHEREOF, this Amendment has been duly executed and delivered as of the date first set forth above.

EMPLOYEE:

/s/ John M. Pearson
John Pearson

T.B.A. INSURANCE GROUP, LTD.

By: SNC Financial GP, LLC, its general partner

By: /s/ Terry L. Ledbetter

Name: Terry L. Ledbetter

Title: President

EXHIBIT 10.16

STATE NATIONAL COMPANIES, INC.
2014 Long-Term INCENTIVE PLAN

RESTRICTED STOCK AWARD AGREEMENT

Name of Recipient:	Trace Ledbetter
Total Restricted Stock Award:	Number of Shares equal to $150,000 divided by Fair Market Value of a Share on the Date of Grant
Vesting:	This Restricted Stock Award is subject to the time-based and performance-based conditions set forth in Exhibits A and B to this Award Agreement, which are incorporated herein by reference. No Shares subject to this Restricted Stock Award shall be vested until the Committee certifies that the performance-based conditions set forth in Exhibit B have been attained. The Committee cannot delegate this certification function.
Qualified Performance-Based Award:	X_____ Yes ______ No
Date of Grant:	March 30, 2015
Effect of Termination of Service because of:	
(a) Death or Disability:	50% of the unvested Shares subject to this Restricted Stock Award shall vest as of the date of Termination of Service, and the remainder of the unvested Shares shall be forfeited.
(b) Termination for Cause or Resignation without Good Reason:	All unvested Shares subject to this Restricted Stock Award shall be forfeited as of the date of Termination of Service and any rights the Recipient had to such Shares become null and void.
(c) Other Reasons:	All unvested Shares subject to this Restricted Stock Award shall be forfeited as of the date of Termination of Service and any rights the Recipient had to such Shares become null and void; provided, however, that no forfeiture shall occur with respect to Shares associated with a Performance Period if the Termination of Service occurs after the end of the Performance Period unless the Termination of Service is on account of termination by the Company for Cause or resignation by the Recipient without Good Reason.
Change of Control:	In the event of a Change of Control prior to the end of a Performance Period and the successor to the Company continues or assumes the Awards associated with that Performance Period, such Awards shall

continue in accordance with their terms. If the successor to the Company does not continue or assume the Awards associated with a Performance Period, then 50% of the Shares associated with that Performance Period shall vest as of the Change of Control, and the remainder of the unvested Shares shall be forfeited.

Voting:	The Recipient is entitled to direct the Trustee (as hereinafter defined) as to the voting of Shares subject to this Restricted Stock Award that have been granted, but have not yet vested.
Non-Transferability:	The Recipient shall not sell, transfer, assign, pledge or otherwise encumber Shares subject to this Restricted Stock Award until full vesting of such Shares has occurred. The period of time between the Date of Grant and the date Shares subject to this Award Agreement become vested is referred to herein as the “Restricted Period”. All certificates representing Shares subject to this Award Agreement shall have endorsed thereon the following legend: “The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) contained in the State National Companies, Inc. 2014 Long-Term Incentive Plan and an agreement entered into between the registered owner and State National Companies, Inc. A copy of such plan and agreement is on file at the principal office of State National Companies, Inc.” Unless determined otherwise by the Committee and except in the event of the Recipient’s death or pursuant to a qualified domestic relations order as defined by the Code, this Restricted Stock Award is not transferable and may be earned only in the Recipient’s lifetime. Upon the death of the Recipient, this Restricted Stock Award is transferable to the beneficiary or beneficiaries designated by the Recipient in writing (subject to such requirements as the Committee may specify in its discretion) to receive, in the event of death, any Award to which the Recipient would be entitled pursuant to the State National Companies, Inc. 2014 Long-Term Incentive Plan (the “Plan”) under this Restricted Stock Award Agreement. If no beneficiary is designated, this Restricted Stock Award shall transfer by will or the laws of descent and distribution. The terms of the Plan and this Restricted Stock Award Agreement shall be binding upon the beneficiaries, executors, administrators, heirs, successors and assigns of the Recipient.
Distribution:	The certificate or certificates evidencing Shares subject to this Restricted Stock Award shall be delivered to and deposited with a trustee or with the Secretary of the Company as escrow agent in this transaction (either referred to herein as the “Trustee”). Such certificates are to be held by the Trustee until termination of the

Restricted Period. Shares of Common Stock, plus any dividends on such Shares, will be distributed as soon as practicable upon termination of the Restricted Period. Notwithstanding the foregoing, if the Recipient makes an election under Section 83(b) of the Code to have the Shares subject to this Restricted Stock Award taxed as of the Date of Grant, dividends on such Shares will be paid to the Recipient when and as declared.

The Committee hereby grants to the individual named above (the "Recipient") a Restricted Stock Award for the number of Shares listed above, subject to the terms and conditions of the Plan and this Restricted Stock Award Agreement. In the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Restricted Stock Award Agreement, the terms and conditions of the Plan shall prevail.

Neither the Plan nor this Restricted Stock Award Agreement creates any right on the part of the Recipient to continue in the service of the Company or any Affiliates thereof.

The Company shall not be required to transfer on its books any Shares which have been sold or transferred in violation of any of the provisions set forth in this Restricted Stock Award Agreement. The parties agree to execute such further instruments and take such actions as may be reasonably necessary to carry out the intent of this Restricted Stock Award Agreement.

The Recipient agrees to make appropriate arrangements with the Company (or any parent or subsidiary of the Company employing or retaining the Recipient) for satisfaction of any Federal, state, local and foreign income and employment tax withholding requirements applicable to the Shares subject to this Award Agreement. The Recipient may request that any tax and other withholding requirements be satisfied by withholding or netting an appropriate number of Shares of Restricted Stock that would otherwise vest, but the Committee shall determine the extent to which such withholding or netting shall be permitted.

The Recipient represents that the Recipient has consulted with any tax consultants deemed advisable in connection with this Restricted Stock Award and that Recipient is not relying on the Company for any tax advice. If Recipient determines to make an election under Section 83(b) of the Code to be taxed on the Shares subject to this Restricted Stock Award on the Date of Grant, based upon the fair market value of such Shares on the Date of Grant, it is the Recipient's responsibility to (i) file such an appropriate election with the Internal Revenue Service within the 30-day period after the Date of Grant, (ii) deliver to the Company a signed copy of the 83(b) election, (iii) file an additional copy of such election form with the Recipient's federal income tax return for the calendar year in which the Date of Grant occurs, and (iv) pay applicable withholding taxes to the Company at the time that the 83(b) election is filed with the Internal Revenue Service.

The Recipient hereby acknowledges that all decisions, determinations and interpretations of the Board of Directors or the Committee in respect of the Plan and this Restricted Stock Award Agreement shall be final and conclusive.

The Plan is incorporated herein by reference. Unless otherwise defined herein, all capitalized terms herein shall have the same meaning as those contained in the Plan. The Plan and this

Restricted Stock Award Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Recipient with respect to the subject matter hereof, and may not be modified adversely to the Recipient's interest except by means of a writing signed by the Company and the Recipient. This Restricted Stock Award Agreement is governed by the internal substantive laws, but not the choice of law rules, of Delaware.

IN WITNESS WHEREOF, State National Companies, Inc. has caused this Restricted Stock Award Agreement to be executed, and said Recipient has hereunto set his hand, as of this 30th day of March 2015.

STATE NATIONAL COMPANIES, INC.

By: /s/ Terry Ledbetter
Terry Ledbetter
President and Chief Executive Officer

RECIPIENT

/s/ Trace Ledbetter
Trace Ledbetter

SEVERANCE AGREEMENT

This Agreement (this "***Agreement***") is dated as of _____________, and confirms the discussions between ___________ ("***Employee***") and T.B.A. Insurance Group, Ltd., a Texas limited partnership (the "***Company***" or the "***Employer***"), regarding, among other things, amounts payable upon the termination of Employee's employment with the Company.

WHEREAS, Employer and Employee are parties to that certain agreement dated June 1, 2013 (the "***Prior Agreement***"); and

WHEREAS, Employer and Employee now desire to amend and restate, and supersede, in its entirety the Prior Agreement, as of the Effective Time (as defined below).

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties covenant and agree to amend and restate the Prior Agreement to read as follows as of the Effective Time (as defined below):

1. **Effective Time.** This Agreement shall become effective (the "Effective Time") immediately upon the closing of the proposed private common stock offering (the "Private Offering") by the Company's ultimate parent entity, State National Companies, Inc., a Delaware corporation ("SNCI"), provided (1) that such closing occurs prior to July 30, 2014 and (2) the purchase price per share of common stock sold to investors in the Private Offering implies an enterprise value for SNCI immediately prior to such closing of at least $300 million. If the Private Offering is not completed upon these terms, this Agreement shall be void ab initio and of no further force or effect and the Prior Agreement shall remain in effect.

2. **Termination of Employment**.

(a) **General**. Subject to the terms hereof, if (i) the Company terminates Employee's employment for any reason other than for Cause (as hereinafter defined), death or "permanent physical disability" (as hereinafter defined) or (ii) Employee resigns for Good Reason (as hereinafter defined), Employee shall be entitled to severance pay equal to the Severance Benefit as defined in Section 3. The **Severance Benefit** shall be payable in a single lump sum on the 60th day following Employee's date of termination; provided, however, Employee has executed a release as described below in Section 25, and all applicable review and revocation periods have expired by that date. Subject to the terms hereof, including Section 10, if Employee terminates or resigns from employment for other than Good Reason, or is discharged for Cause, dies or terminates on account of a permanent physical disability, Employee shall be entitled only to the compensation earned by him as of the date of his termination and not to any portion of the Severance Benefit.

(b) **Definitions**. For purposes of this Agreement, the following definitions shall apply:

(i) the terms "***Cause***" and "***Change of Control***" shall have the meanings set forth in the State National Companies, Inc. 2014 Long-Term Incentive Plan;

(ii) Employee shall be deemed to have experienced a "***permanent physical disability***" when Employee is unable to perform substantially all of his duties as an employee of the Company for a continuous period of 180 days, by reason of physical or mental illness or accident, in the Company's reasonable discretion; and

(iii) Employee shall be deemed to have ***"Good Reason"*** upon the occurrence of any of the following events, except for the occurrence of such an event in connection with the termination or reassignment of Employee by the Company for Cause: (A) a material reduction by the Company of Employee's base salary; (B) a material reduction in Employee's authority, duties and responsibilities; and (C) the Company's requiring Employee to be based anywhere other than within 50 miles of Employee's office location as of the Effective Time except for requirements of reasonably required travel on the Company's business.

3. **Severance Benefit**. The Severance Benefit payable hereunder shall be one (1) times the Employee's base salary at the time of termination, except that the Severance Benefit shall be increased to two and one-half (2 ½) times the Employee's base salary if the termination occurs during the two-year period immediately following: (i) the Effective Time; or (ii) a Change of Control. In no event shall a Severance Benefit be paid if the Employee's termination occurs more than seven (7) years after the Effective Time or the termination is due to the Employee's death or permanent physical disability. For purposes of this Agreement, the term "***Change of Control***" shall have the meaning set forth in the State National Companies, Inc. 2014 Long-Term Incentive Plan.

4. **Company Rules**. At all times during the course and scope of his employment, Employee shall strictly adhere to and obey all of the Company's rules and regulations now in effect or subsequently promulgated by the Employer governing the conduct of Company employees.

5. **Discoveries**. Employee agrees that he will promptly and fully inform and disclose to the Employer all inventions, designs, improvements, ideas and discoveries that he now has or may hereafter acquire during his employment under this Agreement that pertain or relate to the business of Employer and/or its affiliates, or to any experimental work carried on by the Employer and/or its affiliates, whether conceived by Employee alone or with others and whether or not conceived during regular working hours. All such inventions, designs, improvements, ideas and discoveries shall be the exclusive property of the Employer. Employee hereby irrevocably assigns, conveys and otherwise transfers to the Employer, its respective successors, licensees and assigns, or its designee, all of Employee's right, title and interest worldwide in and to any and all inventions, designs, improvements, ideas and discoveries, whether or not patentable or registrable under copyright or similar laws, which Employee may solely or jointly conceive or develop or reduce to practice or cause to be conceived or developed or reduced to practice while Employee is employed by the Employer. In accordance with the foregoing assignment, the Employer shall hold all ownership to all rights, without limitation, in and to all of the inventions, designs, improvements, ideas and discoveries. Employee shall assist the Employer in obtaining patents, copyrights or other protective rights on all such inventions, designs, improvements, ideas and discoveries deemed necessary by the Employer, and shall execute all documents and do all things necessary to obtain letters patent, copyrights or other protective rights to vest the Employer with full exclusive title thereto, and to protect the same against infringement by others, all without further compensation or consideration.

6. **Confidential Information**. In consideration of the restrictive covenants contained herein, Employer promises to provide to Employee during the course of his employment various confidential information, including the Employer's and/or its affiliates' proprietary information, technical data, trade secrets, confidential knowledge, know-how or any other confidential technical or business information ("***Confidential Information***"). By way of example, the term "***Confidential Information***" may include: formulas, patterns, devices, secret inventions, processes, computer programs, compilations of information, records, specifications, sales procedures, customer requirements, pricing techniques, customer (and prospective customer) and supplier lists, methods of doing business, research, designs, data, charts, budgets, distributor names, pricing and cost information, development information, production and manufacturing information, sales and marketing information and other confidential information. Employee acknowledges that such Confidential Information is owned and shall continue to be owned solely by the Employer and/or its respective affiliate, and agrees that Employee does not have any ownership or other rights in or to the Confidential Information.

7. **Restrictive Covenants During Employment**. During his employment with the Company, Employee shall not, without the prior written consent of the Company, either directly or indirectly: (a) disclose or divulge to any person, firm, corporation or other entity any of the Confidential Information of the Employer and/ or its affiliates or use such information for any purpose whatsoever except as required in the course and scope of his employment under this Agreement; (b) make known to any person, firm, corporation or other entity the names and/or addresses of any of the customers or prospective customers of the Employer or any of its affiliates or any other confidential or business information pertaining to said customers or prospective customers; (c) invest, participate or engage in any business that is competitive with that of the Employer or any of its affiliates or otherwise accept employment with or render services to a competitor of the Employer or any of its affiliates as a director, manager, officer, agent, employee, consultant or otherwise; (d) solicit or attempt to solicit or accept business that is competitive with the business being conducted by the Employer or any of its affiliates from any of the customers or prospective customers of the Employer or its affiliates; or (e) engage in other activity or conduct which creates a conflict of interest between Employee and the business interests of the Employer and/or its affiliates.

8. **Documents**. All files, records, documents, drawings, specifications, information, data and similar items relating to the business of the Employer and/or its affiliates, whether prepared by Employee or otherwise coming into his possession, shall remain the exclusive property of the Employer and/or such applicable affiliate. Under no circumstances shall Employee remove from the premises of the Employer or any of its affiliates any of the Employer's or the respective affiliate's books, records, documents or customer (or prospective customer) lists without the prior written permission of the Employer, nor shall Employee make any copies of such books, records, documents or customer (or prospective customer) lists for use outside of Employer's office except as specifically authorized in writing by Employer. Any such books, records, documents or other materials or copies thereof in Employee's possession or under his control shall be immediately returned to the Employer upon termination or cessation of Employee's employment.

9. **Post-Employment Restrictive Covenants**. In consideration of the mutual promises herein, including the Company's promise to provide Employee with Confidential Information, upon termination or cessation of employment with the Company for any reason and

for a period of two (2) years immediately thereafter (except with respect to subsection (a) of this Section 9, which covenant period shall be perpetual), Employee shall not, without the prior written consent of the Employer, directly or indirectly:

(a) disclose or divulge to any person, firm, company, corporation or other entity any of the Confidential Information of the Employer unless compelled to disclose such information by law, or otherwise use such information for any purpose whatsoever;

(b) within the states the Company and/ or any of its affiliates now or hereafter conducts business or actively prospects for business (the "***Territory***"), invest or engage in, start, conduct, operate, manage or control any business that is competitive with the Employer or any of its affiliates, including any business that markets products and/or performs services in competition with those marketed and/or performed by Company and/or its affiliates within the Territory;

(c) within the Territory, accept employment with or render services to a competitor of the Employer or any of its affiliates as a director, manager, officer, agent, employee, consultant or otherwise, including accepting employment with or rendering services to a person, firm, company, corporation or other entity that markets products and/or performs services in competition with those marketed and/or performed by the Company and/or its affiliates within the Territory;

(d) disclose to any person, firm, company, corporation or other entity the names and/or addresses of any of the customers or prospective customers of the Employer or any of its affiliates or any other Confidential Information or business information acquired by Employee during the course of his employment with the Company pertaining to said customers or prospective customers;

(e) on his own behalf or on the behalf of any person, firm, company, corporation or other entity, contact, call on, solicit or take away or attempt to contact, call on, solicit or take away, or accept business from, any of the customers or prospective customers of the Employer or any of its affiliates or any other person, firm, company, corporation or other entity whose business the Employer or any of its affiliates was soliciting; or

(f) on his own behalf or on the behalf of any other person, firm, company, corporation or other entity, hire or solicit or in any manner whatsoever attempt to influence or induce any current employee of the Employer or its affiliates, or any person who has been an employee of the Employer and/or one of its affiliates at any time during the twelve (12) months prior to Employee's date of termination or cessation of employment, to leave the employment of the Employer or its affiliates.

10. **Modification of Restriction**. The post-employment restrictive covenants contained in Section 9 of this Agreement are intended to limit Employee's right to compete only to the extent necessary to protect the Employer's business and goodwill. The parties hereto agree that if any post-employment restrictive covenant set forth in Section 9 herein is found to be unreasonable as to scope, time period, territorial restraint or otherwise by a court of competent jurisdiction, then Employee and Employer agree and submit to the reduction thereof to such scope, time period or territory as is deemed reasonable by such court.

11. **Acknowledgments**. Employee hereby acknowledges that his employment under this Agreement is not for any definite period or successions of periods and that no representative of the Company, other than the President or Chief Executive Officer of the Company, has any authority to enter into any agreement for employment for any specified period of time or to make an agreement contrary to the terms and provisions of this Agreement. Employee further acknowledges: (a) that in the event his employment with Employer terminates for any reason, he will be able to earn a livelihood without violating the post-employment restrictive covenants contained in Section 9 of this Agreement; (b) that he is capable of pursuing a career and earning a livelihood in other businesses or industries within the Territory which are not competitive with the business of the Employer or its affiliates; and (c) that his ability to earn a livelihood without violating such restrictive covenants is a material condition to his employment with the Employer.

12. **Survival**. The obligations contained in Section 6, Section 9, Section 10, Section 11, this Section 12, Section 14, Section 19, Section 21, Section 24, Section 25, Section 26, Section 27, Section 28 and Section 29 hereof shall survive cessation of employment and the termination of this Agreement. In addition, the termination of this Agreement shall not affect any of the rights or obligations of either party arising prior to or at the time of the termination of this Agreement. The existence of any claim or cause of action of Employee against the Employer, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Employer of the restrictive covenants contained in this Agreement.

13. **Severability**. If any provision, section, paragraph or subparagraph of this Agreement is adjudged by any court of competent jurisdiction to be void, illegal or unenforceable, in whole or in part, this adjudication shall not affect the validity of the remainder of this Agreement, including any other provision, section, paragraph or subparagraph. Each provision, section, paragraph and subparagraph of this Agreement is separable from every other provision, section, paragraph and subparagraph, and constitutes a separate and distinct covenant.

14. **Injunctive Relief**. The Company and Employee agree that the services to be rendered by Employee on behalf of the Company under this Agreement are strictly personal and that this Agreement has been entered into because of the special and peculiar fitness and experience of Employee therefor, and as a result of a breach of any of the restrictive covenants set forth herein, the Company will suffer irreparable harm which cannot be adequately or solely measured by rules of law. Therefore, the Company and Employee agree that, in the event Employee shall breach or violate any of the restrictive covenants set forth herein, the Company, in addition to all the remedies which may be available to it, and without waiver of any claim for money damages or the necessity of securing or posting a bond or any other security in connection with such remedy, may proceed against Employee by injunction or other appropriate remedy to prevent Employee from violating such provisions.

15. **Waiver of Rights**. If in one or more instances either party fails to insist that the other party perform any of the terms of this Agreement, such failure shall not be construed as a waiver by such party of any past, present or future right granted under this Agreement, and the obligations of both parties shall continue in full force and effect.

16. **Applicability**. This Agreement shall be binding upon and shall inure to the benefit of the parties and their successors, permitted assigns, executors, administrators and personal representatives. This Agreement is personal in nature and neither of the parties hereto shall,

without the written consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided, however, that in the event of a merger, consolidation or transfer or sale of all or substantially all of the assets of the Company, this Agreement shall inure to the benefit of and be binding upon the successor to the Company's business and/or assets.

17. **Notices**. Any notice or communication required or permitted hereunder shall be given in writing and shall be (a) sent by first class registered or certified United States mail, postage prepaid, (b) sent by overnight or express mail or expedited delivery service, (c) delivered by hand or (d) transmitted by facsimile, addressed to the respective party at such party's address or facsimile number set forth on the signature page hereto, or to such other address or facsimile number as hereafter shall be designated in writing by the applicable party in accordance with this Section 17. Any such notice or communication shall be deemed to have been given as of the date of receipt by the addressee thereof or, if earlier, as of the date of first attempted delivery during normal business hours at the address and in the manner provided above.

18. **Entire Agreement**. Except solely with respect to the release agreement to be executed by Employee pursuant to Section 25 below, this Agreement constitutes the entire agreement between the parties hereto, including any and all agreements discussed and/or previously made with T.B.A. Insurance, Inc., or any other entity related in any way to T.B.A. Insurance, Inc., or State National Insurance Company, or to any of their subsidiaries, affiliates or related companies, relating to the subject matter hereof and supersedes all prior agreements and understandings (including the Prior Agreement), whether oral or written, with respect to the same.

19. **Governing Law**. This Agreement, and the rights and obligations of the parties hereto, shall be governed by and construed and enforced in accordance with the laws of the State of Texas, without regard to the conflict of laws rules of that state.

20. **Counterparts**. This Agreement may be executed in counterparts (including by facsimile or portable document format ("***PDF***")), each of which shall be deemed an original and both of which together shall constitute one and the same instrument. At the request of a party, the other party will confirm facsimile or PDF counterparts by signing a duplicate original document.

21. **Interpretation**. In this Agreement, (i) "***including***" does not denote or signify any limitation; (ii) "***Section***" is a reference to a Section in this Agreement, unless otherwise stated; (iii) "***herein***," "***hereunder***," "***hereof***" and similar terms are references to this Agreement as a whole, and not to any particular provision of this Agreement; (iv) "***affiliates***" shall include each party's, or the subject person's or entity's, respective successors, heirs, employees, agents, representatives, attorneys, officers, directors, partners, members, managers, related insurance and financial services entities and businesses, direct and indirect subsidiaries and parents, and assigns, as applicable; (v) "***prospective customer***" shall mean any person or entity that (a) holds a contract with the Company or any of its affiliates or had a written contract proposal made to it by the Company or any of its affiliates within the previous six (6) months; and (b) that Employee either had contact with or received confidential information about during the last six (6) months of Employee's employment; and (vi) "***Company***" includes any successors to or assigns of the Company. Whenever required by the context, pronouns and any variation thereof shall be deemed to refer to the masculine, feminine or neuter, and the singular shall include the plural, and vice versa. The titles of the Sections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

22. **Costs**. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to recover from the other party reasonable attorneys' fees and expenses in addition to any other relief to which he or it may be entitled.

23. **Modification**. No alteration or modification to any of the provisions of this Agreement shall be valid unless made in writing and signed by each party hereto.

24. **Confidentiality of this Agreement**. In consideration of the Severance Benefit described above, Employee agrees that the existence of, and terms of this Agreement, shall be and remain confidential, and shall not be disclosed by Employee to any person or entity other than Employee's spouse, attorney, accountant and/ or tax return preparer, if such persons have agreed to keep such information confidential, and except as may be required by law or judicial process.

25. **Release**. Notwithstanding any provision herein to the contrary, as a condition to receiving any Severance Benefit hereunder, Employee shall, and hereby agrees to, execute a release agreement in the form specified by the Company in its sole discretion.

26. **Withholding**. The Severance Benefit hereunder shall be reduced by all applicable income, employment or other taxes withheld by the Company from such payment.

27. **Compliance with Section 280G of the Code**. If any payment, benefit or distribution of any type to or for the benefit of Employee, whether paid or payable, provided or to be provided, or distributed or distributable pursuant to the terms of this Agreement or any other plan or agreement (collectively, the "Parachute Payments") would cause Employee to be the recipient of an excess parachute payment within the meaning of Section 280G(b) of the Internal Revenue Code (the "Code"), the amount of such Parachute Payments shall be reduced so that the maximum amount of the Parachute Payments (after reduction) shall be one dollar less than the amount which would cause Employee to be the recipient of an excess parachute payment. Any such reductions or eliminations shall occur in the following order:

(a) first, reducing or eliminating any cash payments under this Agreement (with the payments to be made furthest in the future being reduced first);

(b) first, reducing or eliminating any cash payments under any other plans or agreements (with the payments to be made furthest in the future being reduced first);

(c) then by reducing or eliminating any accelerated vesting of performance-based stock options or substantially similar awards (with the most recently granted options or awards being reduced first);

(d) then by reducing or eliminating any accelerated vesting of performance-based restricted stock awards or substantially similar awards (with the most recently granted awards being reduced first);

(e) then by reducing or eliminating any accelerated vesting of service-based stock options or substantially similar awards (with the most recently granted options or awards being reduced first);

(f) then by reducing or eliminating any accelerated vesting of service-based restricted stock awards or substantially similar awards (with the most recently granted awards being reduced first); and

(g) then by reducing or eliminating any other remaining Parachute Payments;

provided, that no such reduction or elimination shall apply to any non-qualified deferred compensation amounts (within the meaning of Section 409A of the Code) to the extent such reduction or elimination would accelerate or defer the timing of the payment in manner that does not comply with Section 409A of the Code.

28. **Compliance with Section 409A of the Code**. The provisions of this Section 28 shall apply solely to the extent that a payment under this Agreement is subject to Section 409A of the Code.

(a) **General Suspension of Payments**. If Employee is a "specified employee," as such term is defined within the meaning of Section 409A of the Code, any payments or benefits payable or provided as a result of Employee's termination of employment that would otherwise be paid or provided prior to the first day of the seventh month following such termination (other than due to death) shall instead be paid or provided on the earlier of (i) the six months and one day following Employee's termination, (ii) the date of Employee's death, or (iii) any date that otherwise complies with Section 409A of the Code.

(b) **Separation from Service.** For purposes of this Agreement, any reference to "termination" of Employee's employment shall be interpreted consistent with the meaning of the term "separation from service" in Section 409A(a)(2)(A)(i) of the Code and no portion of the Severance Payments shall be paid to Employee prior to the date such Employee incurs a separation from service under Section 409A(a)(2)(A)(i) of the Code.

(c) **Installment Payments**. For purposes of Section 409A of the Code and the regulations and other guidance thereunder and any state law of similar effect (including without limitation Treasury Regulations Section 1.409A-2(b)(2)(iii)), all payments made under this Agreement (whether severance payments or otherwise) will be treated as a right to receive a series of separate payments and, accordingly, each installment payment under this Agreement will at all times be considered a separate and distinct payment.

(d) **General**. Notwithstanding anything to the contrary in this Agreement, it is intended that the severance benefits and other payments payable under this Agreement satisfy, to the greatest extent possible, the exemptions from the application of Section 409A of the Code provided under Treasury Regulations Sections 1.409A-1(b)(4), 1.409A-1(b)(5), and 1.409A-(b)(9) and this Agreement will be construed to the greatest extent possible as consistent with those provisions. The commencement of payment or provision of any payment or benefit under this Agreement shall be deferred to the minimum extent necessary to prevent the imposition of any excise taxes or penalties on the Company or Employee.

29. **Right to Recover Payments. Upon any breach by Employee of the post-employment restrictive covenants contained in Section 9 of this Agreement, all amounts paid to Employee as a Severance Benefit shall immediately be due and repayable to the Company**

by Employee, and shall be paid, in full in immediately available funds, by Employee to the Company without condition. Nothing within this Section 29 shall prevent or limit the Company's rights to enforce the post-employment restrictive covenants through injunctive or any other means available in law or at equity. Employee acknowledges that the Company will have no adequate means of protecting its rights under this Agreement other than by securing an injunction (a court order prohibiting Employee from violating the Agreement). Accordingly, Employee agrees that the Company is entitled to enforce this Agreement by obtaining a temporary, preliminary and/or permanent injunction and any other appropriate equitable relief, in addition to the other relief to which it may be entitled. Employee acknowledges that the Company's recovery of damages will not be an adequate means to redress a breach of this Agreement. Nothing contained in this paragraph, however, shall prohibit the Company from pursuing any remedies in addition to injunctive relief, including recovery of damages.

[**Signature Page Follows**]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

EMPLOYER:

T.B.A. INSURANCE GROUP, LTD.

By: SNC Financial GP, LLC, its general partner

By: ______________________________

Name: ______________________________

Title: ______________________________

Address: 1900 L. Don Dodson Drive
Bedford, Texas 76021
Attn: ______________________________

Facsimile: ______________________________

EMPLOYEE:

____

Address: ______________________________

____

Facsimile: ______________________________

SEVERANCE AGREEMENT

This Agreement (this "***Agreement***") is dated as of May 20 , 2014, and confirms the discussions between Trace Ledbetter ("***Employee***") and T.B.A. Insurance Group, Ltd., a Texas limited partnership (the "***Company***" or the "***Employer***"), regarding, among other things, amounts payable upon the termination of Employee's employment with the Company.

WHEREAS, Employee is a key employee of the Company and an integral part of the Company's management;

WHEREAS, the Company desires to induce its key employees to remain employed by the Company; and

WHEREAS, the Company desires to provide certain compensation to Employee in the event of the termination of his employment under certain circumstances.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties covenant and agree as follows as of the Effective Time (as defined below):

1 . **Effective Time.** This Agreement shall become effective (the "Effective Time") immediately upon the closing of the proposed private common stock offering (the "Private Offering") by the Company's ultimate parent entity, State National Companies, Inc., a Delaware corporation ("SNCI"), provided (1) that such closing occurs prior to July 30, 2014 and (2) the purchase price per share of common stock sold to investors in the Private Offering implies an enterprise value for SNCI immediately prior to such closing of at least $300 million. If the Private Offering is not completed upon these terms, this Agreement shall be void ab initio and of no further force or effect.

2. **Termination of Employment**.

(a) **General**. Subject to the terms hereof, if (i) the Company terminates Employee's employment for any reason other than for Cause (as hereinafter defined), death or "permanent physical disability" (as hereinafter defined) or (ii) Employee resigns for Good Reason (as hereinafter defined), Employee shall be entitled to severance pay equal to the Severance Benefit as defined in Section 3. The **Severance Benefit** shall be payable in a single lump sum on the 60th day following Employee's date of termination; provided, however, Employee has executed a release as described below in Section 25, and all applicable review and revocation periods have expired by that date. Subject to the terms hereof, including Section 10, if Employee terminates or resigns from employment for other than Good Reason, or is discharged for Cause, dies or terminates on account of a permanent physical disability, Employee shall be entitled only to the compensation earned by him as of the date of his termination and not to any portion of the Severance Benefit.

(b) **Definitions**. For purposes of this Agreement, the following definitions shall apply:

(i) the terms "***Cause***" and "***Change of Control***" shall have the meanings set forth in the State National Companies, Inc. 2014 Long-Term Incentive Plan;

(ii) Employee shall be deemed to have experienced a "***permanent physical disability***" when Employee is unable to perform substantially all of his duties as an employee of the Company for a continuous period of 180 days, by reason of physical or mental illness or accident, in the Company's reasonable discretion; and

(iii) Employee shall be deemed to have ***"Good Reason"*** upon the occurrence of any of the following events, except for the occurrence of such an event in connection with the termination or reassignment of Employee by the Company for Cause: (A) a material reduction by the Company of Employee's base salary; (B) a material reduction in Employee's authority, duties and responsibilities; and (C) the Company's requiring Employee to be based anywhere other than within 50 miles of Employee's office location as of the Effective Time except for requirements of reasonably required travel on the Company's business.

3. **Severance Benefit**. The Severance Benefit payable hereunder shall be one (1) times the Employee's base salary at the time of termination, except that the Severance Benefit shall be increased to 1.75 times the Employee's base salary if the termination occurs during the two-year period immediately following: (i) the Effective Time; or (ii) a Change of Control. In no event shall a Severance Benefit be paid if the Employee's termination occurs more than seven (7) years after the Effective Time or the termination is due to the Employee's death or permanent physical disability. For purposes of this Agreement, the term "***Change of Control***" shall have the meaning set forth in the State National Companies, Inc. 2014 Long-Term Incentive Plan.

4. **Company Rules**. At all times during the course and scope of his employment, Employee shall strictly adhere to and obey all of the Company's rules and regulations now in effect or subsequently promulgated by the Employer governing the conduct of Company employees.

5. **Discoveries**. Employee agrees that he will promptly and fully inform and disclose to the Employer all inventions, designs, improvements, ideas and discoveries that he now has or may hereafter acquire during his employment under this Agreement that pertain or relate to the business of Employer and/or its affiliates, or to any experimental work carried on by the Employer and/or its affiliates, whether conceived by Employee alone or with others and whether or not conceived during regular working hours. All such inventions, designs, improvements, ideas and discoveries shall be the exclusive property of the Employer. Employee hereby irrevocably assigns, conveys and otherwise transfers to the Employer, its respective successors, licensees and assigns, or its designee, all of Employee's right, title and interest worldwide in and to any and all inventions, designs, improvements, ideas and discoveries, whether or not patentable or registrable under copyright or similar laws, which Employee may solely or jointly conceive or develop or reduce to practice or cause to be conceived or developed or reduced to practice while Employee is employed by the Employer. In accordance with the foregoing assignment, the Employer shall hold all ownership to all rights, without limitation, in and to all of the inventions, designs, improvements, ideas and discoveries. Employee shall assist the Employer in obtaining patents, copyrights or other protective rights on all such inventions, designs, improvements, ideas and discoveries deemed necessary by the Employer, and shall execute all documents and do all things necessary to obtain letters patent, copyrights or other protective rights to vest the Employer with full exclusive title thereto, and to protect the same against infringement by others, all without further compensation or consideration.

6 . **Confidential Information**. In consideration of the restrictive covenants contained herein, Employer promises to provide to Employee during the course of his employment various confidential information, including the Employer's and/or its affiliates' proprietary information, technical data, trade secrets, confidential knowledge, know-how or any other confidential technical or business information ("***Confidential Information***"). By way of example, the term "***Confidential Information***" may include: formulas, patterns, devices, secret inventions, processes, computer programs, compilations of information, records, specifications, sales procedures, customer requirements, pricing techniques, customer (and prospective customer) and supplier lists, methods of doing business, research, designs, data, charts, budgets, distributor names, pricing and cost information, development information, production and manufacturing information, sales and marketing information and other confidential information. Employee acknowledges that such Confidential Information is owned and shall continue to be owned solely by the Employer and/or its respective affiliate, and agrees that Employee does not have any ownership or other rights in or to the Confidential Information.

7 . **Restrictive Covenants During Employment**. During his employment with the Company, Employee shall not, without the prior written consent of the Company, either directly or indirectly: (a) disclose or divulge to any person, firm, corporation or other entity any of the Confidential Information of the Employer and/ or its affiliates or use such information for any purpose whatsoever except as required in the course and scope of his employment under this Agreement; (b) make known to any person, firm, corporation or other entity the names and/or addresses of any of the customers or prospective customers of the Employer or any of its affiliates or any other confidential or business information pertaining to said customers or prospective customers; (c) invest, participate or engage in any business that is competitive with that of the Employer or any of its affiliates or otherwise accept employment with or render services to a competitor of the Employer or any of its affiliates as a director, manager, officer, agent, employee, consultant or otherwise; (d) solicit or attempt to solicit or accept business that is competitive with the business being conducted by the Employer or any of its affiliates from any of the customers or prospective customers of the Employer or its affiliates; or (e) engage in other activity or conduct which creates a conflict of interest between Employee and the business interests of the Employer and/or its affiliates.

8. **Documents**. All files, records, documents, drawings, specifications, information, data and similar items relating to the business of the Employer and/or its affiliates, whether prepared by Employee or otherwise coming into his possession, shall remain the exclusive property of the Employer and/or such applicable affiliate. Under no circumstances shall Employee remove from the premises of the Employer or any of its affiliates any of the Employer's or the respective affiliate's books, records, documents or customer (or prospective customer) lists without the prior written permission of the Employer, nor shall Employee make any copies of such books, records, documents or customer (or prospective customer) lists for use outside of Employer's office except as specifically authorized in writing by Employer. Any such books, records, documents or other materials or copies thereof in Employee's possession or under his control shall be immediately returned to the Employer upon termination or cessation of Employee's employment.

9 . **Post-Employment Restrictive Covenants**. In consideration of the mutual promises herein, including the Company's promise to provide Employee with Confidential

Information, upon termination or cessation of employment with the Company for any reason and for a period of two (2) years immediately thereafter (except with respect to subsection (a) of this Section 9, which covenant period shall be perpetual), Employee shall not, without the prior written consent of the Employer, directly or indirectly:

(a) disclose or divulge to any person, firm, company, corporation or other entity any of the Confidential Information of the Employer unless compelled to disclose such information by law, or otherwise use such information for any purpose whatsoever;

(b) within the states the Company and/ or any of its affiliates now or hereafter conducts business or actively prospects for business (the "***Territory***"), invest or engage in, start, conduct, operate, manage or control any business that is competitive with the Employer or any of its affiliates, including any business that markets products and/or performs services in competition with those marketed and/or performed by Company and/or its affiliates within the Territory;

(c) within the Territory, accept employment with or render services to a competitor of the Employer or any of its affiliates as a director, manager, officer, agent, employee, consultant or otherwise, including accepting employment with or rendering services to a person, firm, company, corporation or other entity that markets products and/or performs services in competition with those marketed and/or performed by the Company and/or its affiliates within the Territory;

(d) disclose to any person, firm, company, corporation or other entity the names and/or addresses of any of the customers or prospective customers of the Employer or any of its affiliates or any other Confidential Information or business information acquired by Employee during the course of his employment with the Company pertaining to said customers or prospective customers;

(e) on his own behalf or on the behalf of any person, firm, company, corporation or other entity, contact, call on, solicit or take away or attempt to contact, call on, solicit or take away, or accept business from, any of the customers or prospective customers of the Employer or any of its affiliates or any other person, firm, company, corporation or other entity whose business the Employer or any of its affiliates was soliciting; or

(f) on his own behalf or on the behalf of any other person, firm, company, corporation or other entity, hire or solicit or in any manner whatsoever attempt to influence or induce any current employee of the Employer or its affiliates, or any person who has been an employee of the Employer and/or one of its affiliates at any time during the twelve (12) months prior to Employee's date of termination or cessation of employment, to leave the employment of the Employer or its affiliates.

10. **Modification of Restriction**. The post-employment restrictive covenants contained in Section 9 of this Agreement are intended to limit Employee's right to compete only to the extent necessary to protect the Employer's business and goodwill. The parties hereto agree that if any post-employment restrictive covenant set forth in Section 9 herein is found to be unreasonable as to scope, time period, territorial restraint or otherwise by a court of competent

jurisdiction, then Employee and Employer agree and submit to the reduction thereof to such scope, time period or territory as is deemed reasonable by such court.

11. **Acknowledgments**. Employee hereby acknowledges that his employment under this Agreement is not for any definite period or successions of periods and that no representative of the Company, other than the President or Chief Executive Officer of the Company, has any authority to enter into any agreement for employment for any specified period of time or to make an agreement contrary to the terms and provisions of this Agreement. Employee further acknowledges: (a) that in the event his employment with Employer terminates for any reason, he will be able to earn a livelihood without violating the post-employment restrictive covenants contained in Section 9 of this Agreement; (b) that he is capable of pursuing a career and earning a livelihood in other businesses or industries within the Territory which are not competitive with the business of the Employer or its affiliates; and (c) that his ability to earn a livelihood without violating such restrictive covenants is a material condition to his employment with the Employer.

12. **Survival**. The obligations contained in Section 6, Section 9, Section 10, Section 11, this Section 12, Section 14, Section 19, Section 21, Section 24, Section 25, Section 26, Section 27, Section 28 and Section 29 hereof shall survive cessation of employment and the termination of this Agreement. In addition, the termination of this Agreement shall not affect any of the rights or obligations of either party arising prior to or at the time of the termination of this Agreement. The existence of any claim or cause of action of Employee against the Employer, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Employer of the restrictive covenants contained in this Agreement.

13. **Severability**. If any provision, section, paragraph or subparagraph of this Agreement is adjudged by any court of competent jurisdiction to be void, illegal or unenforceable, in whole or in part, this adjudication shall not affect the validity of the remainder of this Agreement, including any other provision, section, paragraph or subparagraph. Each provision, section, paragraph and subparagraph of this Agreement is separable from every other provision, section, paragraph and subparagraph, and constitutes a separate and distinct covenant.

14. **Injunctive Relief**. The Company and Employee agree that the services to be rendered by Employee on behalf of the Company under this Agreement are strictly personal and that this Agreement has been entered into because of the special and peculiar fitness and experience of Employee therefor, and as a result of a breach of any of the restrictive covenants set forth herein, the Company will suffer irreparable harm which cannot be adequately or solely measured by rules of law. Therefore, the Company and Employee agree that, in the event Employee shall breach or violate any of the restrictive covenants set forth herein, the Company, in addition to all the remedies which may be available to it, and without waiver of any claim for money damages or the necessity of securing or posting a bond or any other security in connection with such remedy, may proceed against Employee by injunction or other appropriate remedy to prevent Employee from violating such provisions.

15. **Waiver of Rights**. If in one or more instances either party fails to insist that the other party perform any of the terms of this Agreement, such failure shall not be construed as a waiver by such party of any past, present or future right granted under this Agreement, and the obligations of both parties shall continue in full force and effect.

16. **Applicability**. This Agreement shall be binding upon and shall inure to the benefit of the parties and their successors, permitted assigns, executors, administrators and personal representatives. This Agreement is personal in nature and neither of the parties hereto shall, without the written consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided, however, that in the event of a merger, consolidation or transfer or sale of all or substantially all of the assets of the Company, this Agreement shall inure to the benefit of and be binding upon the successor to the Company's business and/or assets.

17. **Notices**. Any notice or communication required or permitted hereunder shall be given in writing and shall be (a) sent by first class registered or certified United States mail, postage prepaid, (b) sent by overnight or express mail or expedited delivery service, (c) delivered by hand or (d) transmitted by facsimile, addressed to the respective party at such party's address or facsimile number set forth on the signature page hereto, or to such other address or facsimile number as hereafter shall be designated in writing by the applicable party in accordance with this Section 17. Any such notice or communication shall be deemed to have been given as of the date of receipt by the addressee thereof or, if earlier, as of the date of first attempted delivery during normal business hours at the address and in the manner provided above.

18. **Entire Agreement**. Except solely with respect to the release agreement to be executed by Employee pursuant to Section 25 below, this Agreement constitutes the entire agreement between the parties hereto, including any and all agreements discussed and/or previously made with T.B.A. Insurance, Inc., or any other entity related in any way to T.B.A. Insurance, Inc., or State National Insurance Company, or to any of their subsidiaries, affiliates or related companies, relating to the subject matter hereof and supersedes all prior agreements and understandings, whether oral or written, with respect to the same.

19. **Governing Law**. This Agreement, and the rights and obligations of the parties hereto, shall be governed by and construed and enforced in accordance with the laws of the State of Texas, without regard to the conflict of laws rules of that state.

20. **Counterparts**. This Agreement may be executed in counterparts (including by facsimile or portable document format ("***PDF***")), each of which shall be deemed an original and both of which together shall constitute one and the same instrument. At the request of a party, the other party will confirm facsimile or PDF counterparts by signing a duplicate original document.

21. **Interpretation**. In this Agreement, (i) "***including***" does not denote or signify any limitation; (ii) "***Section***" is a reference to a Section in this Agreement, unless otherwise stated; (iii) "***herein***," "***hereunder***," "***hereof***" and similar terms are references to this Agreement as a whole, and not to any particular provision of this Agreement; (iv) "***affiliates***" shall include each party's, or the subject person's or entity's, respective successors, heirs, employees, agents, representatives, attorneys, officers, directors, partners, members, managers, related insurance and financial services entities and businesses, direct and indirect subsidiaries and parents, and assigns, as applicable; (v) "***prospective customer***" shall mean any person or entity that (a) holds a contract with the Company or any of its affiliates or had a written contract proposal made to it by the Company or any of its affiliates within the previous six (6) months; and (b) that Employee either had contact with or received confidential information about during the last six (6) months of Employee's employment; and (vi) "***Company***" includes any successors to or assigns of the

Company. Whenever required by the context, pronouns and any variation thereof shall be deemed to refer to the masculine, feminine or neuter, and the singular shall include the plural, and vice versa. The titles of the Sections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

22. **Costs**. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to recover from the other party reasonable attorneys' fees and expenses in addition to any other relief to which he or it may be entitled.

23. **Modification**. No alteration or modification to any of the provisions of this Agreement shall be valid unless made in writing and signed by each party hereto.

24. **Confidentiality of this Agreement**. In consideration of the Severance Benefit described above, Employee agrees that the existence of, and terms of this Agreement, shall be and remain confidential, and shall not be disclosed by Employee to any person or entity other than Employee's spouse, attorney, accountant and/ or tax return preparer, if such persons have agreed to keep such information confidential, and except as may be required by law or judicial process.

25. **Release**. Notwithstanding any provision herein to the contrary, as a condition to receiving any Severance Benefit hereunder, Employee shall, and hereby agrees to, execute a release agreement in the form specified by the Company in its sole discretion.

26. **Withholding**. The Severance Benefit hereunder shall be reduced by all applicable income, employment or other taxes withheld by the Company from such payment.

27. **Compliance with Section 280G of the Code**. If any payment, benefit or distribution of any type to or for the benefit of Employee, whether paid or payable, provided or to be provided, or distributed or distributable pursuant to the terms of this Agreement or any other plan or agreement (collectively, the "Parachute Payments") would cause Employee to be the recipient of an excess parachute payment within the meaning of Section 280G(b) of the Internal Revenue Code (the "Code"), the amount of such Parachute Payments shall be reduced so that the maximum amount of the Parachute Payments (after reduction) shall be one dollar less than the amount which would cause Employee to be the recipient of an excess parachute payment. Any such reductions or eliminations shall occur in the following order:

(a) first, reducing or eliminating any cash payments under this Agreement (with the payments to be made furthest in the future being reduced first);

(b) first, reducing or eliminating any cash payments under any other plans or agreements (with the payments to be made furthest in the future being reduced first);

(c) then by reducing or eliminating any accelerated vesting of performance-based stock options or substantially similar awards (with the most recently granted options or awards being reduced first);

(d) then by reducing or eliminating any accelerated vesting of performance-based restricted stock awards or substantially similar awards (with the most recently granted awards being reduced first);

(e) then by reducing or eliminating any accelerated vesting of service-based stock options or substantially similar awards (with the most recently granted options or awards being reduced first);

(f) then by reducing or eliminating any accelerated vesting of service-based restricted stock awards or substantially similar awards (with the most recently granted awards being reduced first); and

(g) then by reducing or eliminating any other remaining Parachute Payments;

provided, that no such reduction or elimination shall apply to any non-qualified deferred compensation amounts (within the meaning of Section 409A of the Code) to the extent such reduction or elimination would accelerate or defer the timing of the payment in manner that does not comply with Section 409A of the Code.

28. **Compliance with Section 409A of the Code**. The provisions of this Section 28 shall apply solely to the extent that a payment under this Agreement is subject to Section 409A of the Code.

(a) **General Suspension of Payments**. If Employee is a "specified employee," as such term is defined within the meaning of Section 409A of the Code, any payments or benefits payable or provided as a result of Employee's termination of employment that would otherwise be paid or provided prior to the first day of the seventh month following such termination (other than due to death) shall instead be paid or provided on the earlier of (i) the six months and one day following Employee's termination, (ii) the date of Employee's death, or (iii) any date that otherwise complies with Section 409A of the Code.

(b) **Separation from Service.** For purposes of this Agreement, any reference to "termination" of Employee's employment shall be interpreted consistent with the meaning of the term "separation from service" in Section 409A(a)(2)(A)(i) of the Code and no portion of the Severance Payments shall be paid to Employee prior to the date such Employee incurs a separation from service under Section 409A(a)(2)(A)(i) of the Code.

(c) **Installment Payments**. For purposes of Section 409A of the Code and the regulations and other guidance thereunder and any state law of similar effect (including without limitation Treasury Regulations Section 1.409A-2(b)(2)(iii)), all payments made under this Agreement (whether severance payments or otherwise) will be treated as a right to receive a series of separate payments and, accordingly, each installment payment under this Agreement will at all times be considered a separate and distinct payment.

(d) **General**. Notwithstanding anything to the contrary in this Agreement, it is intended that the severance benefits and other payments payable under this Agreement satisfy, to the greatest extent possible, the exemptions from the application of Section 409A of the Code provided under Treasury Regulations Sections 1.409A-1(b)(4), 1.409A-1(b)(5), and 1.409A-(b)(9) and this Agreement will be construed to the greatest extent possible as consistent with those provisions. The commencement of payment or provision of any payment or benefit under this Agreement shall be deferred to the minimum extent necessary to prevent the imposition of any excise taxes or penalties on the Company or Employee.

29. **Right to Recover Payments. Upon any breach by Employee of the post-employment restrictive covenants contained in Section 9 of this Agreement, all amounts paid to Employee as a Severance Benefit shall immediately be due and repayable to the Company by Employee, and shall be paid, in full in immediately available funds, by Employee to the Company without condition. Nothing within this Section 29 shall prevent or limit the Company's rights to enforce the post-employment restrictive covenants through injunctive or any other means available in law or at equity. Employee acknowledges that the Company will have no adequate means of protecting its rights under this Agreement other than by securing an injunction (a court order prohibiting Employee from violating the Agreement). Accordingly, Employee agrees that the Company is entitled to enforce this Agreement by obtaining a temporary, preliminary and/or permanent injunction and any other appropriate equitable relief, in addition to the other relief to which it may be entitled. Employee acknowledges that the Company's recovery of damages will not be an adequate means to redress a breach of this Agreement. Nothing contained in this paragraph, however, shall prohibit the Company from pursuing any remedies in addition to injunctive relief, including recovery of damages.**

[**Signature Page Follows**]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

EMPLOYER:

T.B.A. INSURANCE GROUP, LTD.

By: SNC Financial GP, LLC, its general partner

By: /s/ Terry Ledbetter

Name: Terry Ledbetter

Title: President

Address: 1900 L. Don Dodson Drive
Bedford, Texas 76021
Attn: ______________________

Facsimile: ______________________

EMPLOYEE:

/s/ Trace Ledbetter
Trace Ledbetter

Address: 8216 Meadowbrook Dr.

Fort Worth, TX 76120

Facsimile: ______________________

Cash Performance Bonus Opportunity Agreement

This Cash Performance Bonus Opportunity Agreement (this "***Agreement***") is made as of June 1, 2013, by and between T.B.A. Insurance Group, Ltd., a Texas limited partnership (the "***Employer***"), and you, the undersigned executive employee of the Employer (the "***Employee***" or "***you***").

Agreement

This Agreement and the Notice of Award of Cash Performance Bonus Opportunity (the "***Notice***") that was provided to you by the Employer along with this Agreement govern the award of the contingent cash bonus opportunity specified in the Notice, which contingent cash bonus opportunity, as so specified, shall hereinafter be referred to as the "***Award***." The Notice is hereby incorporated into and made a part of this Agreement. Capitalized terms not defined in this Agreement are defined in the Notice. In the event of a conflict between the terms of this Agreement and the Notice, the terms of this Agreement shall prevail.

Vesting; Amount of Bonus

No part of the cash bonus specified in the Award will be paid to you unless and until you satisfy the vesting conditions set forth in the Notice. If you satisfy the conditions specified in the Notice, the amount of the bonus is determined from the table in Exhibit A to this Agreement.

If you die or you terminate your employment with the Employer on account of Disability before June 1, 2016, but on or after December 31, 2015, then, even though your employment will have terminated before June 1, 2016, you or your estate will nevertheless be entitled to the same bonus you would have become entitled to if you had remained employed by the Employer until June 1, 2016.

If you die or you terminate employment on account of Disability before December 31, 2015, then, if the Performance Goal is attained, you or your estate will be entitled to a reduced bonus equal to (a) the bonus you would have been entitled to if you had not ceased to be employed by the Employer before June 1, 2016, multiplied by (b) a fraction, the numerator of which is the number of consecutive days commencing with January 1, 2013 and ending with the date on which you died or terminated employment on account of Disability, and the denominator of which is 1,096.

Forfeiture

Generally and except as otherwise expressly provided in this Agreement, if either (a) 2013-15 CCUM is not at least $80 million, or (b) your employment terminates for any reason other than death or Disability before June 1, 2016, then you will not receive any portion of the cash bonus that is the subject of the Award, and you will receive no payment or other benefit to compensate you for your failure to receive any portion of the cash bonus. The Employer will determine when your employment has terminated and whether your termination of employment was on account of death or Disability.

Definition of Disability

For the purposes of this Agreement, "***Disability***" means a condition in which you are unable, by reason of a medically determinable physical or mental impairment, to discharge substantially all of the duties of your position with the Employer, which condition, in the opinion of a physician selected by the Employer, is expected to have a duration of 180 days or more.

Leaves of Absence and Part-Time Work

For the purposes of the Award, your employment will not terminate when you go on military leave, sick leave, or any other *bona fide* leave of absence, but only if and to the extent that continued crediting of service for purposes of the Award is required by applicable law, or the leave is approved by the Employer and continued crediting of service for purposes of the Award is specified in a written agreement between you and the Employer governing or supplementing the written terms of the leave. However, your employment will be treated as being terminated when the leave ends, unless you immediately return to active work for the Employer.

If you go on a leave of absence or begin working on a part-time basis, then except as required by law, the Employer may in its discretion reduce the amount of your bonus (including to $0), except to the extent it is prohibited from doing so by law or by the terms of a written agreement between you and the Employer governing or supplementing the written terms of your leave or part-time schedule.

Confidentiality and Ownership of Information; Pre- and Post-Employment Restrictive Covenants

During the course of your employment, you will have access to and become familiar with various confidential information, including the Employer's and/or its affiliates' proprietary information, technical data, trade secrets, confidential knowledge, know-how or any other confidential technical or business information ("***Confidential Information***"). By way of example, the term "***Confidential Information***" may include: formulas, patterns, devices, secret inventions, processes, computer programs, compilations of information, records, specifications, sales procedures, customer requirements, pricing techniques, customer (and prospective customer) and supplier lists, methods of doing business, research, designs, data, charts, budgets, distributor names, pricing and cost information, development information, production and manufacturing information, sales and marketing information and other confidential information. You acknowledge that such Confidential Information is owned and shall continue to be owned solely by the Employer and/or its respective affiliate, and you agree that you do not have any ownership or other rights in or to the Confidential Information.

During your employment with the Employer, you shall not, without the prior written consent of the Employer, either directly or indirectly: (a) disclose or divulge to any person, firm, corporation or other entity any of the Confidential Information of the Employer and/ or its affiliates or use such information for any purpose whatsoever except as required in the course and scope of your employment under this Agreement; (b) make known to any person, firm, corporation or other entity the names and/or addresses of any of the customers or prospective customers of the Employer or any of its affiliates or any other confidential or business information pertaining to said customers or prospective customers; (c) invest, participate, or engage in any business that is competitive with that of the Employer or any of its affiliates or otherwise accept employment with or render services to a competitor of the Employer or any of its affiliates as a director, manager, officer, agent, employee, consultant, or otherwise; (d) solicit or attempt to solicit or accept business that is competitive with the business being conducted by the Employer or any of its affiliates from any of the customers or prospective customers of the Employer or its affiliates; or (e) engage in other activity or conduct which creates a conflict of interest between you and the business interests of the Employer and/or its affiliates.

All files, records, documents, drawings, specifications, information, data and similar items relating to the business of the Employer and/or its affiliates, whether prepared by you or otherwise coming into your possession, shall remain the exclusive property of the Employer and/or such applicable affiliate. Under no circumstances shall you remove from the premises of the Employer or any of its affiliates any of the Employer’s or the respective affiliate’s books, records, documents or customer (or prospective customer) lists without the prior written permission of the Employer, nor shall you make any copies of such books, records, documents or customer (or prospective customer) lists for use outside of the Employer’s office, except as specifically authorized in writing by Employer. Any such books, records, documents or other materials or copies thereof in your possession or under your control shall be immediately returned to the Employer upon termination or cessation of your employment.

In consideration of the mutual promises herein, including the Employer’s promise to provide you with Confidential Information, upon termination or cessation of employment with the Employer for any reason and for a period of two (2) years immediately thereafter (except with respect to sub-section (a) of this section, which covenant period shall be perpetual), you shall not, without the prior written consent of the Employer, directly or indirectly:

(a) disclose or divulge to any person, firm, company, corporation or other entity any of the Confidential Information of the Employer unless compelled to disclose such information by law, or otherwise use such information for any purpose whatsoever;

(b) within the states the Employer and/or any of its affiliates now or hereafter conducts business or actively prospects for business (the "***Territory***"), invest or engage in, start, conduct, operate, manage, or control any business that is competitive with the Employer or any of its affiliates, including any business that markets products and/or performs services in competition with those marketed and/or performed by Employer and/or its affiliates within the Territory;

(c) within the Territory, accept employment with or render services to a competitor of the Employer or any of its affiliates as a director, manager, officer, agent, employee, consultant or otherwise, including accepting employment with or rendering services to a person, firm, company, corporation or other entity that markets products and/or performs services in competition with those marketed and/or performed by the Employer and/or its affiliates within the Territory;

(d) disclose to any person, firm, company, corporation or other entity the names and/or addresses of any of the customers or prospective customers of the Employer or any of its affiliates or any other Confidential Information or business information acquired by you during the course of your employment with the Employer pertaining to said customers or prospective customers;

(e) on your own behalf or on the behalf of any person, firm, company, corporation or other entity, contact, call on, solicit or take away or attempt to contact, call on, solicit or take away, or accept business from, any of the customers or prospective customers of the Employer or any of its affiliates or any other person, firm, company, corporation or other entity whose business the Employer or any of its affiliates was soliciting; or

(f) on your own behalf or on the behalf of any other person, firm, company, corporation or other entity, hire or solicit or in any manner whatsoever attempt to influence or induce any current employee of the Employer or its affiliates, or any person who has been an employee of the Employer and/or one of its affiliates at any time during the twelve (12) months prior to your date of termination or cessation of employment, to leave the employment of the Employer or its affiliates.

The post-employment restrictive covenants contained in this Agreement are intended to limit your right to compete only to the extent necessary to protect the Employer's business and goodwill. The parties hereto agree that if any post-employment restrictive covenant set forth in this Agreement is found to be unreasonable as to scope, time period, territorial restraint or otherwise by a court of competent jurisdiction, then you and Employer agree and submit to the reduction thereof to such scope, time period, or territory as is deemed reasonable by such court.

You hereby acknowledge that your employment with the Employer is not for any definite period or successions of periods and that no representative of the Employer, other than the President or Chief Executive Officer of the Employer, has any authority to enter into any agreement for employment for any specified period of time or to make an agreement contrary to the terms and provisions of this Agreement. You further acknowledge: (a) that in the event your employment with Employer terminates for any reason, you will be able to earn a livelihood without violating the post-employment restrictive covenants contained in this Agreement; (b) that you are capable of pursuing a career and earning a livelihood in other businesses or industries within the Territory which are not competitive with the business of the Employer or its affiliates; and (c) that your ability to earn a livelihood without violating such restrictive covenants is a material condition to the Employer's extending this bonus opportunity to you.

The obligations contained in this Agreement regarding confidentiality, documents, and restrictive covenants shall survive cessation of employment and the termination of this Agreement. In addition, the termination of this Agreement shall not affect any of the rights or obligations of either party arising prior to or at the time of the termination of this Agreement. The existence of any claim or cause of action that you may have against the Employer, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Employer of the restrictive covenants contained in this Agreement.

You and Employer agree that the services to be rendered by you on behalf of Employer are strictly personal and that you have special and peculiar fitness and experience therefor, and as a result of a breach of any of the restrictive covenants set forth in this Agreement, the

Employer will suffer irreparable harm which cannot be adequately or solely measured by rules of law. Therefore, you and the Employer agree that, in the event you shall breach or violate any of the restrictive covenants set forth in this Agreement, the Employer, in addition to all the remedies which may be available to it, and without waiver of any claim for money damages or the necessity of securing or posting a bond or any other security in connection with such remedy, may proceed against you by injunction or other appropriate remedy to prevent you from violating such provisions.

Nontransferability This Award represents your personal contingent right to receive a cash payment in the future from the Employer, if certain conditions are satisfied. This Award is not transferable by you except to your estate following your death, and as otherwise required by law.

Change of Control Reference is hereby made to that certain agreement, dated June 1, 2013 by and between Employee and Employer (the "***Severance Agreement***"), which, among other things, provides for certain payments in connection with a Change of Control (as defined in the Severance Agreement). Notwithstanding anything to the contrary herein, if Employee has not received a payment pursuant to this Agreement and the Award, and this Agreement is in effect, and Employee is entitled to receive a Severance Payment (as defined in the Severance Agreement) pursuant to the terms and upon the events specified in the Severance Agreement, Employee shall be entitled to receive $300,000 in lieu, substitution and replacement of any other amounts or payments pursuant to this Agreement and the Notice (the "***Change of Control Payment***"). The Change of Control Payment shall be due and payable in a single, lump sum cash payment to Employee at the same time the Severance Payment is due and payable under Section 9(b) of the Severance Agreement. In addition, if, in connection with a Change of Control, this Agreement is terminated (in accordance with Treasury Regulation Section 1.409A-3(j)(4)(ix)(B)) and not replaced by a plan, agreement or arrangement that offers substantially similar compensation or payments to Employee under terms similar to the terms of this Agreement, Employee shall be entitled to receive $300,000 in lieu, substitution and replacement of any other amounts or payments pursuant to this Agreement and the Notice (the "***Change of Control Termination Payment***"). The Change of Control Termination Payment shall be due and payable in a single, lump sum cash payment to Employee within thirty (30) days of the effective date of (i) the Change of Control, if this Agreement is terminated on or within thirty (30) days before the Change of Control, or (ii) the termination of this Agreement following the Change of Control. Notwithstanding any provision herein to the contrary, in the case of a Change of Control Payment, on the one hand, or a Change of Control Termination Payment, on the other hand, the exact date of payment shall be determined by the Company in its sole discretion and the Change of Control must be considered a change of control under Treasury Regulation Section 1.409A-3(a)(5). Notwithstanding any provision herein to the contrary, Employee may, in accordance with the foregoing, be entitled to a Change of Control Payment or a Change of Control Termination Payment, but not both such payments.

Effect of Employer's Change of Control, or Dissolution; Ability of Employer to Terminate Award Prematurely for Any Reason

If the Employer is a party to a Change of Control, then the Award will be subject to Change of Control, but generally must either (a) remain an obligation of the Employer or (b) become an obligation of any successor to, or assignee of, the Employer, either by express written contract or by operation of law.

If the Employer is dissolved or liquidated (in accordance with Treasury Regulation Section 1.409A-3(j)(4)(ix)(A)) before June 1, 2016, and you are still employed by the Employer on the date of such dissolution or liquidation, or you terminated employment with the Employer before the date of such dissolution or liquidation on account of death or Disability, then you will vest in the Award on the date of such dissolution or liquidation, but (a) the definition of 2013-15 CCUM shall be changed so that it means the Employer's cumulative corporate underwriting margin for each year or fraction of a year in the period beginning with January 1, 2013 and ending with the date of dissolution or liquidation, (b) all of the amounts in each of the three columns in Exhibit A shall be adjusted by multiplying each such amount by a fraction the numerator of which is the number of days in the period beginning January 1, 2013 and ending with the date of dissolution or liquidation and the denominator of which is 1,096, and (c) the resulting bonus amount will be paid in a single payment as soon as administratively feasible following the Employer's dissolution or liquidation.

Additionally, the Employer is free to terminate this Award (in accordance with Treasury Regulation Section 1.409A-3(j)(4)(ix)(C)) at any time before June 1, 2016, without your consent, but in such a case, unless you have previously terminated employment other than on account of death or Disability, you will vest in the same adjusted bonus amount that you would have if the Employer had dissolved or liquidated on the date on which the Employer provides you with a written notice of such termination of the Award, and the entire resulting bonus will be paid in a single payment as soon as administratively feasible following the Employer's written notice to you of the termination of the Award.

Federal Income Tax Treatment	No portion of the bonus that is the subject of the Award is includable in your or, if paid after your death, your beneficiary's gross income for Federal income tax purposes until such portion is paid to you or your estate in cash. However, when the bonus is paid to you in cash, it will be ordinary income to you and will be included in an IRS Form W-2, Wage and Tax Statement, issued to you by the Employer for the calendar year in which the payment occurs. Because of Section 409A of the Internal Revenue Code of 1986, as amended, generally neither you nor the Employer may defer any portion of the bonus to a taxable year other than the taxable year in which it would otherwise be paid pursuant to the Notice and this Agreement. You understand that you (and not the Employer) are responsible for your own Federal, state, local, or foreign tax liabilities and any other tax consequences that may arise as a result of the bonus that is the subject of this Agreement.
Withholding of Taxes	The Employer will withhold from the amount of any payment that otherwise would be paid to you on account of this Award the amount of your withholding tax liability (generally, Federal income tax and FICA tax withholding) and pay the withheld amount to the Internal Revenue Service on your behalf.
No Right to Continued Employment	Neither the Award nor this Agreement gives you any right to be retained by the Employer in any capacity until June 1, 2016 or any earlier or later date.
Applicable Law	This Agreement will be interpreted and enforced under the laws of the State of Texas, without regard to its choice of law provisions.
Notices from Employer	The Employer may deliver by email, personal delivery by hand of a paper copy, or first class mail, all electronic or paper documents relating to the Award, either at the Employer's premises (including your work email address) or at your home address (including a personal email address) as contained in the Employer's then current personnel records.
Entire Understanding; No Changes Unless Agreed To In Writing	This Agreement and the Notice constitute the entire understanding between you and the Employer regarding the Award. This Agreement may be amended only by another written agreement between the parties.

(Remainder of Page Intentionally Left Blank – Signature Page Follows)

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered as of the date first set forth above.

EMPLOYEE:

/s/ David Cleff
David Cleff

T.B.A. INSURANCE GROUP, LTD.

By: SNC Financial GP, LLC, its general partner

By: /s/ Terry L. Ledbetter

Name: Terry Ledbetter

Title: President

Exhibit A

If 2013-15 CCUM is equal to or greater than	But less than	The bonus amount will be
NA	$80 million	$0
$80 million	$81 million	$150,000
$81 million	$82 million	$165,000
$82 million	$83 million	$180,000
$83 million	$84 million	$195,000
$84 million	$85 million	$210,000
$85 million	$86 million	$225,000
$86 million	$87 million	$240,000
$87 million	$88 million	$255,000
$88 million	$89 million	$270,000
$89 million	$90 million	$285,000
$90 million	$91 million	$300,000
$91 million	$92 million	$322,500
$92 million	$93 million	$345,000
$93 million	$94 million	$367,500
$94 million	$95 million	$390,000
$95 million	$96 million	$412,500
$96 million	$97 million	$435,000
$97 million	$98 million	$457,500
$98 million	$99 million	$480,000
$99 million	$100 million	$502,500
$100 million	$101 million	$525,000
$101 million	$102 million	$547,500
$102 million	$103 million	$570,000
$103 million	$104 million	$592,500
$104 million	$105 million	$615,000
$105 million	$106 million	$637.500
$106 million	$107 million	$660,000
$107 million	$108 million	$682,500
$108 million	$109 million	$705,000
$109 million	$110 million	$727.500
$110 million	NA	$750,000

Amendment to

Cash Performance Bonus Opportunity Agreement

This Amendment (this "Amendment") is dated as of May _20_, 2014, and confirms the discussions between David Cleff ("Employee") and T.B.A. Insurance Group, Ltd., a Texas limited partnership (the "Employer"), regarding, among other things, the possible bonus payable to Employee based on the Employer's cumulative corporate underwriting margin over the 2013-2015 period.

WHEREAS, Employer and Employee are parties to that certain Cash Performance Bonus Opportunity Agreement dated as of June 1, 2013 (the "Bonus Agreement");

WHEREAS, Employer and Employee now desire to amend the Bonus Agreement in certain respects; and

WHEREAS, the Bonus Agreement provides that it may be amended pursuant to a written agreement between Employee and the Employer:

NOW, THEREFORE, BE IT RESOLVED that for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties covenant and agree to amend the Bonus Agreement in the following respects:

1. The Section of the Bonus Agreement entitled "**Change of Control**" is deleted in its entirety.

2. The Section of the Bonus Agreement entitled "**Effect of Employer's Change of Control, or Dissolution; Ability of Employer to Terminate Award Prematurely for Any Reason**" is amended by adding at the end thereof the following new paragraph:

   For purposes of this Agreement, the term "Change of Control" shall have the meaning set forth in the State National Companies, Inc. 2014 Long-Term Incentive Plan.

3. The Section of the Bonus Agreement entitled "**Federal Income Tax Treatment**" is amended by adding at the end thereof the following new paragraph:

> Notwithstanding anything herein to the contrary, if the Employer reasonably anticipates that if a distribution were made as scheduled under the Agreement it would result in a loss of the Employer's tax deduction due to the application of Section 162(m) of the Internal Revenue Code, such distribution may be delayed and paid during the Employer's first taxable year in which the Employer reasonably anticipates that the Employer's tax deduction will not be limited or eliminated by the application of Section 162(m) of the Internal Revenue Code. Notwithstanding the foregoing, no distribution under the Agreement may be deferred in accordance with this paragraph unless all scheduled distributions to the Employee and all similarly situated individuals that could be delayed in accordance with Treas. Reg. Section 1.409A-2(b)(7)(i) are also delayed.

RESOLVED FURTHER that the amendments to the Bonus Agreement set forth above shall be effective immediately upon the closing of the proposed private common stock offering (the "Private Offering") by the Company's ultimate parent entity, State National Companies, Inc., a Delaware corporation ("SNCI"), provided (1) that such closing occurs prior to July 30, 2014 and (2) the purchase price per share of common stock sold to investors in the Private Offering implies an enterprise value for SNCI immediately prior to such closing of at least $300 million. If the Private Offering is not completed upon these terms, this Amendment shall be void ab initio and of no further force or effect and the Bonus Agreement shall remain in effect unchanged.

(Remainder of Page Intentionally Left Blank – Signature Page Follows)

IN WITNESS WHEREOF, this Amendment has been duly executed and delivered as of the date first set forth above.

EMPLOYEE:

/s/ David Cleff
David Cleff

T.B.A. INSURANCE GROUP, LTD.

By: SNC Financial GP, LLC, its general partner

By: /s/ Terry Ledbetter

Name: Terry Ledbetter

Title: President

EXHIBIT 31.1

STATE NATIONAL COMPANIES, INC.
CERTIFICATION
Pursuant to Rule 13a – 14(a) / 15d-14(a)

I, Terry Ledbetter, certify that:

1. I have reviewed this Annual Report on Form 10-K of State National Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2016

/s/ Terry Ledbetter
Terry Ledbetter
Chief Executive Officer

EXHIBIT 31.2

STATE NATIONAL COMPANIES, INC.
CERTIFICATION
Pursuant to Rule 13a – 14(a) / 15d-14(a)

I, David Hale, certify that:

1. I have reviewed this Annual Report on Form 10-K of State National Companies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2016

/s/ David Hale
David Hale
Chief Operating Officer and Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. § 1350,
AS ADOPTED PURSUANT TO § 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the filing of the Annual Report on Form 10-K of State National Companies, Inc., a Delaware corporation (the "Company"), for the year ended December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: March 10, 2016

/s/ Terry Ledbetter
Terry Ledbetter
Chief Executive Officer

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. § 1350,
AS ADOPTED PURSUANT TO § 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the filing of the Annual Report on Form 10-K of State National Companies, Inc., a Delaware corporation (the "Company"), for the year ended December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: March 10, 2016

/s/ David Hale
David Hale
Chief Operating Officer and Chief Financial Officer