
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

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

(State or other jurisdiction of incorporation or organization)

26-0017421

(I.R.S. Employer Identification No.)

1900 L. Don Dodson Drive, Bedford, Texas

(Address of principal executive offices)

76021

(Zip Code)

(817) 265-2000

(Registrant's telephone number, including area code)

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definition 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

Smaller reporting company

(Do not check if a 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Outstanding at May 9, 2016

(Common stock, \$.001 par value)

42,704,712 Shares

STATE NATIONAL COMPANIES, INC.

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PART I - FINANCIAL INFORMATION**Item 1: Unaudited Condensed Consolidated Financial Statements****STATE NATIONAL COMPANIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(\$ in thousands)**

	March 31, 2016	December 31, 2015
Assets	(Unaudited)	
Investments:		
Fixed-maturity securities – available-for-sale, at fair value (amortized cost – \$335,664, \$327,764, respectively)	\$ 341,452	\$ 329,522
Equity securities – available-for-sale, at fair value (cost – \$4,001, \$4,796, respectively)	4,670	5,544
Total investments	346,122	335,066
Cash and cash equivalents	38,244	51,770
Restricted cash and investments	3,716	3,717
Accounts receivable from agents, net	31,323	23,913
Reinsurance recoverable on paid losses	1,267	1,187
Deferred acquisition costs	872	1,075
Reinsurance recoverables	1,962,189	1,911,660
Property and equipment, net (includes land held for sale – \$1,034, \$1,034, respectively)	16,798	17,163
Interest receivable	2,040	2,158
Income taxes receivable	1,671	3,330
Deferred income taxes, net	23,499	26,208
Goodwill and intangible assets, net	5,778	5,958
Other assets	5,490	4,353
Total assets	<u>\$ 2,439,009</u>	<u>\$ 2,387,558</u>

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

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

	March 31, 2016	December 31, 2015
Liabilities	(Unaudited)	
Unpaid losses and loss adjustment expenses	\$ 1,412,128	\$1,364,774
Unearned premiums	583,843	585,448
Allowance for policy cancellations	54,317	59,610
Deferred ceding fees	29,877	29,119
Accounts payable to agents	2,104	2,458
Accounts payable to insurance companies	9,812	3,801
Debt, net	43,751	43,740
Other liabilities	30,198	35,151
Total liabilities	2,166,030	2,124,101
Shareholders' equity		
Common stock, \$.001 par value (150,000,000 shares authorized; 42,704,712 and 42,699,550 shares issued at March 31, 2016 and December 31, 2015, respectively)	43	43
Preferred stock, \$.001 par value (10,000,000 shares authorized; no shares issued and outstanding at March 31, 2016 and December 31, 2015)	—	—
Additional paid-in capital	225,671	224,719
Retained earnings	42,823	37,322
Accumulated other comprehensive income	4,442	1,373
Total shareholders' equity	272,979	263,457
Total liabilities and shareholders' equity	\$ 2,439,009	\$2,387,558

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

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

	Three Months Ended	
	March 31, 2016	March 31, 2015
Revenues:		
Premiums earned	\$ 31,677	\$ 29,284
Commission income	321	370
Ceding fees	16,244	14,144
Net investment income	2,040	1,681
Realized net investment gains (losses)	(638)	265
Other income	456	385
Total revenues	50,100	46,129
Expenses:		
Losses and loss adjustment expenses	15,089	13,533
Commissions	1,697	1,497
Taxes, licenses, and fees	702	712
General and administrative	16,994	16,142
Interest expense	537	500
Total expenses	35,019	32,384
Income (loss) before income taxes	15,081	13,745
Income taxes:		
Current tax expense (benefit)	4,354	5,244
Deferred tax expense (benefit)	1,057	(173)
	5,411	5,071
Net income (loss)	\$ 9,670	\$ 8,674
Net income (loss) per share attributable to common shareholders:		
Basic earnings per share	\$ 0.23	\$ 0.20
Diluted earnings per share	0.23	0.20
Dividends, per share	\$ 0.06	\$ 0.01

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

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

	<u>Three Months Ended</u>	
	<u>March 31,</u>	<u>March 31,</u>
	<u>2016</u>	<u>2015</u>
Net income (loss)	\$ 9,670	\$ 8,674
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) during the period	4,572	2,946
Tax effect on unrealized holding gains (losses) during the period	(1,600)	(1,031)
Less: reclassification adjustments for realized gains included in net income	149	(88)
Tax effect on reclassification adjustments for realized gains included in net income	(52)	31
Other comprehensive income (loss)	<u>3,069</u>	<u>1,858</u>
Total comprehensive income (loss)	<u>\$ 12,739</u>	<u>\$ 10,532</u>

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

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

	Common	Additional	Retained	Accumulated	
	Stock	Paid-In	Earnings	Other	
	Stock	Capital	Earnings	Comprehensive	Total
	Stock	Capital	Earnings	Income	Total
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 (loss)	—	—	44,666	—	44,666
Other comprehensive income (loss), net of tax	—	—	—	(2,770)	(2,770)
Balance at December 31, 2015	43	224,719	37,322	1,373	263,457
Stock-based compensation expense	—	952	—	—	952
Dividends declared	—	—	(2,549)	—	(2,549)
Repurchase of common stock	—	—	(1,620)	—	(1,620)
Net income (loss)	—	—	9,670	—	9,670
Other comprehensive income (loss), net of tax	—	—	—	3,069	3,069
Balance at March 31, 2016	\$ 43	\$225,671	\$ 42,823	\$ 4,442	\$272,979

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

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

	<u>Three Months Ended</u>	
	<u>March 31,</u>	<u>March 31,</u>
	<u>2016</u>	<u>2015</u>
Operating activities		
Net cash provided by (used in) operating activities	\$ (1,600)	\$ (437)
Investing activities		
Purchase of investments	(27,558)	(20,596)
Proceeds from sale of investments	14,117	6,938
Proceeds from maturities and principal receipts	6,079	7,034
Proceeds from dispositions of property and equipment	20	55
Purchase of property and equipment	(111)	(103)
Net cash provided by (used in) investing activities	(7,453)	(6,672)
Financing activities		
Dividends paid	(11)	—
Repurchase of common stock	(4,462)	—
Net cash provided by (used in) financing activities	(4,473)	—
Net change in cash and cash equivalents	(13,526)	(7,109)
Cash and cash equivalents at beginning of period	51,770	38,348
Cash and cash equivalents at end of period	<u>\$ 38,244</u>	<u>\$ 31,239</u>

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

STATE NATIONAL COMPANIES, INC.
NOTES TO UNAUDITED CONDENSED 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.

Basis of Presentation

The unaudited condensed consolidated financial statements included herein have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and include the accounts of the Company and all subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial reporting. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2015 and 2014.

The interim financial data as of March 31, 2016 and 2015 is unaudited. However, in the opinion of the Company’s management (“Management”), the interim data includes all adjustments, consisting of normal recurring adjustments, necessary to fairly state the results for the interim period. The results of operations for the period ended March 31, 2016 and 2015 are not necessarily indicative of the operating results to be expected for the full year.

Refer to “Summary of Significant Accounting Policies” in the consolidated financial statements for the years ended December 31, 2015, 2014 and 2013 for information on accounting policies that we consider critical in preparing consolidated financial statements.

Estimates

The preparation of financial statements in conformity with GAAP requires 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.

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).

Income Taxes

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 March 31, 2016 and December 31, 2015.

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

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 restricted stock grants and stock option awards that contain a service condition are recognized on a straight line pro rata basis over the vesting period. For restricted stock awards that contain a performance condition, the expense is recognized based on the awards expected to vest and the cumulative expense is adjusted whenever the estimate of the number of awards to vest changes. See Note 7 — “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 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. The Company adopted ASU 2015-03 for the current reporting period.

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.

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

In January 2016, the FASB issued an accounting standards update (ASU 2016-01), “Recognition and Measurement of Financial Assets and Financial Liabilities” (Sub-Topic 825-10). The amendments in this update supersede the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and require equity securities to be measured at fair value with changes in the fair value recognized through net income. The amendments are expected to improve financial reporting by providing relevant information about an entity’s equity investments and reducing the number of items that are recognized in other comprehensive income. This ASU is effective for annual and interim periods beginning after December 15, 2017. The Company is currently evaluating what impact this ASU will have on financial results and disclosures.

In February 2016, the FASB issued an accounting standards update (ASU 2016-02), “Leases” (Topic 842) that requires lessees to put most leases on their balance sheets but recognize expenses on their income statements. The FASB is issuing this update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This ASU is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The Company does not plan to early adopt and is currently evaluating what impact this ASU will have on financial results and disclosures.

In March 2016, the FASB issued an accounting standards update (ASU 2016-08), “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net).” The new standard requires an entity to determine whether it is a principal or an agent in a transaction in which another party is involved in providing goods or services to a customer by evaluating the nature of its promise to the customer. An entity is a principal and therefore records revenue on a gross basis if it controls the promised good or service before transferring the good or service to the customer. An entity is an agent and records as revenue the net amount it retains for its agency services if its role is to arrange for another entity to provide the goods or services. The amendments clarify how an entity should identify the unit of accounting for the principal versus agent evaluation, and how it should apply the control principle to certain types of arrangements, such as service transactions, by explaining what a principal controls before the specified good or service is transferred to the customer. This ASU’s effective date and transition requirements are the same as those of the new revenue recognition standard which is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that period. The Company is currently evaluating what impact, if any, this ASU will have on financial results and disclosures.

In March 2016, the FASB issued an accounting standards update, “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” Under the new guidance, companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in capital (APIC). Instead, companies will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, and APIC pools will be eliminated. For interim reporting purposes, companies will account for excess tax benefits and tax deficiencies as discrete items in the period in which they occur. In addition, the guidance eliminates the requirement that excess tax benefits be realized before companies can recognize them. The guidance requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity. This ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company prospectively adopted the provisions of this ASU for the current reporting period and the impact was immaterial to financial results. There would have been no impact to prior periods.

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

Reclassifications

The Company adopted ASU 2015-03, “Interest – Imputation of Interest” for the current reporting period. Presentation of “Other Assets” and “Debt, net” on the prior year balance sheet have been retrospectively adjusted to reflect the adoption of this ASU. The 2015 presentation of each line was adjusted by \$760 thousand to reflect the netting of unamortized debt issuance costs.

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:

March 31, 2016 (\$ in thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed-maturity securities				
Government	\$ 21,623	\$ 527	\$ (1)	\$ 22,149
Government agency	1,914	45	—	1,959
State and municipality	60,308	2,366	(14)	62,660
Industrial and miscellaneous	142,985	3,336	(2,450)	143,871
Residential mortgage-backed	82,661	1,929	(294)	84,296
Commercial mortgage-backed	23,383	536	(5)	23,914
Redeemable preferred stock	2,790	27	(214)	2,603
Total fixed-maturity securities	335,664	8,766	(2,978)	341,452
Equity securities				
Non-redeemable preferred stock	3,989	356	(52)	4,293
Common stock	12	365	—	377
Total equity securities	4,001	721	(52)	4,670
Total investments	\$ 339,665	\$ 9,487	\$ (3,030)	\$ 346,122

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

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

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.

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:

March 31, 2016 (\$ in thousands)	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed-maturity securities						
Government	\$ 2,849	\$ (1)	\$ —	\$ —	\$ 2,849	\$ (1)
State and municipality	—	—	367	(14)	367	(14)
Industrial and miscellaneous	35,651	(2,051)	4,993	(399)	40,644	(2,450)
Residential mortgage-backed	839	(5)	16,168	(289)	17,007	(294)
Commercial mortgage-backed	951	(3)	248	(2)	1,199	(5)
Redeemable preferred stock	940	(132)	269	(82)	1,209	(214)
Total fixed-maturity securities	\$ 41,230	\$ (2,192)	\$ 22,045	\$ (786)	\$ 63,275	\$ (2,978)
Equity securities						
Non-redeemable preferred stock	2,083	(52)	—	—	2,083	(52)
Total equity securities	2,083	(52)	—	—	2,083	(52)
	\$ 43,313	\$ (2,244)	\$ 22,045	\$ (786)	\$ 65,358	\$ (3,030)

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

December 31, 2015 (\$ in thousands)	Less than 12 Months		12 Months or More		Total	
	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)

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 regular review of the Company's 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" in the consolidated financial statements for the years ended December 31, 2015, 2014 and 2013. Management believes that the temporary impairments are primarily the result of widening credit spreads resulting from a decline in commodity prices. Management believes that despite the wider credit spreads, the securities are only temporarily impaired due to the strength of the issuing companies' balance sheets, as well as their available liquidity options allowing them to manage through this period of lower commodity prices. There were 125 securities in an unrealized loss position at March 31, 2016. Over 74% of these investments were investment-grade at March 31, 2016. We do not intend to sell or believe we will be required to sell any of our temporarily-impaired fixed maturities before recovery of their amortized cost basis. 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 March 31, 2016.

Proceeds from sales of investments in fixed-maturity, equity and short-term securities for the three months ended March 31, 2016 and 2015 were \$14.1 million and \$6.9 million, respectively.

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

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

(\$ in thousands)	Three Months Ended	
	March 31, 2016	March 31, 2015
Realized gains:		
Fixed-maturity securities	\$ 296	\$ 346
Equity securities	57	16
Gross realized gains	353	362
Realized losses:		
Fixed-maturity securities	(675)	(97)
Equity securities	(226)	—
Other-than-temporary impairment losses on fixed-maturity securities	(90)	—
Gross realized losses	(991)	(97)
Net realized investment gains (losses)	\$ (638)	\$ 265

The Company had no non-cash exchanges of investment securities for the three months ended March 31, 2016 and three non-cash exchanges for the three months ended March 31, 2015. Non-cash consideration received and gains for these exchanges was \$1.0 million and \$40 thousand for the three months ended March 31, 2015. Gains are reflected in "Realized net investment gains" in the condensed consolidated statements of income.

The following schedule details the maturities of the Company's fixed-maturity securities, available-for-sale, as of March 31, 2016:

(\$ in thousands)	Amortized Cost	Fair Value
Due in one year or less	\$ 9,963	\$ 10,093
Due after one year through five years	114,710	115,849
Due after five years through ten years	94,102	96,733
Due after ten years	10,845	10,567
Residential mortgage-backed securities	82,661	84,296
Commercial mortgage-backed securities	23,383	23,914
	<u>\$ 335,664</u>	<u>\$ 341,452</u>

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 \$0.9 million of mortgage-backed securities collateralized by subprime residential loans, which represent approximately 0.27% of the Company's total investments as of March 31, 2016. The Company does not own mortgage derivatives.

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

Net investment income for the periods ended March 31, consists of the following:

(\$ in thousands)	Three Months Ended	
	March 31, 2016	March 31, 2015
Interest on investments	\$ 2,149	\$ 1,821
Dividends	116	29
Gross investment income	2,265	1,850
Investment expenses	(225)	(169)
Net investment income	<u>\$ 2,040</u>	<u>\$ 1,681</u>

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 consisted of fixed-maturity securities at fair values totaling \$71.3 million and \$53.5 million at March 31, 2016 and December 31, 2015, 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 condensed 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 condensed consolidated statements of comprehensive income. Net losses recognized in the condensed consolidated statements of income related to embedded derivatives was \$0.7 million for the three month period ended March 31, 2016.

3. Income Tax Provision

The Company computes its provision for income taxes in interim periods by applying its estimated annual effective tax rate against income (loss) before income taxes for the period. In addition, non-recurring or discrete items are recorded during the period in which they occur. The magnitude of the impact that discrete items have on the Company's quarterly effective tax rate is dependent on the level of income in the period. A reconciliation of federal income tax expense

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

computed by applying the federal statutory tax rate to income (loss) before income taxes for the three month periods ended March 31 is as follows:

(\$ in thousands)	2016		2015	
	Amount	Effective Tax Rate	Amount	Effective Tax Rate
Expected tax expense (benefit)	\$ 5,278	35.0 %	\$ 4,811	35.0 %
Tax-exempt income	(96)	(0.6)	(94)	(0.7)
State income taxes	268	1.8	392	2.9
Other	(39)	(0.3)	(38)	(0.3)
Total income tax expense (benefit)	\$ 5,411	35.9 %	\$ 5,071	36.9 %

4. Reinsurance

Through unaffiliated general agents, SNIC, NSIC, and USIC write property and casualty lines of business in the Program Services segment. 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 producers and, accordingly, the related ceding fees receivable are reflected as accounts receivable from agents. If the producer defaults on its obligation to pay these fees (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.

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:

(\$ in thousands)	March 31, 2016	December 31, 2015
	Ceded unearned premiums	\$ 562,678
Ceded loss and loss adjustment expense reserves	1,399,511	1,352,022
Total reinsurance recoverables	1,962,189	1,911,660
Secured reinsurance recoverables	(1,499,098)	(1,527,335)
Unsecured reinsurance recoverables	\$ 463,091	\$ 384,325

The fair value of all collateral held by SNIC, NSIC and USIC for reinsurers for whom we require collateral is approximately 142% of the related reinsurance recoverables as of March 31, 2016, with the lowest ratio for any reinsurer being 105%.

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

5. Fair Value Measurements

Assets and liabilities reported in the condensed 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

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

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.

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:

March 31, 2016

(\$ in thousands)	Level 1	Level 2	Level 3	Total
Fixed-maturity securities				
Government	\$ —	\$ 22,149	\$ —	\$ 22,149
Government agency	—	1,959	—	1,959
State and municipality	—	62,660	—	62,660
Industrial and miscellaneous	—	143,871	—	143,871
Residential mortgage-backed	—	84,296	—	84,296
Commercial mortgage-backed	—	23,914	—	23,914
Redeemable preferred stock	—	2,603	—	2,603
Total fixed-maturity securities	—	341,452	—	341,452
Equity securities				
Non-redeemable preferred stock	—	4,293	—	4,293
Common stock	—	377	—	377
Total equity securities	—	4,670	—	4,670
Total investments	\$ —	\$ 346,122	\$ —	\$ 346,122

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

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

The fair value of embedded derivatives included in Level 2 securities was \$8.1 million and \$8.6 million at March 31, 2016 and December 31, 2015, respectively.

There was no Level 3 activity including gains or losses recognized, purchases, or sales transaction during the periods ending March 31, 2016 and December 31, 2015.

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 March 31, 2016 and December 31, 2015.

6. 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. The Company is required to make a matching contribution of 100% of the first 1% and 50% of the next 5% of employees' contributions. 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 for the three months ended March 31, 2016 and 2015 was \$409 thousand and \$347 thousand, respectively.

7. 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 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.

The fair value of the restricted shares granted is determined based on the most recent trading price of the stock as of the grant date. The fair value of each stock option grant is established on the grant date using the Black-Scholes option pricing model. There were no options granted during the three month period ended March 31, 2015. The Company granted 500,000 options during the three month period ended March 31, 2016 with the following weighted-average assumptions. The expected volatility is 26.53%, 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 1.25%, 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 is 2.44% and no forfeitures are expected.

Compensation expense for all share-based compensation was \$952 thousand and \$766 thousand for the three months ended March 31, 2016 and 2015 respectively.

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

A summary of the Company's restricted shares and stock options activity for the three months ended March 31, 2016 and 2015 is shown below:

March 31, 2016	Restricted Shares	Weighted-Average Grant Date Fair Value per Restricted Share	Stock Options	Weighted-Average Grant Date Fair Value per Stock Option
Nonvested at beginning of period	144,362	\$ 10.05	1,855,918	\$ 3.22
Granted	195,835	12.14	500,000	1.91
Forfeited	—	—	—	—
Vested	—	—	—	—
Nonvested at end of period	<u>340,197</u>	11.25	<u>2,355,918</u>	2.94

March 31, 2015	Restricted Shares	Weighted-Average Grant Date Fair Value per Restricted Share	Stock Options	Weighted-Average Grant Date Fair Value per Stock Option
Nonvested at beginning of period	12,000	\$ 10.00	2,783,873	\$ 3.22
Granted	230,060	9.98	—	—
Forfeited	—	—	—	—
Vested	—	—	—	—
Nonvested at end of period	<u>242,060</u>	9.98	<u>2,783,873</u>	3.22

8. 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 56% and 53% of gross premiums written for the periods ending March 31, 2016 and 2015, respectively. The four largest reinsurers with unsecured reinsurance recoverables, all of which are rated A or higher by A.M. Best, accounted for approximately 14%, 12%, 11%, and 6% of the Company's unsecured reinsurance recoverables at March 31, 2016.

9. 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. However, to the extent that such assessments are made, the Company has the contractual right to recover these amounts from the underlying reinsurers.

The Company has 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

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

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 business at a specified price in the event of termination of the Alliance.

10. Earnings Per Share

A reconciliation of the numerators and denominators of the basic and diluted per share calculations is presented below:

(\$ in thousands, except for per share amounts)	Three Months Ended	
	March 31, 2016	March 31, 2015
Numerator for both basic and diluted earnings per share:		
Net income (loss)	\$ 9,670	\$ 8,674
Denominator for both basic and diluted earnings per share:		
Weighted-average common shares outstanding	42,343,357	44,235,102
Dilutive effect of outstanding securities (determined using the treasury stock method)	53,356	12,000
Weighted-average common shares outstanding and potential common shares outstanding	42,396,713	44,247,102

11. Segment Information

The following is business segment information for the periods indicated:

(\$ in thousands)	Three Months Ended	
	March 31, 2016	March 31, 2015
Revenues:		
Program	\$ 16,244	\$ 14,133
Lender	32,446	30,016
Corporate	1,410	1,980
Consolidated revenues	<u>\$ 50,100</u>	<u>\$ 46,129</u>
Income (loss) before income taxes:		
Program	\$ 12,618	\$ 10,581
Lender	4,869	4,520
Corporate	(2,406)	(1,356)
Consolidated income (loss) before income taxes	<u>\$ 15,081</u>	<u>\$ 13,745</u>

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

The following table summarizes the financial assets of the Company's segments as of the periods indicated:

(\$ in thousands)	March 31, 2016	December 31, 2015
Assets:		
Program	\$ 1,994,097	\$ 1,935,104
Lender	14,471	15,834
Corporate	430,441	436,620
	<u>\$ 2,439,009</u>	<u>\$ 2,387,558</u>

12. Common Stock

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 pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934. During the three months ended March 31, 2016, the Company purchased 173,521 shares of its common stock at an aggregate purchase price including commissions of \$1.6 million. The excess cost of the repurchased shares over par value was charged to retained earnings.

13. Debt

The Company has three statutory business trusts (the "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 from the Company upon their initial formation to purchase variable-rate subordinated debentures issued by the Company. All voting securities of the Trusts are owned by the Company, 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. The Company does not have a variable interest in the Trusts and therefore does not consolidate the Trusts. These debentures' interest rates range from 3.80% to 4.10% plus the 3-month LIBOR. All of the debentures mature between 2032 and 2034 and are reflected net of debt issuance costs in the condensed consolidated balance sheets.

On March 31, 2016, the Company, through its subsidiary T.B.A. Insurance Group, Ltd. ("TBA"), entered into a loan agreement ("credit agreement"), which provides for a secured revolving credit facility in an aggregate principal amount of \$15 million. The credit agreement matures on April 30, 2018. Under the credit agreement, TBA may request advances up to the aggregate amount of the unused commitment under the credit facility, on a revolving basis, prior to the maturity of the credit agreement. Borrowings under the credit agreement will bear interest at a variable rate equal to LIBOR plus 1.85% per annum; provided, however, that LIBOR shall be subject to a floor of 0.15%. TBA shall also pay a commitment fee on the daily average unused commitment amount for the period running from the closing date to the maturity date at a rate of 0.25% per annum. The credit agreement contains customary representations, warranties, covenants, and events of default, as well as a financial covenant requiring TBA and the Company to maintain a consolidated tangible net worth of at least \$150 million. TBA's obligations under the credit agreement are guaranteed by the Company and are secured by a securities account in the name of TBA and maintained with the creditor, in which TBA must maintain assets with a market value of at least \$25 million.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking and Other Statements

Various statements contained in this Form 10-Q 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 and the Company’s future production, revenues, income and capital spending. 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 the 2015 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-Q 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.

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, to the extent funds related to settling balances

(premiums, commissions and losses) between the GAs and the reinsurers are not the obligation of 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 March 31, 2016, the Company, through its subsidiary T.B.A. Insurance Group, Ltd. ("TBA"), entered into a loan agreement ("credit agreement"), which provides for a secured revolving credit facility in an aggregate principal amount of \$15 million. TBA expects to use the proceeds of any borrowings under the credit agreement as needed to provide short term liquidity.

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 three months ended March 31, 2016, the Company purchased 173,521 shares of its common stock at an aggregate purchase price including commissions of \$1.6 million. The excess cost of the repurchased shares over par value was charged to retained earnings.

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 should expand lenders' loan portfolios to improve our Lender Services results. Over the past decade, alternative capital has been entering the reinsurance market at an accelerating pace. This influx of capital has had the effect of compressing rates for reinsurance, which in the past was primarily written to reinsure catastrophe-exposed property insurance. These lower reinsurance rates are now driving industry capital to seek opportunity in U.S. primary insurance markets for both property and casualty lines. These market dynamics should provide growth opportunities 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 an aging U.S. automobile fleet. 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. We are well positioned to meet this demand due to our highly rated and broadly licensed insurance subsidiaries in addition to our proven model to provide fronting for a fee.

We currently have a significant program with Nephila Capital, Ltd. ("Nephila") under which we granted Nephila the exclusive right to utilize the Company as issuing carrier for U.S. catastrophe exposed property insurance from 2015 through 2019. Nephila is a hedge fund with approximately \$11 billion in assets under management that participates in the market for catastrophe exposed property business. In exchange for this exclusive right, Nephila has agreed to pay State National contractual minimum ceding fees totaling \$51.5 million through 2019. 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. 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 three months ended March 31, 2016, ceding fees earned for this program were \$2.3 million. In addition, State National and Nephila have an alliance under which State National will use commercially reasonable efforts to acquire one admitted and one non-admitted property and casualty insurance shell company, which will be used exclusively to write the direct business produced by Nephila. Nephila will have a three year option to purchase these companies beginning three years after the shell companies first write premium. In the event that the option is exercised, contractual minimum payments to State National will extend for an additional two years. State National expects to begin acquiring the shell companies during 2016.

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 \$3.9 and \$3.6 million for the three months ended March 31, 2016 and 2015, respectively. On July 7, 2015, Meadowbrook announced the completion of the acquisition of Meadowbrook by Fosun International Limited. We have amended our contract with Meadowbrook to extend the term through at least 2017, and by securing contractual minimum ceding fees of \$12.5 million and \$10.0 million for 2016 and 2017, respectively.

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 March 31, 2016, we had net reserves of \$4.4 million related to this business.

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

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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. Substantially all commission expenses are 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 30% 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 expense for employees. General and administrative expense also includes 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 is recognized on a straight line pro rata basis over the vesting period. Stock-based compensation expense was approximately \$1.0 million and \$0.8 million for the three months ended March 31, 2016 and 2015, respectively.

Ratios

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 three months ended March 31, 2016 and 2015, our ratio of operating expenses to gross premiums written, or program gross expense ratio, was 1.1% and 1.2%, 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 premium 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 three months ended March 31, 2016 and 2015, our net loss ratio was 46.0% and 44.8%, 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 three months ended March 31, 2016 and 2015, our net expense ratio was 41.0% and 42.2%, 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 three months ended March 31, 2016 and 2015, our net combined ratio was 87.0% and 87.0%, 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 March 31, 2016 was 16.0%, as compared to 16.6% at December 31, 2015. 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.

There were no significant changes to our critical accounting policies and estimation processes during the three months ended March 31, 2016. Our critical accounting policies and estimation processes are described in our audited consolidated financial statements and the related notes in the Company’s 2015 Annual Report on Form 10-K.

Consolidated Results of Operations

(\$ in thousands)	Three Months Ended	
	March 31,	
	2016	2015
Revenues:		
Premiums earned	\$ 31,677	\$ 29,284
Commission income	321	370
Ceding fees	16,244	14,144
Net investment income	2,040	1,681
Realized net investment gains (losses)	(638)	265
Other income	456	385
Total revenues	50,100	46,129
Expenses:		
Losses and loss adjustment expenses	15,089	13,533
Commissions	1,697	1,497
Taxes, licenses, and fees	702	712
General and administrative	16,994	16,142
Interest expense	537	500
Total expenses	35,019	32,384
Income (loss) before income taxes	15,081	13,745
Income taxes:		
Current tax expense (benefit)	4,354	5,244
Deferred tax expense (benefit)	1,057	(173)
	<u>5,411</u>	<u>5,071</u>
Net income (loss)	\$ 9,670	\$ 8,674

Consolidated Results of Operations for the Three Months Ended March 31, 2016 compared with the Three Months Ended March 31, 2015

Premiums earned. Premiums earned increased by \$2.4 million, or 8.2%, from \$29.3 million for the three months ended March 31, 2015 to \$31.7 million for the three months ended March 31, 2016. This increase was due to an increase in Lender Services premiums earned. 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.

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Ceding fees. Ceding fees increased by \$2.1 million, or 14.8%, from \$14.1 million for the three months ended March 31, 2015 to \$16.2 million for the three months ended March 31, 2016, primarily due to an increase in Program gross earned premium. Program Services gross earned premiums increased from \$232.9 million for the three months ended March 31, 2015 to \$267.0 million for the three months ended March 31, 2016, resulting in an increase in premium related ceding fees of \$1.6 million from new and existing accounts. Capacity fees increased \$0.5 million for the three months ended March 31, 2016 compared to March 31, 2015.

Investment income. Investment income increased by \$0.3 million, from \$1.7 million for the three months ended March 31, 2015 to \$2.0 million for the three months ended March 31, 2016, due in part to an increase in bond holdings.

Realized net investment gains (losses). Realized net investment gains decreased by \$0.9 million, from a gain of \$0.3 million for the three months ended March 31, 2015 to a loss of \$0.6 million for the three months ended March 31, 2016. The loss for the three months ended March 31, 2016 is primarily a result of market volatility during the quarter, which caused a decline in the value of our convertible securities.

Losses and loss adjustment expenses. Losses and LAE increased by \$1.6 million, from \$13.5 million for the three months ended March 31, 2015 to \$15.1 million for the three months ended March 31, 2016, which is partly the result of increased exposure due to higher earned premiums and an increase in claim frequency and severity for Lender Services. 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 \$0.2 million, from \$1.5 million for the three months ended March 31, 2015 to \$1.7 million for the three months ended March 31, 2016, primarily due to an increase in Lender Services direct commissions related to the growth in direct premiums earned.

General and administrative expense. General and administrative expense increased by \$0.9 million or 5.3%, from \$16.1 million for the three months ended March 31, 2015 to \$17.0 million for the three months ended March 31, 2016, primarily due to compensation expense.

Current tax expense (benefit). Current tax expense decreased by \$0.8 million, from \$5.2 million for the three months ended March 31, 2015 to \$4.4 million for the three months ended March 31, 2016, primarily due to the increase in deductible compensation expense.

Deferred tax expense (benefit). Deferred tax expense increased \$1.3 million, from a benefit of \$0.2 million for the three months ended March 31, 2015 to an expense of \$1.1 million for the three months ended March 31, 2016, primarily due to changes in temporary differences related to stock and deferred compensation plans.

Program Services Segment - Results of Operations

(\$ in thousands)	Three Months Ended March 31,	
	2016	2015
Revenues:		
Premiums earned	\$ —	\$ (11)
Ceding fees	16,244	14,144
Total revenues	16,244	14,133
Expenses:		
Losses and loss adjustment expenses	509	414
Commissions	1	—
Taxes, licenses, and fees	8	5
General and administrative	3,108	3,133
Total expenses	3,626	3,552
Income (loss) before income taxes	\$ 12,618	\$ 10,581
Program gross expense ratio	1.1 %	1.2 %
Gross premiums written	\$ 271,026	\$ 264,912
Gross premiums earned	\$ 267,025	\$ 232,933

Program Services Segment Results of Operations for the Three Months Ended March 31, 2016 compared with the Three Months Ended March 31, 2015

Ceding fees. Ceding fees increased by \$2.1 million, or 14.8%, from \$14.1 million for the three months ended March 31, 2015 to \$16.2 million for the three months ended March 31, 2016, primarily due to an increase in Program gross earned premium. Program Services gross earned premiums increased from \$232.9 million for the three months ended March 31, 2015 to \$267.0 million for the three months ended March 31, 2016, resulting in an increase in premium related ceding fees of \$1.6 million from new and existing accounts. Capacity fees increased \$0.5 million for the three months ended March 31, 2016 compared to March 31, 2015.

Lender Services Segment — Results of Operations

(\$ in thousands)	Three Months Ended	
	March 31,	
	2016	2015
Revenues:		
Premiums earned	\$ 31,677	\$ 29,295
Commission income	321	370
Other income	448	351
Total revenues	32,446	30,016
Expenses:		
Losses and loss adjustment expenses	14,580	13,119
Commissions	1,696	1,497
Taxes, licenses, and fees	694	707
General and administrative	10,607	10,173
Total expenses	27,577	25,496
Income (loss) before income taxes	\$ 4,869	\$ 4,520
Net loss ratio	46.0 %	44.8 %
Net expense ratio	41.0 %	42.2 %
Net combined ratio	87.0 %	87.0 %
Gross premiums written	\$ 32,459	\$ 32,649
Net premiums written	\$ 27,032	\$ 26,882

Lender Services Segment Results of Operations for the Three Months Ended March 31, 2016 compared with the Three Months Ended March 31, 2015

Premiums earned. Premiums earned increased by \$2.4 million, or 8.1%, from \$29.3 million for the three months ended March 31, 2015 to \$31.7 million for the three months ended March 31, 2016. 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 \$1.5 million or 11.1%, from \$13.1 million for the three months ended March 31, 2015 to \$14.6 million for the three months ended March 31, 2016, 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 \$0.2 million, from \$1.5 million for the three months ended March 31, 2015 to \$1.7 million for the three months ended March 31, 2016, due to primarily an increase in direct commissions related to the growth in direct premiums.

General and administrative expense. General and administrative expense increased by \$0.4 million or 4.3%, from \$10.2 million for the three months ended March 31, 2015 to \$10.6 million for the three months ended March 31, 2016, primarily due to compensation expense.

Corporate Segment — Results of Operations

(\$ in thousands)	Three Months Ended	
	March 31,	
	2016	2015
Revenues:		
Net investment income	\$ 2,040	\$ 1,681
Realized net investment gains (losses)	(638)	265
Other income	8	34
Total revenues	1,410	1,980
Expenses:		
General and administrative	3,279	2,836
Interest expense	537	500
Total expenses	3,816	3,336
Income (loss) before income taxes	(2,406)	(1,356)
Income tax expense (benefit)	5,411	5,071
Net income (loss)	\$ (7,817)	\$ (6,427)

Corporate Segment Results of Operations for the Three Months Ended March 31, 2016 compared with the Three Months Ended March 31, 2015

Investment income. Investment income increased by \$0.3 million, from \$1.7 million for the three months ended March 31, 2015 to \$2.0 million for the three months ended March 31, 2016, due in part to an increase in bond holdings.

Realized net investment gains (losses). Realized net investment gains decreased by \$0.9 million, from a gain of \$0.3 million for the three months ended March 31, 2015 to a loss of \$0.6 million for the three months ended March 31, 2016. The loss for the three months ended March 31, 2016 is primarily a result of market volatility during the quarter, which caused a decline in the value of our convertible securities.

General and administrative expense. General and administrative expense increased by \$0.5 million, from \$2.8 million for the three months ended March 31, 2015 to \$3.3 million for the three months ended March 31, 2016, primarily due to an increase in compensation expense.

Income tax expense. Income tax expense increased by \$0.3 million, from \$5.1 million for the three months ended March 31, 2015 to \$5.4 million for the three months ended March 31, 2016, primarily due to changes in temporary differences related to stock and deferred compensation plans.

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 March 31, 2016, the tax adjusted yield on our fixed maturity and equity securities was 2.7%. Convertible securities represent 12.2% of the portfolio at March 31, 2016, compared to 12.1% at December 31, 2015. The average duration, excluding convertible securities, was approximately 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

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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:

March 31, 2016	Cost or	Gross	Gross	Fair
(\$ in thousands)	Amortized	Unrealized	Unrealized	Value
	Cost	Gains	Losses	
Total fixed-maturity securities	\$ 335,664	\$ 8,766	\$ (2,978)	\$ 341,452
Total equity securities	4,001	721	(52)	4,670
Total investments	\$ 339,665	\$ 9,487	\$ (3,030)	\$ 346,122

December 31, 2015	Cost or	Gross	Gross	Fair
(\$ in thousands)	Amortized	Unrealized	Unrealized	Value
	Cost	Gains	Losses	
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

The table below summarizes the credit quality of our fixed-maturity securities as of March 31, 2016, as rated by Standard and Poor's.

(\$ in thousands)	Amortized	Fair	Percentage of
	Cost	Value	Fixed-Maturity
			Securities
U.S. Treasury	\$ 21,623	\$ 22,149	6.49%
AAA	90,630	92,901	27.21%
AA, AA+, AA-	119,302	122,067	35.75%
A, A+, A-	39,290	40,313	11.81%
BBB, BBB+, BBB-	45,544	45,883	13.44%
BB+ and lower	19,275	18,139	5.30%
Total	\$ 335,664	\$ 341,452	100.00%

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The amortized cost and fair value of available-for-sale debt securities held as of March 31, 2016, 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	\$ 9,963	\$ 10,093
Due after one year through five years	114,710	115,849
Due after five years through ten years	94,102	96,733
Due after ten years	10,845	10,567
Residential mortgage-backed securities	82,661	84,296
Commercial mortgage-backed securities	23,383	23,914
	<u>\$ 335,664</u>	<u>\$ 341,452</u>

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:

March 31, 2016 (\$ in thousands)	Less than 12 Months		12 Months or More		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
Total fixed-maturity securities	\$ 41,230	\$ (2,192)	\$ 22,045	\$ (786)	\$ 63,275	\$ (2,978)
Total equity securities	2,083	(52)	—	—	2,083	(52)
Total investments	<u>\$ 43,313</u>	<u>\$ (2,244)</u>	<u>\$ 22,045</u>	<u>\$ (786)</u>	<u>\$ 65,358</u>	<u>\$ (3,030)</u>

December 31, 2015 (\$ in thousands)	Less than 12 Months		12 Months or More		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
Total fixed-maturity securities	\$ 124,036	\$ (2,626)	\$ 18,031	\$ (1,102)	\$ 142,067	\$ (3,728)
Total equity securities	2,820	(88)	—	—	2,820	(88)
Total investments	<u>\$ 126,856</u>	<u>\$ (2,714)</u>	<u>\$ 18,031</u>	<u>\$ (1,102)</u>	<u>\$ 144,887</u>	<u>\$ (3,816)</u>

There were 125 and 237 securities at March 31, 2016 and December 31, 2015, 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 widening credit spreads resulting from a decline in commodity prices. Management believes that despite the wider credit spreads, the securities are only temporarily impaired due to the strength of the issuing companies' balance sheets, as well as their available liquidity options allowing them to manage through this period of lower commodity prices. We do not intend to sell or believe we will be required to sell any of our temporarily-impaired fixed maturities before recovery of their amortized cost basis. 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 \$71.3 million and \$53.5 million at March 31, 2016 and December 31, 2015, respectively. The increase in the amounts on deposit at March 31, 2016 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 March 31, 2016 and December 31, 2015 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 and our revolving credit facility will provide us with sufficient liquidity to fund our anticipated growth and to pay claims and 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:

(\$ in thousands)	Three Months Ended	
	March 31,	
	2016	2015
Cash and cash equivalents provided by (used in):		
Operating activities	\$ (1,600)	\$ (437)
Investing activities	(7,453)	(6,672)
Financing activities	(4,473)	—
Net change in cash and equivalents	\$ (13,526)	\$ (7,109)

Comparison of Three Months Ended March 31, 2016 and 2015

Net cash used in operating activities was \$1.2 million higher for the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The increase is primarily due an increase in Lender Services losses paid.

Net cash used in financing activities increased \$4.5 million for the three months ended March 31, 2016 compared to the three months ended March 31, 2015, primarily due to the settlement of stock repurchases in 2016.

Other Material Changes in Financial Position

(\$ in thousands)	March 31, 2016	December 31, 2015
Selected Assets:		
Accounts receivable from agents, net	\$ 31,323	\$ 23,913
Reinsurance recoverable on paid losses	1,267	1,187
Reinsurance recoverables	1,962,189	1,911,660
Goodwill and intangible assets, net	5,778	5,958
Deferred income taxes, net	23,499	26,208
Selected Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 1,412,128	\$ 1,364,774
Unearned premiums	583,843	585,448
Allowance for policy cancellations	54,317	59,610
Deferred ceding fees	29,877	29,119
Debt, net	43,751	43,740
Other liabilities	30,198	35,151

Accounts receivable from agents, net. This balance reflects ceding fees, premiums and premium taxes receivable. During the three months ended March 31, 2016, accounts receivable from agents increased \$7.4 million from December 31, 2015, as a result of an increase in Program Services receivables from Nephila. This increase relates to an agreement with Nephila we entered into effective January 1, 2016 under which we will, at Nephila's request, transfer certain exposures that are otherwise reinsured by Nephila's quota share reinsurer to excess reinsurers. In instances where this agreement is utilized, State National would enter into an agreement directly with excess reinsurers, and Nephila would guarantee the obligation of those excess reinsurers and pay the premiums on our behalf on a quarterly basis in arrears. We purchased one excess reinsurance policy under this agreement during the first quarter.

Reinsurance recoverables, unpaid losses and loss adjustment expenses and unearned premiums. As of March 31, 2016, we held \$2.1 billion in collateral securing \$1.5 billion in reinsurance recoverables. In addition, we had \$463.1 million of unsecured reinsurance recoverables, of which \$457.1 million related to the Program Services segment and \$6.0 million related to our quota share reinsurance with CUNA Mutual, an A.M. Best "A" rated carrier. During the three months ended March 31, 2016, reinsurance recoverables increased \$50.5 million from December 31, 2015, 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 unpaid losses and loss adjustment expenses of \$47.3 million.

Allowance for policy cancellations. As of March 31, 2016, the allowance for policy cancellations decreased by \$5.3 million from December 31, 2015, primarily due to the volume and timing of CPI premiums written in the most recent three months of 2016 compared to the last three months of 2015. The fourth quarter tends to generate the greatest amount of written premium, whereas the first quarter of the year tends to generate the least. 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 three months ended March 31, 2016 and 2015 included upward revisions to prior year estimates of \$1.7 million and \$2.0 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 three months ended March 31, 2016 and 2015 was approximately \$0.7 million and \$1.0 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 debentures' interest rates range from 3.80% to 4.10% plus the 3-month LIBOR. The three month LIBOR at March 31, 2016, was 0.63%. All of the debentures mature between 2032 and 2034.

On March 31, 2016, the Company, through TBA, entered into a loan agreement, which provides for a secured revolving credit facility in an aggregate principal amount of \$15 million. The credit agreement matures on April 30, 2018. Under the credit agreement, TBA may request advances up to the aggregate amount of the unused commitment under the credit facility, on a revolving basis, prior to the maturity of the credit agreement. Borrowings under the credit agreement will bear interest at a variable rate equal to LIBOR plus 1.85% per annum; provided, however, that LIBOR shall be subject to a floor of 0.15%. TBA shall also pay a commitment fee on the daily average unused commitment amount for the period running from the closing date to the maturity date at a rate of 0.25% per annum. The credit agreement contains customary representations, warranties, covenants, and events of default, as well as a financial covenant requiring TBA and the Company to maintain a consolidated tangible net worth of at least \$150 million.

Item 3. 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.

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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 69% 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 \$341.5 million and an amortized cost of \$335.7 million as of March 31, 2016 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 March 31, 2016 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

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such events may have on the fair value and carrying value of our fixed-maturity securities and on our shareholders' equity, each as of March 31, 2016.

Hypothetical Change in Interest Rates	Fair Value	Estimated Change in Fair Value	Total Return %
(\$ in thousands)			
300 basis point increase	\$ 296,673	\$ (44,779)	-13.11%
200 basis point increase	309,256	(32,196)	-9.43%
100 basis point increase	322,064	(19,388)	-5.68%
No change	341,452	—	—
100 basis point decrease	347,186	5,734	1.68 %
200 basis point decrease	359,170	17,718	5.19 %
300 basis point decrease	371,040	29,588	8.67 %

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 March 31, 2016, we had \$44.5 million of debt instruments, gross of debt issuance costs. 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 4: 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.

There were no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) as of the end of the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION**Item 1: 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 1A: Risk Factors

There have been no material changes to the Risk Factors described in Item 1A, "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3: Defaults Upon Senior Securities

None.

Item 4: Mine Safety Disclosures

Not applicable.

Item 5: Other Information

None.

Item 6: Exhibits

The information required by this item is set forth on the exhibit index which follows the signature page of this report.

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 on 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>.

SIGNATURES

Pursuant to the requirements 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.

Date: May 9, 2016

/s/ Terry Ledbetter

Terry Ledbetter

Chief Executive Officer

Date: May 9, 2016

/s/ David Hale

David Hale

Chief Operating Officer and Chief Financial Officer

INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.1	Loan Agreement, dated March 31, 2016, by and between T.B.A. Insurance Group, Ltd. and Frost Bank
10.2	Guaranty Agreement, dated March 31, 2016, by the Company for the benefit of Frost Bank
10.3	Pledge and Security Agreement, dated March 31, 2016, by and between T.B.A. Insurance Group, Ltd. and Frost Bank
10.4	Employment Agreement, dated February 4, 2016, by and between T.B.A. Insurance Group, Ltd. and Matthew A. Freeman
10.5	Severance Agreement, dated February 4, 2016, by and between T.B.A. Insurance Group Ltd. and Matthew A. Freeman
10.6	Form of 2014 Long-Term Incentive Plan Performance-Based Restricted Stock Award Agreement
10.7	Form of 2014 Long-Term Incentive Plan Performance and Time-Based Restricted Stock Award Agreement
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)
32.1	Certification of Periodic Financial Report Pursuant to 18 U.S.C. Section 1350 (furnished herewith)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

LOAN AGREEMENT

Borrower: T.B.A. Insurance Group, Ltd.
Address: 1900 L Don Dodson Drive
Bedford, Texas 76021

Lender: Frost Bank
Address: P.O. Box 1600
San Antonio, Texas 78296

THIS LOAN AGREEMENT (this "Loan Agreement") is dated March 31, 2016 by and between Borrower and Lender.

ARTICLE I

Definitions and Use of Terms

Section 1.01. Certain Definitions. As used herein, the following terms have the meanings indicated, unless the context otherwise requires:

"Advance" means a disbursement by Lender of any of the proceeds of a Loan.

"Affiliate" means any individual or entity directly or indirectly controlling, controlled by, or under common control with, another individual or entity.

"Applicable Bankruptcy Law" means the United States Bankruptcy Code or any other present or future insolvency, bankruptcy, liquidation, conservatorship, reorganization or moratorium Governmental Requirement or other similar Governmental Requirements.

"Business Day" means a day other than a Saturday, Sunday or a day on which commercial banks in the State of Texas are authorized to be closed, or are in fact closed.

"Closing Date" means the date of this Loan Agreement.

"Code" means the Internal Revenue Code of 1986, as amended, and the regulations promulgated and rulings issued thereunder.

"Collateral" means the Securities Account and the assets held therein.

"Default" means any event or circumstance that constitutes an Event of Default or, that with, the lapse of time, would (if not cured or otherwise remedied during such time) constitute an Event of Default.

"Distributions" means all dividends and other distributions made by a Person to its equityholders.

"Environmental Laws" means any and all Federal, state, local, and foreign Governmental Requirements, judgments, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of health and the

environment or the release of any materials into the environment, including those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" means any trade or business (whether or not incorporated) under common control with Borrower within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

"ERISA Event" means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a Plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Sections 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon Borrower or any ERISA Affiliate.

"Event of Default" has the meaning set forth in Article IX.

"Financial Statements" means financial information of Borrower, any Subsidiary and any Obligated Party, as required and set forth in Section 6.01 as, at the time in question, have been most recently furnished to Lender.

"GAAP" means generally accepted accounting principles in the United States set forth in the statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession in the United States, that are applicable to the circumstances as of the date of determination, consistently applied.

"Governmental Authority" means the United States, and any court or political subdivision, agency, or instrumentality having jurisdiction over Borrower, its Subsidiaries, or any Obligated Party, domestic or foreign.

"Governmental Requirements" means all constitutions, statutes, laws, ordinances, rules, regulations, orders, writs, injunctions or decrees of any Governmental Authority applicable to Borrower, its Subsidiaries, or any Obligated Party.

"Guarantee" means, as to any Person, (a) any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation payable or performable by another Person (the "primary obligor") in any manner,

whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity or level of income or cash flow of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation, or (iv) entered into for the purpose of assuring in any other manner the obligee in respect of such Indebtedness or other obligation of the payment or performance thereof or to protect such obligee against loss in respect thereof (in whole or in part), or (b) any Lien on any assets of such Person securing any Indebtedness or other obligation of any other Person, whether or not such Indebtedness or other obligation is assumed by such Person. The amount of any Guarantee will be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof. The term "Guarantee" as a verb has a corresponding meaning.

"Guarantor" means State National and any other Person who executes a Guaranty or a supplement thereto in favor of Lender.

"Guaranty" means a continuing guaranty of the Obligations executed by a Guarantor, in form and substance satisfactory to Lender, as the same may be amended, modified, restated, ratified, supplemented, or replaced from time to time.

"Hazardous Materials" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Indebtedness" means, as to any Person at a particular time, without duplication, all of the following, whether or not included as indebtedness or liabilities in accordance with GAAP: (a) all obligations of such Person for borrowed money and all obligations of such Person evidenced by bonds, debentures, notes, loan agreements or other similar instruments; (b) all direct or contingent obligations of such Person arising under letters of credit (including standby and commercial), bankers' acceptances, bank guaranties, surety bonds and similar instruments; (c) net obligations of such Person under any Interest Rate Protection Agreement; (d) all obligations of such Person to pay the deferred purchase price of Collateral or services (other than trade accounts payable in the ordinary course of business that are not past due); (e) indebtedness (excluding prepaid interest thereon) secured by a Lien on Collateral owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness will have been assumed by such Person or is limited in recourse; (f) capital leases and Synthetic Lease Obligations; and (g) all Guarantees of such Person in respect of any of the foregoing. For all purposes hereof, the Indebtedness of any Person will include the Indebtedness of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which such Person is a general partner or a joint venturer, unless such Indebtedness is expressly made non-recourse to such Person.

"Interest Rate Protection Agreement" means any interest rate swap agreement, interest rate exchange agreement, currency exchange agreement, foreign exchange agreement, interest rate and currency exchange agreement, forward rate agreement, rate floor agreement, interest rate protection agreement, interest rate cap agreement, rate collar agreement, any option agreement respecting the foregoing, International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, or any similar agreement or arrangement and any schedule, confirmation, exhibit, document or instrument evidencing any interest in a transaction covered by any such agreement now existing or hereafter entered into by a Person to hedge the risk of variable interest rate volatility or fluctuations of interest rates, as the same may be modified, supplemented, amended or revised and in effect from time to time.

"IRS" means the United States Internal Revenue Service.

"Letter of Credit" means any letter of credit issued by Lender or any of its Affiliates for the account of Borrower pursuant to Article III.

"Letter of Credit Agreement" means an Application and Agreement for Standby or Commercial Letter of Credit, or an Amendment Request Form in each case properly completed and signed by Borrower requesting issuance, amendment, renewal or extension of a Letter of Credit, and any other document related to a Letter of Credit, all in form and substance satisfactory to Lender.

"Letter of Credit Liabilities" means, at any time, the aggregate amount available to be drawn under all outstanding Letters of Credit, plus the aggregate amount of all disbursements made by Lender under the outstanding Letters of Credit that have not yet been reimbursed by or on behalf of Borrower at such time.

"Lien" means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement of any kind or nature whatsoever (including any conditional sale or other title retention agreement, and any financing lease having substantially the same economic effect as any of the foregoing).

"Loans" are defined in Section 2.02, each individually a "Loan".

"Loan Documents" means this Loan Agreement, the Notes, all Guaranties, all Security Agreements, all Interest Rate Protection Agreements, all Letters of Credit, all Letter of Credit Agreements, and such other documents, instruments and agreements, evidencing, securing or pertaining to the Obligations as will from time to time be executed and delivered to Lender by Borrower, any Subsidiary, any Obligated Party, or any other party pursuant to this Loan Agreement, and any future amendments, restatements, modifications, ratifications, confirmations, extensions or supplements hereto or thereto.

"Managerial Official" means, with respect to any Person, an officer or a governing Person of such Person.

"Margin Stock" has the meaning given thereto in Section 221.3(v) of Regulation U, promulgated by the Board of Governors of the Federal Reserve System, F.R.S. Reg. U, 12 C.F.R. part 221 (January 1, 1983 revision), as amended from time to time.

"Material Adverse Change" means (a) a material adverse change in, or a material adverse effect upon, the operations, business, prospects, properties, assets, liabilities (actual or contingent), condition (financial or otherwise) of Borrower or State National or any of their Subsidiaries taken as a whole; (b) a material impairment of the ability of any Obligated Party to perform its obligations under any Loan Document to which it is a party; (c) a material adverse effect upon the legality, validity, binding effect or enforceability against Borrower or any Obligated Party of any Loan Document to which it is a party or the rights of Lender under any Loan Document; or (d) a material restatement or revision of a previously submitted financial statement pursuant to an audit.

"Multiemployer Plan" means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which Borrower, any Subsidiary, or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

"Notes" means, collectively, the Revolving Credit Note, and any renewals, extensions, modifications, refinancings, consolidations and substitutions thereof.

"Obligated Party" means any party other than Borrower who secures, guarantees and/or is otherwise obligated to pay all or any portion of the Obligations, including, without limitation, State National.

"Obligations" mean all present and future Indebtedness, obligations and liabilities of Borrower to Lender arising pursuant to the Loans, this Loan Agreement or any of the other Loan Documents or otherwise, and any renewals, extensions, increases, or amendments thereof, or any part thereof, regardless of whether such Indebtedness, obligations and liabilities are direct, indirect, fixed, contingent, liquidated, unliquidated, joint, several or joint and several and including interest and fees that accrue after the commencement by or against Borrower of any proceeding under any Applicable Bankruptcy Law naming Borrower as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding.

"Patriot Act" is defined in Section 5.16.

"Pension Plan" means any "employee pension benefit plan" (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by Borrower, any Subsidiary, or any ERISA Affiliate or to which Borrower, any Subsidiary, or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years.

"Person" means any individual, firm, corporation, association, partnership, joint venture, trust, entity, unincorporated organization or Governmental Authority.

"Plan" means any "employee benefit plan" (as such term is defined in Section 3(3) of ERISA) established by Borrower, any Subsidiary, or, with respect to any such plan that is subject to Section 412 of the Code or Title IV of ERISA, any ERISA Affiliate.

"Pledge Agreement" means the Pledge and Security Agreement of even date executed by Borrower in favor of Lender, creating a Lien on the Collateral.

"Reportable Event" means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30 day notice period has been waived.

"Revolving Credit Commitment" is defined in Section 2.01.

"Revolving Credit Loans" is defined in Section 2.01.

"Revolving Credit Note" means a promissory note executed by Borrower and payable to the order of Lender, evidencing the Revolving Credit Loans made by Lender, as the same may be amended, restated, supplemented, modified, extended or increased from time to time.

"Securities Account" means custodial account number XXXXX maintained by Borrower with Lender and all substitutes or replacements for that account.

"Security Agreements" means, collectively, (a) the Pledge Agreement, and (b) any other security agreement executed by any Person in connection with this Loan Agreement, as each may be amended, modified, ratified, supplemented, restated or replaced from time to time.

"State National" means State National Companies, Inc., a Delaware corporation.

"Subordinated Debt" means any Indebtedness owing by Borrower which has been subordinated by written agreement to all Indebtedness now or hereafter owing by Borrower to Lender, such agreement to be in form and substance satisfactory to Lender.

"Subsidiary" of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing body (other than securities or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references herein to a "Subsidiary" or to "Subsidiaries" will refer to a Subsidiary or Subsidiaries of Borrower.

"Synthetic Lease Obligation" means the monetary obligation of a Person under (a) a synthetic, off-balance sheet or tax retention lease, or (b) an agreement for the use or possession of creating obligations that do not appear on the balance sheet of such Person but which, upon the insolvency or bankruptcy of such Person, would be characterized as the Indebtedness of such Person (without regard to accounting treatment).

"Termination Date" means the maturity date stated in the Revolving Credit Note.

"UCC" means the Uniform Commercial Code of the State of Texas or of any other state having jurisdiction with respect to any of the rights and remedies of Lender under the Loan Documents, as amended.

"Unfunded Pension Liability" means the excess of a Pension Plan's benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Pension Plan's assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

Section 1.02.Headings. The headings, captions, and arrangements used in any of the Loan Documents are, unless specified otherwise, for convenience only and will not be deemed to limit, amplify, or modify the terms of the Loan Documents nor to affect the meaning thereof.

Section 1.03.Number and Gender of Words. Whenever herein the singular number is used, the same will include the plural where appropriate, and words of any gender will include each other gender where appropriate.

Section 1.04.Money. Unless stipulated otherwise, all references herein or in any of the Loan Documents to "Dollars," "money," "payments," or other similar financial or monetary terms are references to currency of the United States of America.

Section 1.05.Articles, Sections and Exhibits. All references herein to Articles and Sections are, unless specified otherwise, references to articles and sections of this Loan Agreement. All references herein to an "Exhibit," "Annex" or "Schedule" are references to exhibits, annexes or schedules attached hereto, all of which are made a part hereof for all purposes, the same as if set forth herein verbatim, it being understood that if any exhibit, annex or schedule attached hereto, which is to be executed and delivered, contains blanks, the same will be completed correctly and in accordance with the terms and provisions contained and as contemplated herein prior to or at the time of the execution and delivery thereof. The words "herein," "hereof," "hereunder" and other similar compounds of the word "here" when used in this Loan Agreement will refer to the entire Loan Agreement and not to any particular provision or section.

Section 1.06.Accounting Terms. Unless otherwise specified, all accounting and financial terms and covenants set forth above and in Article VIII are to be determined according to GAAP. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either Borrower or Lender will so request, Lender and Borrower will negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of Lender), provided that, until so amended, (a) such ratio or requirement will continue to be computed in accordance with GAAP prior to such change therein and (b) Borrower will provide to Lender financial statements and other documents required under this Loan Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

ARTICLE II

Loans

Section 2.01. Revolving Credit Loans. Subject to the terms and conditions set forth in this Loan Agreement and the other Loan Documents, Lender hereby agrees to lend to Borrower, on a revolving basis from time to time during the period commencing on the Closing Date and continuing through the Termination Date, such amounts as Borrower may request hereunder (the "Revolving Credit Loans"); provided, however, the total principal amount outstanding at any time will not exceed \$15,000,000.00 (the "Revolving Credit Commitment") minus the Letter of Credit Liabilities. Subject to the terms and conditions hereof, Borrower may borrow, repay and reborrow hereunder.

Section 2.02. Advances on Revolving Credit Loans. The Revolving Credit Loans will be collectively called the "Loans". Lender reserves the right to require Borrower to give Lender not less than one Business Day prior notice of each requested Advance specifying (1) the aggregate amount of such requested Advance, (2) the requested date of such Advance, and (3) the purpose for such Advance, with such Advances to be requested in a form satisfactory to Lender.

Section 2.03. Promissory Notes. The Loans will be evidenced by one or more Notes. Interest on the Notes will accrue at the rate set forth therein. The principal of and interest on the Notes will be due and payable in accordance with the terms and conditions set forth in the Notes and in this Loan Agreement.

Section 2.04. Commitment Fee. Borrower shall pay Lender a commitment fee on the daily average unused amount of the Revolving Credit Commitment for the period from and including the Closing Date until the Termination Date, at the rate of 0.25% per annum based on a 360-day year and the actual number of days elapsed. For the purpose of calculating the commitment fee hereunder, the Revolving Credit Commitment will be deemed utilized by the amount of all outstanding Revolving Credit Loans and outstanding Letters of Credit Liabilities. Accrued commitment fee will be payable quarterly in arrears on the last day of each May, August, November, and February and on the Termination Date.

Section 2.05. Capital Adequacy. If after the Closing Date, Lender will have determined that the adoption or implementation of any applicable Governmental Requirement regarding capital adequacy or any change therein, or any change in the interpretation or administration thereof by any central bank or other Governmental Authority charged with the interpretation or administration thereof, or compliance by Lender (or its parent) with any guideline, request, or directive regarding capital adequacy (whether or not having the force of law) of any such central bank or other Governmental Authority, has or would have the effect of reducing the rate of return on Lender's (or its parent's) capital as a consequence of its obligations hereunder or the transactions contemplated hereby to a level below that which Lender (or its parent) could have achieved but for such adoption, implementation, change, or compliance (taking into consideration Lender's policies with respect to capital adequacy) by an amount deemed by Lender to be material, then from time to time, within 10 Business Days after demand by Lender, Borrower will pay to Lender (or its parent) such additional amount or amounts as will compensate Lender for such reduction. A certificate of Lender claiming compensation under this Section and setting forth the additional

amount or amounts to be paid to it hereunder will be conclusive, provided that the determination thereof is made on a reasonable basis. In determining such amount or amounts, Lender may use any reasonable averaging and attribution methods.

Section 2.06. Reserved.

ARTICLE III
Letters of Credit

Section 3.01. Letters of Credit. Subject to the terms and conditions of this Loan Agreement and the applicable Letter of Credit Agreement, Lender agrees to issue, amend, renew or extend one or more Letters of Credit for the account of Borrower from time to time from the Closing Date to and including the Termination Date of the Revolving Credit Loans; provided, however, that the Letter of Credit Liabilities will not at any time exceed the lesser of (a) \$1,000,000.00, or (b) an amount equal to the amount of the Revolving Credit Commitment, minus the outstanding Revolving Credit Loans. Each Letter of Credit (i) will expire at or prior to the close of business on the Expiration Date, (ii) will be payable in Dollars, (iii) must support a transaction that is entered into in the ordinary course of Borrower's business, (iv) must be satisfactory in form and substance to Lender, and (v) will be issued pursuant to such documents and instruments (including, without limitation, the Letter of Credit Agreement) as Lender may require. The "Expiration Date" shall mean the earlier to occur of (x) the date one year after the date of the issuance of the Letter of Credit (or, in the case of any renewal or extension thereof, one year after such renewal or extension) and (y) unless otherwise agreed by Lender pursuant to the Letter of Credit Agreement, the date that is five Business Days prior to the Termination Date of the Revolving Credit Loans.

Section 3.02. Procedure for Issuing, Amending, Renewing and Extending Letters of Credit. Each request for issuance of a Letter of Credit will be made on at least five Business Days prior notice from Borrower to Lender by means of a written Letter of Credit request describing the transaction proposed to be supported thereby and specifying (a) the requested date of issuance (which will be a Business Day), (b) the face amount of the Letter of Credit, (c) the expiration date of the Letter of Credit, (d) the name and address of the beneficiary, and (e) the form of the draft and any other documents required to be presented at the time of any drawing (such notice to set forth the exact wording of such documents or to attach copies thereof). The Borrower shall also submit and execute a Letter of Credit Agreement in connection with any request for issuance of a Letter of Credit. Each request for amendment, renewal or extension of an existing Letter of Credit shall be in writing, identifying the applicable Letter of Credit by Letter of Credit number and specifying the date of amendment, renewal or extension (which shall be a Business Day) and such other information as shall be necessary to amend, renew or extend such Letter of Credit. The Borrower shall also submit and execute a Letter of Credit Agreement in connection with any request to amend, renew or extend an existing Letter of Credit. Lender is not obligated to amend, renew or extend any Letter of Credit. Lender may refuse to issue, amend, extend or renew a Letter of Credit in the event Lender would be prohibited from doing so under any applicable Governmental Requirement.

Section 3.03.Payments Constitute Advances. Each payment by Lender pursuant to a drawing under a Letter of Credit will constitute and be deemed a Revolving Credit Loan by Lender to Borrower under this Loan Agreement as of the day and time such payment is made by Lender and in the amount of such payment.

Section 3.04.Letter of Credit Fee. Borrower will pay to Lender (a) a letter of credit commission payable on the date each Letter of Credit is issued in accordance with Lender's current fee schedule in effect at the time of issuance, amendment, renewal or extension, as applicable, and (b) such other reasonable fees, commissions, costs and out-of-pocket expenses charged or incurred by Lender with respect to issuance, amendment, renewal or extension of any Letter of Credit.

Section 3.05.Obligations Absolute. The obligations of Borrower under this Loan Agreement and the other Loan Documents (including without limitation the obligation of Borrower to reimburse Lender for draws under any Letter of Credit) will be absolute, unconditional, and irrevocable, and will be performed strictly in accordance with the terms of this Loan Agreement and the other Loan Documents under all circumstances whatsoever, including without limitation the following circumstances:

- (a) Any lack of validity or enforceability of any Letter of Credit or any other Loan Document;
- (b) Any amendment or waiver of or any consent to departure from any Loan Document;
- (c) The existence of any claim, set-off, counterclaim, defense or other rights which Borrower, its Subsidiaries, any Obligated Party, or any other Person may have at any time against any beneficiary of any Letter of Credit, Lender, or any other Person, whether in connection with this Loan Agreement or any other Loan Document or any unrelated transaction;
- (d) Any statement, draft, or other document presented under any Letter of Credit proving to be forged, fraudulent, invalid, or insufficient in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;
- (e) Payment by Lender under any Letter of Credit against presentation of a draft or other document which does not comply with the terms of such Letter of Credit; or
- (f) Any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

Section 3.06.Limitation of Liability. Borrower assumes all risks of the acts or omissions of any beneficiary of any Letter of Credit with respect to its use of such Letter of Credit. Neither Lender nor any of its officers or directors will have any responsibility or liability to Borrower or any other Person for: (a) the failure of any draft to bear any reference or adequate reference to any Letter of Credit, or the failure of any documents to accompany any draft at negotiation, or the failure of any Person to surrender or to take up any Letter of Credit or to send documents apart from drafts as required by the terms of any Letter of Credit, or the failure of any Person to note the

amount of any instrument on any Letter of Credit, each of which requirements, if contained in any Letter of Credit itself, it is agreed may be waived by Lender, (b) errors, omissions, interruptions, or delays in transmission or delivery of any messages, (c) the validity, sufficiency, or genuineness of any draft or other document, or any endorsement(s) thereon, even if any such draft, document or endorsement should in fact prove to be in any and all respects invalid, insufficient, fraudulent, or forged or any statement therein is untrue or inaccurate in any respect, (d) the payment by Lender to the beneficiary of any Letter of Credit against presentation of any draft or other document that does not comply with the terms of the Letter of Credit, or (e) any other circumstance whatsoever in making or failing to make any payment under a Letter of Credit. Borrower will have a claim against Lender, and Lender will be liable to Borrower, to the extent of any direct, but not consequential, damages suffered by Borrower which Borrower proves in a final nonappealable judgment were caused by (i) Lender's willful misconduct or gross negligence in determining whether documents presented under any Letter of Credit complied with the terms thereof or (ii) Lender's willful failure to pay under any Letter of Credit after presentation to it of documents strictly complying with the terms and conditions of such Letter of Credit. Lender may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary.

Section 3.07. Additional Costs in Respect of Letters of Credit. If as a result of any regulatory change in Governmental Requirements there will be imposed, modified, or deemed applicable any tax, reserve, special deposit, or similar requirement against or with respect to or measured by reference to Letters of Credit issued or to be issued hereunder or Lender's commitment to issue Letters of Credit hereunder, and the result will be to increase the cost to Lender of issuing or maintaining any Letter of Credit or its commitment to issue Letters of Credit hereunder or reduce any amount receivable by Lender hereunder in respect of any Letter of Credit (which increase in cost, or reduction in amount receivable, will be the result of Lender's reasonable allocation of the aggregate of such increases or reductions resulting from such event), then, upon demand by Lender, Borrower agrees to pay Lender, from time to time as specified by Lender, such additional amounts as will be sufficient to compensate Lender for such increased costs or reductions in amount. A statement as to such increased costs or reductions in amount incurred by Lender, submitted by Lender to Borrower, will be conclusive as to the amount thereof, provided that the determination thereof is made on a reasonable basis.

Section 3.08. Cash Collateral Pledge. Upon request of Lender (a) to the extent not paid by Borrower in accordance with the terms of this Agreement, on demand, at any time, if Lender has honored any drawing request on any Letter of Credit issued hereunder, (b) if as of the Expiration Date any Letters of Credit may remain outstanding and partially or wholly drawn, (c) with respect to Letters of Credit with an expiry date after the Expiration Date, fifteen Business Days prior to the Expiration Date, or (d) upon the occurrence of an Event of Default (and automatically without any requirement for notice or request), Borrower shall immediately cash collateralize the Letters of Credit in an amount equal to one hundred five percent (105%) of the amounts available to be drawn under the Letters of Credit according to the records of the Lender. Such cash collateral shall be pledged to Lender as a first and prior perfected security interest in favor of Lender and Borrower shall execute such further documents as reasonably required by Lender to perfect its lien on the cash collateral.

ARTICLE IV

Conditions Precedent

Section 4.01 Initial Extension of Credit. The obligation of Lender to make the initial Advances or issue the initial Letter of Credit is subject to the condition precedent that Lender will have received on or before the day of such Advances or issuance of such Letter of Credit all of the following, each dated (unless otherwise indicated) the Closing Date, in form and substance satisfactory to Lender:

(a) Resolutions. Resolutions of the board of directors, members, partners or other appropriate governing body of Borrower and each Obligated Party certified by a Managerial Official of such Person, which resolutions authorize the execution, delivery, and performance by such Person of this Loan Agreement and the other Loan Documents to which it is a party;

(b) Certificates of Borrower and Obligated Parties. Certificates of each of Borrower and Obligated Parties executed by a Managerial Official of such Person certifying as to (i) the names of the officers of such Person authorized to sign this Loan Agreement and each of the other Loan Documents to which it is a party (including the certificates contemplated herein) together with specimen signatures of such officers; (ii) original certified or file-stamped copies of the certificate or articles of incorporation, articles of organization, certificate of limited partnership, trust agreement or other similar organizational document of such Person, certified as true, correct and complete by the appropriate authority in their respective jurisdictions of organization as of a date within 10 days prior to the Closing Date; (iii) bylaws, limited partnership agreement, trust agreement, operating agreement or other similar organizational document of such Person certified as true, correct, and complete by such Managerial Official; and (iv) certificates of the appropriate government officials as to the existence and good standing (if applicable) of such Person in their respective jurisdictions of organization, each dated within 10 days prior to the Closing Date;

(c) Notes. The Notes executed by Borrower;

(d) Security Agreement. The Security Agreements executed by Borrower;

(e) Guaranties. The Guaranties executed by the Guarantors;

(f) UCC, Lien Search, etc. The results of a Uniform Commercial Code, tax Lien and judgment searches showing all financing statements and other documents or instruments on file against Borrower and each Obligated Party with the applicable authority in the jurisdiction of such Person's principal residence, place of business or chief executive office (as applicable) and such other jurisdictions requested by Lender, such search to be as of a date no more than 10 days prior to the Closing Date;

(g) Opinion of Counsel. A favorable opinion of legal counsel to Borrower and the Obligated Parties, as to the matters as Lender may reasonably request;

(h) Payment of Processing Fee. A processing fee in an amount equal to one-tenth of one percent (0.10%) of the Revolving Credit Commitment.

(i) Reserved;

(j) Reserved;

(k) Attorneys' Fees and Expenses. Evidence that the costs and expenses (including reasonable attorneys' fees) referred to in Section 10.13, to the extent incurred, will have been paid in full by Borrower; and

(l) Additional Documentation. Lender will have received such additional approvals, opinions, instruments or documents as Lender or its legal counsel may reasonably request.

Section 4.02. Conditions to all Advances. The obligation of Lender to make any Advance or issue any Letter of Credit is subject to the following conditions precedent:

(a) The representations and warranties of Borrower contained in Article V or any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, will be true and correct on and as of the date of such Advance or issuance of such Letter of Credit, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they will be true and correct as of such earlier date, and except that for purposes of this Section 4.02, the representations and warranties contained in Section 5.06 will be deemed to refer to the most recent statements furnished pursuant to Section 6.01.

(b) No Default will exist, or would result from such proposed Advance or issuance of Letter of Credit.

(c) Lender will have received a request for such Advance or issuance of Letter of Credit in accordance with the requirements hereof.

Each request for Advance or issuance of Letter of Credit hereunder submitted by Borrower will be deemed to be a representation and warranty that the conditions specified in Sections 4.02(a) and (b) have been satisfied on and as of the date of the applicable Advance or Letter of Credit.

ARTICLE V

Representations and Warranties

Borrower hereby represents and warrants, and upon each request for an Advance or the issuance of a Letter of Credit further represents and warrants, to Lender as follows:

Section 5.01. Existence, Power, Compliance with Governmental Requirements. Borrower (a) is a limited partnership duly organized, validly existing and in good standing, if applicable, under the Governmental Requirements of the jurisdiction of its organization, (b) has all requisite power and authority to execute, deliver and perform the Loan Documents to which it

is a party and (c) is in compliance with all Governmental Requirements, except where the failure to do so, either individually or in the aggregate, could not reasonably be expected to have a Material Adverse Change. Each Obligated Party (a) is a corporation duly organized, validly existing and in good standing, if applicable, under the Governmental Requirements of the jurisdiction of its organization, (b) has all requisite power and authority to execute, deliver and perform the Loan Documents to which it is a party, and (c) is in compliance with all Governmental Requirements, except where the failure to do so, either individually or in the aggregate, could not reasonably be expected to have a Material Adverse Change.

Section 5.02. Binding Obligations. The execution, delivery, and performance of this Loan Agreement and all of the other Loan Documents by Borrower and each Obligated Party have been duly authorized by all necessary action by Borrower and the Obligated Parties and constitute legal, valid and binding obligations of Borrower and the Obligated Parties, enforceable in accordance with their respective terms, except as enforcement of remedies may be limited by Applicable Bankruptcy Law.

Section 5.03. No Consent. The execution, delivery and performance of this Loan Agreement and the other Loan Documents, and the consummation of the transactions contemplated hereby and thereby, do not (a) conflict with, result in a violation of, or constitute a default under (i) any provision of its charter or organizational documents, or other instrument binding upon Borrower or any Obligated Party, (ii) any Governmental Requirements or (iii) any contract, agreement, document or instrument to which Borrower or any Obligated Party is a party, (b) require the consent, approval or authorization of or notice to or filing with any third party, not otherwise obtained and delivered to Lender or (c) result in creation or perfection of a Lien, except the Lien covering the Collateral.

Section 5.04. Taxes; Governmental Charges. To the best of Borrower's knowledge, Borrower and each Obligated Party have timely filed all federal, state and local tax reports and returns required by any Governmental Requirement to be filed, including, without limitation, all income, franchise, employment, property and sales tax returns, and have duly paid all their respective liabilities for taxes, assessments, governmental charges and levies that are due and payable, except (a) taxes that are being contested in good faith by appropriate proceedings and for which Borrower or such Obligated Party, as applicable, has established on its books adequate reserves in accordance with GAAP or (b) to the extent that the failure to do so could not reasonably be expected to have a Material Adverse Change. The reserves reflected on the balance sheet of Borrower and each Obligated Party are adequate in amount for the payment of all tax liabilities for Borrower and each Obligated Party, as applicable, accrued through the date of such balance sheet. To the best of Borrower's knowledge, there is no pending investigation or audit of Borrower or any Obligated Party by any taxing authority. Furthermore, to the best of Borrower's knowledge, there is no pending but unassessed tax liability of Borrower or any Obligated Party or any unresolved questions or claims concerning any tax liability of Borrower, any Subsidiary or any Obligated Party.

Section 5.05. No Default. Neither Borrower nor any Obligated Party is in default under or with respect to any contractual obligation that could, either individually or in the aggregate, reasonably be expected to have a Material Adverse Change. No Default has occurred and is

continuing or would result from the consummation of the transactions contemplated by this Loan Agreement or any other Loan Document.

Section 5.06.Financial Statements. The Financial Statements are (a) true, correct and complete in all material respects as of the dates specified therein, (b) fully and accurately present the financial condition and results of operations for the period covered thereby of Borrower and Obligated Parties, as applicable, as of the dates specified and (c) prepared in accordance with GAAP. Since the date of the Financial Statements, no Material Adverse Change has occurred, except as heretofore disclosed in writing to Lender, nor has Borrower or any Obligated Party incurred any material liability, direct or indirect, fixed or contingent. Each of Borrower and Obligated Parties is solvent.

Section 5.07.Suits, Actions, Etc. There are no adverse investigations, actions, suits or proceedings pending or to the best of Borrower's knowledge threatened before or by any Governmental Authority or arbitration authority against or affecting Borrower any Obligated Party or the Collateral, or involving the validity, enforceability or priority of any of the Loan Documents, other than routine matters arising in the ordinary course of business, none of which could, either individually or in the aggregate, reasonably be expected to have a Material Adverse Change. To the best of Borrower's knowledge, the consummation of the transactions contemplated hereby and the performance or satisfaction of any of the terms or conditions hereof and of the other Loan Documents will not cause Borrower to be in default (or provide cause for acceleration of Indebtedness) under any mortgage, deed of trust, lease, promissory note, loan agreement, or credit agreement to which Borrower is a party or by which Borrower or the Collateral may be bound or affected.

Section 5.08.Insurance. Borrower and Obligated Parties and the properties of Borrower, its Subsidiaries and Obligated Parties are insured with financially sound and reputable insurance companies not Affiliates of Borrower or any Obligated Party, in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where Borrower or the applicable Obligated Party operates.

Section 5.09.Subsidiaries. Borrower (a) has no Subsidiaries other than those specifically disclosed on Schedule 5.09(a) and (b) has no, and does not transact business under any, assumed names or trade names other than those specifically disclosed in Schedule 5.09(b).

Section 5.10.Reserved.

Section 5.11.Environmental Compliance. To the best of Borrower's knowledge, existing Environmental Laws and claims alleging potential liability or responsibility for violation of any Environmental Laws could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Change.

Section 5.12.ERISA Compliance.

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other Governmental Requirements. Each Plan that is intended to qualify under Section 401(a) of the Code has received a favorable

determination letter from the IRS or an application for such a letter is currently being processed by the IRS with respect thereto and, to the best knowledge of Borrower, nothing has occurred which would prevent, or cause the loss of, such qualification. Borrower and each ERISA Affiliate have made all required contributions to each Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the best knowledge of Borrower, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan that could be reasonably be expected to have a Material Adverse Change. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan that has resulted or could reasonably be expected to result in a Material Adverse Change.

(c) (i) No ERISA Event has occurred or is reasonably expected to occur; (ii) no Pension Plan has any Unfunded Pension Liability; (iii) neither Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) neither Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) neither Borrower nor any ERISA Affiliate has engaged in a transaction that could be subject to Sections 4069 or 4212(c) of ERISA.

Section 5.13. Margin Regulations; Investment Company Act; Public Utility Holding Company Act.

(a) Borrower is not engaged and will not engage, principally or as one of its important activities, in the business of purchasing or carrying Margin Stock or extending credit for the purpose of purchasing or carrying Margin Stock.

(b) None of Borrower, any Person controlling Borrower, or any Subsidiary (i) is a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," within the meaning of the Public Utility Holding Company Act of 1935, or (ii) is or is required to be registered as an "investment company" under the Investment Company Act of 1940.

Section 5.14. Disclosure. Borrower has disclosed to Lender all agreements, documents, instruments and organizational documents or other restrictions to which it, any of its Subsidiaries, or any Obligated Party is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Change. No report, financial statement, certificate or other information furnished (whether in writing or orally) by or on behalf of Borrower, any Subsidiary, or any Obligated Party to Lender in connection with the transactions contemplated hereby and the negotiation of this Loan Agreement or delivered

hereunder (as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

Section 5.15.Intellectual Property. Borrower, its Subsidiaries and Obligated Parties own, or possess the right to use, all of the trademarks, service marks, trade names, copyrights, patents, patent rights, franchises, licenses, slogans, other advertising products and processes, and other intellectual property rights that are reasonably necessary for the operation of their respective businesses, without conflict with the rights of any other Person. To the best knowledge of Borrower, no slogan or other advertising product, process or other material now used by Borrower, any Subsidiary or any Obligated Party infringes upon any rights held by any other Person.

Section 5.16.Patriot Act. All capitalized words and phrases and all defined terms used in the USA Patriot Act of 2001, 107 Public Law 56 (October 26, 2001) (the "Patriot Act") and in other statutes and all orders, rules and regulations of the United States government and its various executive department, agencies and offices related to the subject matter of the Patriot Act, including, but not limited to, Executive Order 13224 effective September 24, 2001, are hereinafter collectively referred to as the "Patriot Rules" and are incorporated into this section of the Loan Agreement. Borrower represents and warrants to Lender that neither it nor any of its principals, shareholders, members, partners, or Affiliates, as applicable, is a Person named as a Specially Designated National and Blocked Person (as defined in Presidential Executive Order 13224) and that it is not acting, directly or indirectly, for or on behalf of any such Person. Borrower further represents and warrants to Lender that Borrower and its principals, shareholders, members, partners, or Affiliates, as applicable, are not, directly or indirectly, engaged in, nor facilitating, the transactions contemplated by this Loan Agreement on behalf of any Person named as a Specially Designated National and Blocked Person. Borrower hereby agrees to defend, indemnify and hold harmless Lender from and against any and all claims, damages, losses, risks, liabilities, and expenses (including reasonable attorneys' fees and costs) arising from or related to any breach of the foregoing representations and warranties.

ARTICLE VI

Affirmative Covenants

Until (i) all Obligations are fully paid and satisfied, (ii) the Revolving Credit Commitment and the commitment to issue Letters of Credit have been terminated, and (iii) the termination or expiration of all Letters of Credit, Borrower agrees and covenants that it will, and cause State National, and each Subsidiary to:

Section 6.01.Furnish to Lender:

(a) Annual 10K. As soon as available, and in any event within 90 days after the end of each fiscal year of State National, a copy of the Form 10K filed by State National for the fiscal year then ending with United States Securities and Exchange Commission, in such case audited by independent public accountants of recognized standing satisfactory to

Lender, accompanied by a report and opinion of such accountants, which report and opinion shall be prepared in accordance with GAAP and shall not be subject to any "going concern," "emphasis on going concern," or like qualification or exception, or any qualification or exception as to the scope of such audit. Borrower (i) shall inform such independent public accountants that Lender will rely on the results of such financial statements and any other financial statements provided to Lender and (ii) grants Lender permission to discuss with such accountants the results of any audit, the field work undertaken, the Loans and any other matters related to Borrower, any Subsidiary and any Obligated Party.

(b) Quarterly 10Q. As soon as available, and in any event within 45 days after the end of each of the first three fiscal quarters of each fiscal year of State National, a copy of the Form 10Q filed by State National for the fiscal quarter then ending with the United States Securities and Exchange Commission.

(c) Reserved.

(d) Tax Returns. Copies of State National's and Borrower's income tax returns (federal and state, if any) within 30 days after the applicable filing or extension date for the tax reporting period thereof, prepared by a tax professional satisfactory to Lender.

(e) Securities Account Statements. Borrower hereby authorizes each business unit at Lender to receive and review each monthly account statement for the Securities Account whenever so required by Lender.

Section 6.02. Notices. Promptly notify Lender:

(a) of the occurrence of any Default;

(b) of any matter that has resulted or could reasonably be expected to result in a Material Adverse Change, including (i) breach or non-performance of, or any default under, a contractual obligation of Borrower, any Subsidiary or any Obligated Party; (ii) any dispute, litigation, investigation, proceeding or suspension between Borrower, any Subsidiary or any Obligated Party and any Governmental Authority; or (iii) the commencement of, or any material development in, any litigation or proceeding affecting Borrower, any Subsidiary or any Obligated Party;

(c) of the occurrence of any ERISA Event;

(d) of a change in name of Borrower or any Obligated Party or a change in the location of Borrower, any Obligated Party, or any Collateral, in each case, within 30 days prior to such change; and

(e) of any material change in accounting policies or financial reporting practices by Borrower, State National, or any Subsidiary.

Each notice pursuant to this Section will be accompanied by a statement of a Managerial Official of Borrower setting forth details of the occurrence referred to therein and stating what

action Borrower has taken and proposes to take with respect thereto. Each notice pursuant to this Section will describe with particularity any and all provisions of this Loan Agreement and any other Loan Document that have been breached or affected thereby.

Section 6.03.Accounts and Records. Maintain its books and records in accordance with GAAP.

Section 6.04.Preservation of Existence, Etc. (a) Preserve, renew and maintain in full force and effect its legal existence and good standing under the Governmental Requirements of the jurisdiction of its organization; and (b) take all reasonable action to maintain all rights, privileges, permits, licenses and franchises necessary or desirable in the normal conduct of its business, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Change; provided that the foregoing shall not prohibit a reorganization involving (i) Borrower converting from a limited partnership to a different business entity type and/or (ii) any Subsidiaries of State National (other than Borrower) merging, consolidating, liquidating or dissolving, in each case, if Borrower determines in good faith that such conversion, merger, consolidation, liquidation or dissolution is in the best interests of Borrower and is not materially disadvantageous to Lender.

Section 6.05.Maintenance of Properties. (a) Maintain, preserve and protect all of its material properties and equipment necessary in the operation of its business in good working order and condition, ordinary wear and tear excepted; (b) make all necessary repairs thereto and renewals and replacements thereof except where the failure to do so could not reasonably be expected to have a Material Adverse Change; (c) use the standard of care typical in the industry in the operation and maintenance of its facilities; and (d) preserve or renew all of its registered patents, trademarks, trade names and service marks (including licenses thereof), except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Change.

Section 6.06.Maintenance of Insurance. Maintain with financially sound and reputable insurance companies not Affiliates of Borrower, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business, including but not limited to, commercial property insurance, all risks property damage, commercial general liability, worker's compensation, business interruption and other insurance, of such types and in such amounts as are customarily carried under similar circumstances by such other Persons and providing for not less than 30 days' prior notice to Lender of termination, lapse or cancellation of such insurance. Each insurance policy will name Lender as "additional insured." Borrower will, and will cause each Obligated Party to, deliver to Lender upon Lender's request, originals or certified copies of insurance policies or certificates of insurance, each in form and substance satisfactory to Lender.

Section 6.07.Right of Inspection. After prior notice to Borrower and provided such visit or examination is accompanied by Borrower's representatives, permit Lender to (a) visit its properties and installations, (b) examine, audit and make and take away copies or reproductions of its books and records, and (c) discuss with its respective directors, partners, principal officers and independent auditors its respective businesses, assets, liabilities, financial positions, results of operations, and business prospects, at all reasonable times. Borrower shall be responsible for the reasonable costs and expenses associated with such inspection. To the extent Borrower maintains

any records, including computer generated records and software programs for the generation of such records in the possession of a third party, Borrower will, to the extent such records constitute Collateral, (i) notify such third party of Lender's Lien in such records, (ii) cause such party to grant access to Lender to such records and (iii) provide Lender with copies of any records Lender may request, all at Borrower's sole cost and expense.

Section 6.08. Right to Additional Information. Furnish Lender with such additional information and statements, lists of assets and liabilities, statements of contingent liabilities, tax returns, and other reports and certificates with respect to Borrower's, any Subsidiary's, or any Obligated Party's financial condition, business operations and compliance with the terms of the Loan Documents as Lender may reasonably request from time to time.

Section 6.09. Compliance with Governmental Requirements. Conduct its business in an orderly and efficient manner consistent with good business practices, and perform and comply with all Governmental Requirements applicable to Borrower, its Subsidiaries, and their businesses and operations (including without limitation, all applicable Environmental Laws), except where the failure to do so, either individually or in the aggregate, could not reasonably be expected to have a Material Adverse Change.

Section 6.10. Taxes. Timely pay and discharge when due all of its Indebtedness and obligations, including without limitation, all assessments, taxes, governmental charges, levies, Liens and claims, of every kind and nature, imposed upon Borrower, its Subsidiaries or any of their properties, income, or profits, that, if not paid, could reasonably be expected to have a Material Adverse Change prior to the earlier of the date on which such obligation would become delinquent or the date penalties would attach, and all lawful claims that, if unpaid, might become a Lien or charge upon any of Borrower's or its Subsidiary's properties, income, or profits; provided, however, Borrower and its Subsidiaries will not be required to pay and discharge any such assessment, tax, government charge, levy, Lien or claim so long as (a) the legality of the same will be contested in good faith by appropriate judicial, administrative or other legal proceedings instituted with reasonable promptness and diligently conducted, and (b) Borrower and its Subsidiaries will have established on their books adequate reserves with respect to such contested assessment, tax, government charge, levy, Lien or claim in accordance with GAAP.

Section 6.11. Notice of Indebtedness. Promptly inform Lender of the creation, incurrence or assumption by Borrower or any Subsidiary of any actual or contingent liabilities not permitted under this Loan Agreement or any other Loan Document.

Section 6.12. Additional Documents. Execute and deliver, or cause to be executed and delivered, to Lender, from time to time as required by Lender, any and all other agreements, instruments and documents which Lender may reasonably request in order to provide the rights and remedies to Lender granted or provided for by the Loan Documents or give effect to the transactions contemplated under this Loan Agreement and the other Loan Documents.

Section 6.13. Lender as Custodian of Securities. Maintain the Securities Account and all assets and securities held therein with Lender.

ARTICLE VII

Negative Covenants

Until (i) all Obligations are fully paid and satisfied, (ii) the Revolving Credit Commitment and the commitment to issue Letters of Credit have been terminated in full, and (iii) the termination or expiration of all Letters of Credit, Borrower will not, directly or indirectly:

Section 7.01.Nature of Business. Make any material change in the nature of its business as carried on as of the Closing Date.

Section 7.02.Liquidations, Mergers, Consolidations. Become a party to a merger or consolidation, or purchase or otherwise acquire all or a substantial part of the assets of any Person or any shares or other evidence of beneficial ownership of any Person where the consideration to be paid for such merger, consolidation or acquisition is in excess of twenty-five million dollars (\$25,000,000.00), or dissolve, liquidate or cease operations.

Section 7.03.Reserved.

Section 7.04.Reserved.

Section 7.05.Reserved.

Section 7.06.Liens. Create, incur or permit to exist any Lien or encumbrance on the Securities Account and any of its assets held therein, other than the Lien securing Indebtedness owing to Lender.

Section 7.07.Transfer of Ownership. Permit the sale, pledge or other transfer of any of the ownership interests in Borrower or any Subsidiary; provided, however, that this covenant shall not prohibit the transfer of ownership interest in Borrower or any Subsidiary to Affiliates of State National.

Section 7.08.Reserved.

Section 7.09.Reserved.

Section 7.10.Reserved.

Section 7.11.Dividends. Declare or pay any dividends on any shares of its capital stock, make any other Distributions with respect to any payment on account of the purchase, redemption, or other acquisition or retirement of any shares of its capital stock if such declaration, payment, or Distributions would cause an Event of Default to occur hereunder.

Section 7.12.Reserved.

Section 7.13.Use of Proceeds. Use the proceeds for any purpose other than legal business and partnership purposes.

ARTICLE VIII

Financial Covenant

As long as this Loan Agreement remains in effect, Borrower and State National will maintain at all times a minimum consolidated Tangible Net Worth of not less than \$150,000,000.00, to be tested as of the end of each fiscal quarter on the basis of the information set forth in the disclosures required under Section 6.01(a) and 6.01(b) hereof. "Tangible Net Worth" is defined as the sum of their consolidated: (a) total assets; less (b) intangible assets; less (c) total liabilities; plus (d) Subordinated Debt.

ARTICLE IX

Events of Default

Section 9.01. Events of Default. Each of the following will constitute an "Event of Default" under this Loan Agreement:

(a) The failure, refusal or neglect of Borrower to pay when due any part of the principal of, or interest on, the Notes or any other Obligations by Borrower from time to time.

(b) The failure of Borrower, any Subsidiary, or any Obligated Party to timely and properly observe, keep or perform any covenant, agreement or condition required in Articles VI, VII and VIII.

(c) The failure of Borrower, any Subsidiary, or any Obligated Party to timely and properly observe, keep or perform any covenant, agreement or condition required herein (other than as specified in clauses (a) and (b) above) or in any of the other Loan Documents; including, without limitation, the covenant to maintain certain minimum amounts in the Securities Account under the terms of the Pledge and Security Agreement of even date between Borrower and Lender.

(d) Any representation or warranty contained herein, in any of the other Loan Documents or in any other document ever delivered or furnished by Borrower, any Subsidiary or any Obligated Party to Lender in connection with the Obligations is or proves to have been false, misleading, erroneous or breached in any material respect.

(e) If Borrower, any Subsidiary or any Obligated Party: (i) becomes insolvent, or makes a transfer in fraud of creditors, or makes an assignment for the benefit of creditors, or admits in writing its inability to or is unable to pay its debts as they become due; (ii) generally is not paying its debts as such debts become due; (iii) has a receiver, trustee or custodian appointed for, or take possession of, all or substantially all of the assets of such party, either in a proceeding brought by such party or in a proceeding brought against such party and such appointment is not discharged or such possession is not terminated within 60 days after the effective date thereof or such party consents to or acquiesces in

such appointment or possession; (iv) files a petition for relief under the Applicable Bankruptcy Laws or an involuntary petition for relief is filed against such party under any Applicable Bankruptcy Law, or an order for relief naming such party is entered under any Applicable Bankruptcy Law, or any composition, rearrangement, extension, reorganization or other relief of debtors now or hereafter existing is requested or consented to by such party; (v) fails to have discharged within a period of 30 days any attachment, sequestration or similar writ levied upon any Collateral of such party; or (vi) fails to pay within 30 days any final money judgment against such party.

(f) A levy against the Collateral or any part thereof, or against any material portion of Borrower's other property, or any execution, garnishment, attachment, sequestration or other writ or similar proceeding which is not permanently dismissed or discharged within 30 days after such levy.

(g) Reserved.

(h) The dissolution, liquidation, termination or forfeiture of right to do business of Borrower, any Subsidiary or any Obligated Party, or if Borrower or any Obligated Party is an individual, the death or disability of Borrower, any Subsidiary or any Obligated Party.

(i) An inability of Borrower to satisfy any condition specified herein as precedent to the obligation of Lender to make an Advance or issue any Letter of Credit after an application for Advance or Letter of Credit Request Form has been submitted by Borrower to Lender.

(j) Borrower, any Subsidiary or any Obligated Party will have (i) concealed, removed, or permitted to be concealed or removed any part of its property with the intent to hinder, delay or defraud any of its creditors; or (ii) made or suffered a transfer of any of its property which may be fraudulent under any bankruptcy, fraudulent conveyance or similar Governmental Requirement; or (iii) suffered or permitted while insolvent (under any applicable definition of the term) any creditor to obtain a Lien upon any of its property through legal proceedings or distraint which Lien is not permanently vacated within 30 days from the Closing Date.

(k) The occurrence of a Material Adverse Change.

(l) Reserved.

(m) The issuance or entry of any attachment or other Lien (other than Lender's Lien on the Collateral) against any of the Collateral.

(n) The occurrence of an ERISA Event.

(o) Any Loan Document or any provision thereof ceases to be in full force and effect; or Borrower or any Obligated Party or any other Person contests the validity or enforceability of any Loan Document or any provision thereof; or Borrower or any Obligated Party denies that it has any or further liability or obligation under any Loan

Document, or purports to revoke, terminate or rescind any Loan Document or any provision thereof.

(p) State National is at any time assessed by A.M. Best Company a “Financial Strength Rating” of less than A-.

Nothing contained in this Loan Agreement will be construed to limit the events of default enumerated in any of the other Loan Documents and all such events of default will be cumulative.

Notwithstanding the foregoing to the contrary, it shall only constitute an Event of Default hereunder if Borrower fails to perform any of the above obligations (other than those specified in Section 9.01(a), (e), (f) and (h) above and in Section 7(f) of the Pledge Agreement), as and when required, and which failure continues for a period of thirty (30) days after written notice of such failure by Lender to Borrower. However, if Borrower's failure to perform its obligations is of the nature that it cannot be cured within the thirty (30) day cure period after such notice from Lender but reasonably could be cured within ninety (90) days, then Borrower will have additional time as determined by Lender in Lender's discretion, not to exceed an additional sixty (60) days, in which to cure such default, provided that Borrower has diligently commenced to cure such default during the initial thirty (30) day cure period and diligently pursues the cure of such default.

Section 9.02. Remedies. Upon the occurrence of any Event of Default, (a) the entire unpaid balance of principal of the Notes, together with all accrued but unpaid interest thereon, and all other Indebtedness owing to Lender by Borrower at such time will, at the option of Lender, become immediately due and payable without further notice, demand, presentation, notice of dishonor, notice of intent to accelerate, notice of acceleration, protest or notice of protest of any kind, all of which are expressly waived by Borrower, (b) Lender may, at its option, cease further Advances under any of the Notes, (c) reduce any claim to judgment, and (d) exercise any and all rights and remedies afforded by any of the Loan Documents, or by law or equity or otherwise, as Lender will deem appropriate. All rights and remedies of Lender set forth in this Loan Agreement and in any of the other Loan Documents may be exercised by Lender at its option and in its sole discretion, upon the occurrence of an Event of Default.

Section 9.03. Right of Setoff. If an Event of Default shall have occurred and be continuing, Lender and its Affiliates are hereby authorized at any time and from time to time, to the fullest extent not prohibited by applicable Governmental Requirements, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations (in whatever currency) at any time owing by Lender or any such Affiliate to or for the credit or the account of Borrower or any Obligated Party against any and all of the Obligations or the obligations of any Obligated Party now or hereafter existing under this Loan Agreement or any other Loan Document, irrespective of whether or not Lender shall have made any demand under this Loan Agreement or any other Loan Document and although the Obligations or such obligations of such Obligated Party may be contingent or unmatured or are owed to a branch or office of Lender different from the branch or office holding such deposit or obligated on such Indebtedness. The rights of Lender and its Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that Lender or its Affiliates may have.

Section 9.04.Performance by Lender. Should any covenant, duty, or agreement of any Obligated Party fail to be performed in accordance with the terms of the Loan Documents, after five (5) days prior notice to such Obligated Party and such Obligated Party's failure to cure any such non-performance within such time, Lender may, at its option, perform, or attempt to perform, such covenant, duty or agreement on behalf of any Obligated Party. In such event, Borrower will pay to Lender on demand any amount expended by Lender in such performance or attempted performance, together with interest thereon at the rate provided in the Notes for past-due payments from the date of such expenditure by Lender until paid. Notwithstanding the foregoing, it is expressly understood that Lender does not assume and will never have any liability or responsibility for the performance of any duties of Borrower hereunder. Without limiting the generality of the foregoing, upon the occurrence of an Event of Default, Lender will have the right, in addition to any other right of Lender, but not the obligation, in its own name or in the name of Borrower, to enter into possession of the Collateral.

Section 9.05.Rights Cumulative; Election of Remedies. All rights and remedies of Lender under the terms of this Loan Agreement will be cumulative of, and in addition to, the rights and remedies of Lender under any and all other agreements between Borrower and Lender (including, but not limited to, the other Loan Documents), and not in substitution or diminution of any rights and remedies now or hereafter held by Lender under the terms of any other agreement. Such rights and remedies may be pursued separately, successively or concurrently against Borrower, or any Obligated Party or any Collateral covered under the Loan Documents at the sole discretion of Lender. The exercise or failure to exercise any of the same will not constitute a waiver or release thereof or of any other Right, and the same will be nonexclusive.

Section 9.06.Reserved.

ARTICLE X

Miscellaneous

Section 10.01.Waiver and Agreement. Neither the failure nor any delay on the part of Lender to exercise any right, remedy, power or privilege herein or under any of the other Loan Documents will operate as a waiver thereof, nor will any single or partial exercise of such right, remedy, power or privilege preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. No waiver of any provision in this Loan Agreement or in any of the other Loan Documents and no departure by any Obligated Party therefrom will be effective unless the same will be in writing and signed by Lender, and then will be effective only in the specific instance and for the purpose for which given and to the extent specified in such writing. No modification or amendment to this Loan Agreement or to any of the other Loan Documents will be valid or effective unless the same is signed by the party against whom it is sought to be enforced.

Section 10.02.Benefits. This Loan Agreement will be binding upon and inure to the benefit of Lender and Borrower, and their respective successors and assigns, provided, however, that Borrower may not, without the prior written consent of Lender, assign or encumber any interests, rights, remedies, powers, duties or obligations under this Loan Agreement or any of the other Loan Documents.

Section 10.03. Notices.

(a) All notices, requests, demands or other communications required or permitted to be given pursuant to this Loan Agreement shall be in writing and given by (i) personal delivery, (ii) expedited delivery service with proof of delivery, or (iii) United States mail, postage prepaid, registered or certified mail, return receipt requested, sent to the intended addressee at the address set forth on the first page hereof and will be deemed to have been received either, in the case of personal delivery, as of the time of personal delivery, in the case of expedited delivery service, as of the date of first attempted delivery at the address and in the manner provided herein, or in the case of mail, upon deposit in a depository receptacle under the care and custody of the United States Postal Service. Either party will have the right to change its address for notice hereunder to any other location within the continental United States by notice to the other party of such new address at least 30 days prior to the effective date of such new address.

(b) Borrower and Lender agree that no notices or other communications by electronic means between such parties or their representatives in connection with this Loan Agreement or any instrument executed in connection herewith shall constitute a transaction, agreement, contract or electronic signature under the Electronic Signatures in Global and National Commerce Act, any version of the Uniform Electronic Transactions Act or any other statute governing electronic transactions, unless otherwise specifically agreed to in writing.

Section 10.04. Continuation and Survival. All covenants, agreements, representations and warranties made in or pursuant to this Loan Agreement and the other Loan Documents will be deemed continuing and made at and as of the date of this Loan Agreement and at and as of all times thereafter. All statements contained in any certificate, financial statement, legal opinion or other instrument delivered by or on behalf of Borrower, its Subsidiaries, or Obligated Parties pursuant to or in connection with any of the Loan Documents will constitute additional representations and warranties made under this Loan Agreement. All covenants, agreements, representations and warranties made in or pursuant to this Loan Agreement and the other Loan Documents will survive until payment in full of all sums owing and performance of all other obligations hereunder by Borrower to Lender and will not be waived by the execution and delivery of this Loan Agreement, any Advance or issuance of Letter of Credit hereunder, any investigation by Lender or any other event except a specific written waiver by Lender.

Section 10.05. Controlling Agreement. The parties hereto intend to conform strictly to the applicable usury Governmental Requirements. In no event, whether by reason of demand for payment or acceleration of the maturity of the Obligations or otherwise, will the interest contracted for, charged or received by Lender hereunder or otherwise exceed the maximum amount permissible under applicable Governmental Requirements. If, from any circumstance whatsoever, interest would otherwise be payable to Lender in excess of the maximum lawful amount, the interest payable to Lender will be reduced automatically to the maximum amount permitted under applicable Governmental Requirements. If Lender will ever receive anything of value deemed interest under applicable Governmental Requirements which would apart from this provision be in excess of the maximum lawful amount, an amount equal to any amount which would have been excessive interest will be applied to the reduction of the principal amount owing on the Obligations

in the inverse order of its maturity and not to the payment of interest, or if such amount which would have been excessive interest exceeds the unpaid principal balance of the Obligations, such excess will be refunded to Borrower. The interest and any other amounts that would have been payable in respect of any portion of the Obligations or during any period but were not payable as a result of the operation of this Section shall be cumulated and the interest and other amounts on any other portion of the Obligations or periods shall be increased (but not above the maximum amount permitted under applicable Governmental Requirement) until such cumulated amount shall have been received by Lender. All interest paid or agreed to be paid to Lender will, to the extent permitted by applicable Governmental Requirements, be amortized, prorated, allocated and spread throughout the full stated term (including any renewal or extension) of such Indebtedness so that the amount of interest on account of such Indebtedness does not exceed the maximum permitted by applicable Governmental Requirements. The provisions of this Section will control all existing and future agreements between Borrower and Lender.

Section 10.06.No Third Party Beneficiary. This Loan Agreement is for the sole benefit of Lender and Borrower and is not for the benefit of any third party.

Section 10.07.Lender's Consent or Approval. Except where otherwise expressly provided in the Loan Documents, in any instance where the approval, consent or the exercise of judgment of Lender is required, the granting or denial of such approval or consent and the exercise of such judgment will be (a) within the sole discretion of Lender; and (b) deemed to have been given only by a specific writing intended for the purpose and executed by Lender. Each provision for consent, approval, inspection, review, or verification by Lender is for Lender's own purposes and benefit only.

Section 10.08.Applicable Governmental Requirements. This Loan Agreement and the other Loan Documents have been executed and delivered in the State of Texas, are performable in Bexar County, Texas, and will be governed by and construed in accordance with the Governmental Requirements of the State of Texas and the Governmental Requirements of the United States applicable to transactions within the State of Texas. Except to the extent that the Governmental Requirements of the United States may apply to the terms hereof, the substantive Governmental Requirements of the State of Texas shall govern the validity, construction, enforcement and interpretation of this Loan Agreement and the other Loan Documents. In the event of a dispute involving this Loan Agreement, any other Loan Document or any other instrument executed in connection herewith, Borrower irrevocably agrees that venue for such dispute shall lie in any court of competent jurisdiction in Bexar County, Texas. To the extent that Chapter 303 of the Texas Finance Code is applicable to any Loan, any Advance or any Loan Document, the "weekly ceiling" specified in such article is the applicable ceiling; provided that, if any applicable Governmental Requirement permits greater interest, the Governmental Requirement permitting the greatest interest will apply.

Section 10.09.Loan Agreement Governs. This Loan Agreement, together with the other Loan Documents, comprise the complete and integrated agreement of the parties on the subject matter hereof and thereof and supersedes all prior agreements, written or oral, on such subject matter. In the event of any conflict between the terms of this Loan Agreement and any terms of any other Loan Document, the terms of this Loan Agreement will govern; provided, that the inclusion of supplemental rights or remedies in favor of Lender in any other Loan Document will

not be deemed a conflict with this Loan Agreement. Each Loan Document was drafted with the joint participation of the respective parties thereto and will be construed neither against nor in favor of any party, but rather in accordance with the fair meaning thereof.

Section 10.10.Time of Essence. Time will be of the essence in this Loan Agreement.

Section 10.11.Patriot Act Notice. Lender hereby notifies Borrower that pursuant to the requirements of the Patriot Act, it is required to obtain, verify and record information that identifies Borrower, which information includes the name and address of Borrower and other information that will allow Lender to identify Borrower in accordance with the Act.

Section 10.12.Invalid Provisions. If any provision of this Loan Agreement or any of the other Loan Documents is held to be illegal, invalid or unenforceable under present or future Governmental Requirements, such provision will be fully severable and the remaining provisions of this Loan Agreement or any of the other Loan Documents will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance.

Section 10.13.Expenses of Lender. Borrower shall pay to Lender on demand: (a) all costs and expenses incurred by Lender in connection with the preparation, negotiation, execution and administration of this Loan Agreement and the other Loan Documents and any and all amendments, modifications, renewals, extensions, increases, and supplements thereof and thereto, including, without limitation, the reasonable fees and expenses of Lender's legal counsel and professionals, (b) all costs and expenses incurred by Lender in connection with the enforcement, workout or restructure of this Loan Agreement or any other Loan Document, including, without limitation, the reasonable fees and expenses of Lender's legal counsel and professionals, and (c) all other costs and expenses incurred by Lender in connection with this Loan Agreement or any other Loan Document, including, without limitation, all costs, expenses, taxes, assessments, filing fees, and other charges levied by a Governmental Authority or otherwise payable in respect of this Loan Agreement or any other Loan Document.

Section 10.14.INDEMNIFICATION OF LENDER. BORROWER SHALL INDEMNIFY AND HOLD LENDER, ITS AFFILIATES AND LENDER'S SUCCESSORS AND ASSIGNS (EACH SUCH PERSON HEREIN REFERRED TO AS AN "INDEMNITEE") ABSOLUTELY HARMLESS FROM AND AGAINST ALL CLAIMS, LIABILITIES, LOSSES, DAMAGES, OBLIGATIONS OR RELATED EXPENSES INCURRED BY OR IMPOSED UPON OR ALLEGED TO BE DUE OF INDEMNITEE IN CONNECTION WITH (a) THE EXECUTION OR DELIVERY OF THIS LOAN AGREEMENT, ANY OTHER LOAN DOCUMENT OR ANY OTHER AGREEMENT OR INSTRUMENT CONTEMPLATED HEREBY OR THEREBY, THE PERFORMANCE BY THE PARTIES HERETO OF THEIR RESPECTIVE OBLIGATIONS HEREUNDER OR THEREUNDER, THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, OR, IN THE CASE OF LENDER, THE ADMINISTRATION OF THIS LOAN AGREEMENT AND THE OTHER LOAN DOCUMENTS, (b) ANY LOAN OR LETTER OF CREDIT OR THE USE OR PROPOSED USE OF THE PROCEEDS THEREFROM (INCLUDING ANY REFUSAL BY LENDER TO HONOR A DEMAND FOR PAYMENT UNDER A LETTER OF CREDIT IF THE DOCUMENTS PRESENTED IN CONNECTION WITH SUCH DEMAND DO NOT STRICTLY COMPLY WITH THE TERMS OF SUCH LETTER OF CREDIT), (c) ANY

ACTUAL OR ALLEGED PRESENCE OR RELEASE OF HAZARDOUS MATERIALS ON OR FROM ANY PROPERTY OWNED OR OPERATED BY BORROWER, ANY SUBSIDIARY OR ANY OBLIGATED PARTY, OR ANY ENVIRONMENTAL LIABILITY RELATED IN ANY WAY TO BORROWER, ANY SUBSIDIARY OR ANY OBLIGATED PARTY, OR (d) ANY ACTUAL OR PROSPECTIVE CLAIM, LITIGATION, INVESTIGATION OR PROCEEDING RELATING TO ANY OF THE FOREGOING, WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY, WHETHER BROUGHT BY A THIRD PARTY OR BY BORROWER OR ANY OBLIGATED PARTY, AND REGARDLESS OF WHETHER ANY INDEMNITEE IS A PARTY THERETO, **IN ALL CASES, WHETHER OR NOT CAUSED BY OR ARISING, IN WHOLE OR IN PART, OUT OF THE COMPARATIVE, CONTRIBUTORY OR SOLE NEGLIGENCE OF THE INDEMNITEE;** PROVIDED THAT SUCH INDEMNITY SHALL NOT, AS TO ANY INDEMNITEE, BE AVAILABLE TO THE EXTENT THAT SUCH CLAIMS, LIABILITIES, LOSSES, DAMAGES, OBLIGATIONS OR RELATED EXPENSES (i) ARE DETERMINED BY A COURT OF COMPETENT JURISDICTION BY FINAL AND NONAPPEALABLE JUDGMENT TO HAVE RESULTED BY GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF SUCH INDEMNITEE OR (ii) RESULT FROM A CLAIM BROUGHT BY BORROWER OR ANY OBLIGATED PARTY AGAINST AN INDEMNITEE FOR BREACH IN BAD FAITH OF SUCH INDEMNITEE'S OBLIGATIONS HEREUNDER OR ANY OTHER LOAN DOCUMENT, IF BORROWER OR SUCH OBLIGATED PARTY HAS OBTAINED A FINAL AND NONAPPEALABLE JUDGMENT IN ITS FAVOR ON SUCH CLAIM AS DETERMINED BY A COURT OF COMPETENT JURISDICTION. IN THE EVENT OF COURT ACTION IN CONNECTION WITH ANY SUCH CLAIM OR DEMAND, BORROWER WILL ASSUME, TO THE EXTENT REQUESTED BY LENDER, THE RESPONSIBILITY FOR THE DEFENSE OF ANY SUCH ACTION AND WILL IMMEDIATELY SATISFY AND DISCHARGE ANY FINAL DECREE OR JUDGMENT RENDERED THEREIN UNLESS GROSS NEGLIGENCE, WILLFUL MISCONDUCT OR BAD FAITH OF INDEMNITEE ARE DETERMINED BY SUCH COURT, AS AFORESAID. LENDER MAY, IN ITS SOLE DISCRETION, MAKE ANY PAYMENTS SUSTAINED OR INCURRED BY REASON OF ANY OF THE FOREGOING, AND BORROWER WILL IMMEDIATELY REPAY TO LENDER IN CASH THE AMOUNT OF SUCH PAYMENT, WITH INTEREST THEREON AT THE RATE SPECIFIED IN THE NOTES TO BE APPLICABLE TO PAST-DUE PRINCIPAL UNLESS GROSS NEGLIGENCE, WILLFUL MISCONDUCT OR BAD FAITH OF INDEMNITEE ARE DETERMINED BY SUCH COURT, AS AFORESAID. LENDER WILL HAVE THE RIGHT TO JOIN BORROWER AND ITS SUBSIDIARIES AS PARTIES DEFENDANT IN ANY LEGAL ACTION BROUGHT AGAINST LENDER, AND BORROWER HEREBY CONSENTS TO THE ENTRY OF AN ORDER MAKING BORROWER AND ITS SUBSIDIARIES AS PARTIES DEFENDANT TO ANY SUCH ACTION.

Section 10.15. Participation of the Loans. Borrower agrees that Lender may, at its option, sell interests in the Loans and its rights and remedies under this Loan Agreement to one or more financial institutions or other Person acceptable to Lender and, in connection with each such sale, Lender may disclose any financial and other information available to Lender concerning Borrower or any Obligated Party to each prospective purchaser.

Section 10.16. Counterparts; Facsimile Documents and Signatures. This Loan Agreement may be separately executed in any number of counterparts, each of which will be an original, but all of which, taken together, will be deemed to constitute one and the same instrument. For purposes of negotiating and finalizing this Loan Agreement, if this document or any document executed in connection with it is transmitted by facsimile machine, electronic mail or other electronic transmission, it will be treated for all purposes as an original document. Additionally, the signature of any party on this document transmitted by way of a facsimile machine or electronic mail will be considered for all purposes as an original signature. Any such transmitted document will be considered to have the same binding legal effect as an original document. At the request of any party, any faxed or electronically transmitted document will be re-executed by each signatory party in an original form.

Section 10.17. Imaging of Documents. Borrower understands and agrees that (a) Lender's document retention policy may involve the electronic imaging of executed Loan Documents and the destruction of the paper originals, and (b) Borrower waives any right that it may have to claim that the imaged copies of the Loan Documents are not originals.

Section 10.18. No Oral Agreements. The term "WRITTEN AGREEMENT" will include this Loan Agreement, together with each and every other document relating to and/or securing the Obligations, regardless of the date of execution. **THIS WRITTEN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.**

Section 10.19. WAIVER OF RIGHT TO TRIAL BY JURY. **EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT NOT PROHIBITED BY APPLICABLE GOVERNMENTAL REQUIREMENT, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS LOAN AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.**

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Executed as of the date first written above.

BORROWER: _____

T.B.A. INSURANCE GROUP, LTD., a Texas
limited partnership

By: SNC Financial GP, LLC, a Nevada limited
liability company, its General Partner

By: /s/ Terry L. Ledbetter

Name: Terry L. Ledbetter

Title: Chief Executive Officer

LENDER: _____

FROST BANK,
a Texas state bank

By: /s/ Aaron Loose

Name: Aaron Loose

Title: Assistant Vice President

Schedule 5.09(a)

Subsidiaries

1. State National Intermediate Holdings, Inc., a Texas corporation
 2. State National Insurance Company, Inc., a Texas corporation
 3. United Specialty Insurance Company, a Delaware corporation
 4. National Specialty Insurance Company, a Texas corporation
-

Schedule 5.09(b)

Assumed Names or Trade Names

State National Companies

GUARANTY AGREEMENT

This GUARANTY AGREEMENT (this "Guaranty") is made as of the 31st day of March, 2016, by Guarantor (as hereinafter defined) for the benefit of Lender (as hereinafter defined).

1. Definitions. As used in this Guaranty, the following terms shall have the meanings indicated below:

(a) The term "Lender" shall mean FROST BANK, a Texas state bank, whose address for notice purposes is the following:

P.O. Box 1600
San Antonio, Texas 78296
Attn: Aaron Loose

(b) The term "Borrower" (whether one or more) shall mean the following:

T.B.A. INSURANCE GROUP, LTD., a Texas limited partnership.

(c) The term "Guarantor" shall mean STATE NATIONAL COMPANIES, INC., a Delaware corporation, whose address for notice purposes is the following:

1900 L Don Dodson Drive
Bedford, Texas 76021
Attn: Chief Financial Officer.

(d) The term "Guaranteed Indebtedness" shall mean (i) all indebtedness, obligations and liabilities of Borrower to Lender now existing or hereafter arising under or evidenced by that one certain Revolving Promissory Note (the "Note") dated March 31, 2016, in the original principal amount of \$15,000,000.00, executed by Borrower and payable to the order of Lender, (ii) all accrued but unpaid interest on any of the indebtedness described in (i) above; (iii) all obligations of Borrower to Lender under the Loan Agreement dated of even date herewith between Borrower and Lender (the "Loan Agreement"), and any other documents evidencing, securing, governing and/or pertaining to all or any part of the indebtedness described in (i) and (ii) above (collectively, the "Loan Documents"); (iv) all costs and expenses incurred by Lender in connection with the collection and administration of all or any part of the indebtedness and obligations described in (i), (ii) and (iii) above or the protection or preservation of, or realization upon, the collateral securing all or any part of such indebtedness and obligations, including, without limitation, all reasonable attorneys' fees; and (v) all renewals, extensions, modifications, restructurings and rearrangements of the indebtedness and obligations described in (i), (ii), (iii) and (iv) above.

2. Obligations. As an inducement to Lender to extend or continue to extend credit and other financial accommodations to Borrower, Guarantor, for value received, does hereby

unconditionally and absolutely guarantee the prompt and full payment and performance of the Guaranteed Indebtedness when due or declared to be due and at all times thereafter.

3. Character of Obligations.

(a) This is an absolute, continuing and unconditional guaranty of payment and not of collection and if at any time or from time to time there is no outstanding Guaranteed Indebtedness, the obligations of Guarantor with respect to any and all Guaranteed Indebtedness incurred thereafter shall not be affected. This Guaranty and the Guarantor's obligations hereunder are irrevocable and, in the event of Guarantor's death, shall be binding upon Guarantor's estate. All of the Guaranteed Indebtedness shall be conclusively presumed to have been made or acquired in acceptance hereof. Guarantor shall be liable, jointly and severally, with Borrower and any other guarantor of all or any part of the Guaranteed Indebtedness.

(b) Lender may, at its sole discretion and without impairing its rights hereunder, (i) apply any payments on the Guaranteed Indebtedness that Lender receives from Borrower or any other source other than Guarantor to that portion of the Guaranteed Indebtedness, if any, not guaranteed hereunder, and (ii) apply any proceeds it receives as a result of the foreclosure or other realization on any collateral for the Guaranteed Indebtedness to that portion, if any, of the Guaranteed Indebtedness not guaranteed hereunder or to any other indebtedness or other obligations owing to Lender secured by such collateral.

(c) Guarantor agrees that its obligations hereunder shall not be released, diminished, impaired, reduced or affected by the existence of any other guaranty or the payment by any other guarantor of all or any part of the Guaranteed Indebtedness.

(d) Guarantor's obligations hereunder shall not be released, diminished, impaired, reduced or affected by, nor shall any provision contained herein be deemed to be a limitation upon, the amount of credit which Lender may extend to Borrower, the number of transactions between Lender and Borrower, payments by Borrower to Lender or Lender's allocation of payments by Borrower.

(e) Without further authorization from or notice to Guarantor, Lender may compromise, accelerate or otherwise alter the time or manner for the payment of the Guaranteed Indebtedness, increase or reduce the rate of interest thereon, release or add any one or more guarantors or endorsers, or allow substitution of or withdrawal of collateral or other security and release collateral and other security or subordinate the same.

4. Representations and Warranties. Guarantor hereby represents and warrants the following to Lender:

(a) This Guaranty may reasonably be expected to benefit, directly or indirectly, Guarantor, and (i) if Guarantor is a corporation, the Board of Directors of Guarantor has determined that this Guaranty may reasonably be expected to benefit, directly or indirectly,

Guarantor; or (ii) if Guarantor is a partnership, the requisite number of its partners have determined that this Guaranty may reasonably be expected to benefit, directly or indirectly, Guarantor; or (iii) if Guarantor is a limited liability company, the requisite number of its members/managers have determined that this Guaranty may reasonably be expected to benefit, directly or indirectly, Guarantor; or (iv) if Guarantor is a trust, the requisite number of its trustees have determined that this Guaranty may reasonably be expected to benefit, directly or indirectly, Guarantor; and

(b) Guarantor is familiar with, and has independently reviewed the books and records regarding, the financial condition of Borrower and is familiar with the value of any and all collateral intended to be security for the payment of all or any part of the Guaranteed Indebtedness; provided, however, Guarantor is not relying on such financial condition or collateral as an inducement to enter into this Guaranty; and

(c) Guarantor has adequate means to obtain from Borrower on a continuing basis information concerning the financial condition of Borrower, and Guarantor is not relying on Lender to provide such information to Guarantor either now or in the future; and

(d) Guarantor has the power and authority to execute, deliver and perform this Guaranty and any other agreements executed by Guarantor contemporaneously herewith, and the execution, delivery and performance of this Guaranty and any other agreements executed by Guarantor contemporaneously herewith do not and will not violate (i) any agreement or instrument to which Guarantor is a party; (ii) any law, rule, regulation or order of any governmental authority to which Guarantor is subject; or (iii) its articles of incorporation, certificate of formation or bylaws, if Guarantor is a corporation, its articles of organization, certificate of formation or company agreement, if Guarantor is a limited liability company, or its certificate of limited partnership, certificate of formation or partnership agreement, if Guarantor is a partnership (general or limited); and

(e) Neither Lender nor any other party has made any representation, warranty or statement to Guarantor in order to induce Guarantor to execute this Guaranty; and

(f) The financial statements and other financial information regarding Guarantor heretofore and hereafter delivered to Lender are and shall be true and correct in all material respects and fairly present the financial position of Guarantor as of the dates thereof, and no material adverse change has occurred in the financial condition of Guarantor reflected in the financial statements and other financial information regarding Guarantor heretofore delivered to Lender since the date of the last statement thereof; and

(g) As of the date hereof, after giving effect to this Guaranty and the obligations evidenced hereby, (i) Guarantor is and will be solvent, (ii) the fair saleable value of Guarantor's assets exceeds and will continue to exceed its liabilities (both fixed and contingent), (iii) Guarantor is and will continue to be able to pay its debts as they mature, and (iv) if Guarantor is not an individual, Guarantor has and will continue to have sufficient capital to carry on its business and all businesses in which it is about to engage.

5. Covenants. Guarantor hereby covenants and agrees with Lender as follows:

(a) As long as Borrower and Guarantor maintain the minimum consolidated Tangible Net Worth provided in Article VIII of the Loan Agreement, Guarantor shall be permitted to sell, lease, transfer, encumber, pledge or otherwise dispose of any portion of Guarantor's assets or any interest therein, without Lender's prior written consent; and

(b) Guarantor shall promptly furnish to Lender such financial statements and other financial information of Guarantor as provided in Section 6.01 of the Loan Agreement; and

(c) Guarantor shall comply with all terms and provisions of the Loan Documents that apply to Guarantor; and

(d) Guarantor shall promptly inform Lender of (i) any litigation or governmental investigation against Guarantor which, if determined adversely, could reasonably be expected to result in a default under any of the Loan Documents or Borrower and Guarantor being unable to maintain the minimum consolidated Tangible Net Worth provided in Article VIII of the Loan Agreement; (ii) any of Guarantor's representations no longer being true, accurate and complete in all material respects; and (iii) any material adverse change in the financial condition of Guarantor.

6. Consent and Waiver.

(a) Guarantor waives (i) promptness, diligence and notice of acceptance of this Guaranty and notice of the incurring of any obligation, indebtedness or liability to which this Guaranty applies or may apply and waives presentment for payment, notice of nonpayment, protest, demand, notice of protest, notice of intent to accelerate, notice of acceleration, notice of dishonor, diligence in enforcement and indulgences of every kind, and (ii) the taking of any other action by Lender, including, without limitation, giving any notice of default or any other notice to, or making any demand on, Borrower, any other guarantor of all or any part of the Guaranteed Indebtedness or any other party.

(b) Guarantor waives any rights Guarantor has under, or any requirements imposed by, Chapter 43 of the Texas Civil Practice and Remedies Code, as in effect on the date of this Guaranty or as it may be amended from time to time.

(c) Lender may at any time, without the consent of or notice to Guarantor, without incurring responsibility to Guarantor and without impairing, releasing, reducing or affecting the obligations of Guarantor hereunder: (i) change the manner, place or terms of payment of all or any part of the Guaranteed Indebtedness, or renew, extend, modify, rearrange or alter all or any part of the Guaranteed Indebtedness; (ii) change the interest rate accruing on any of the Guaranteed Indebtedness (including, without limitation, any periodic change in such interest rate that occurs because such Guaranteed Indebtedness accrues interest at a variable rate which may fluctuate from time to time); (iii) sell, exchange, release, surrender, subordinate, realize upon or otherwise deal with in any

manner and in any order any collateral for all or any part of the Guaranteed Indebtedness or this Guaranty or setoff against all or any part of the Guaranteed Indebtedness; (iv) neglect, delay, omit, fail or refuse to take or prosecute any action for the collection of all or any part of the Guaranteed Indebtedness or this Guaranty or to take or prosecute any action in connection with any of the Loan Documents; (v) exercise or refrain from exercising any rights against Borrower or others, or otherwise act or refrain from acting; (vi) settle or compromise all or any part of the Guaranteed Indebtedness and subordinate the payment of all or any part of the Guaranteed Indebtedness to the payment of any obligations, indebtedness or liabilities which may be due or become due to Lender or others; (vii) apply any deposit balance, fund, payment, collections through process of law or otherwise or other collateral of Borrower to the satisfaction and liquidation of the indebtedness or obligations of Borrower to Lender not guaranteed under this Guaranty; and (viii) apply any sums paid to Lender by Guarantor, Borrower or others to the Guaranteed Indebtedness in such order and manner as Lender, in its sole discretion, may determine.

(d) Should Lender seek to enforce the obligations of Guarantor hereunder by action in any court or otherwise, Guarantor waives any requirement, substantive or procedural, that (i) Lender first enforce any rights or remedies against Borrower or any other person or entity liable to Lender for all or any part of the Guaranteed Indebtedness, including, without limitation, that a judgment first be rendered against Borrower or any other person or entity, or that Borrower or any other person or entity should be joined in such cause, or (ii) Lender first enforce rights against any collateral which shall ever have been given to secure all or any part of the Guaranteed Indebtedness or this Guaranty. Such waiver shall be without prejudice to Lender's right, at its option, to proceed against Borrower or any other person or entity, whether by separate action or by joinder.

(e) In addition to any other waivers, agreements and covenants of Guarantor set forth herein, Guarantor hereby further waives and releases all claims, causes of action, defenses and offsets for any act or omission of Lender, its directors, officers, employees, representatives or agents in connection with Lender's administration of the Guaranteed Indebtedness, except for Lender's willful misconduct and gross negligence.

(f) Guarantor grants to Lender a contractual security interest in, and hereby assigns, conveys, delivers, pledges and transfers to Lender all Guarantor's right, title and interest in and to Guarantor's accounts with Lender (whether checking, savings or some other account), including, without limitation, all accounts held jointly with another person and all accounts Guarantor may open in the future, excluding all IRA and Keogh accounts and all trust accounts for which the grant of a security interest would be prohibited by law. Guarantor authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the Guaranteed Indebtedness against any and all such accounts.

(g) To the extent not prohibited by applicable law, Guarantor waives each of Guarantor's rights or defenses, regardless of whether they arise, under (i) Rule 31 of the Texas Rules of Civil Procedure, (ii) Section 17.001 of the Texas Civil Practice and Remedies Code, or (iii) any other statute or law, common law, in equity, under contract or otherwise, or under any amendments, recodifications, supplements or any successor statute

or law of or to any such statute or law. The parties intend that Guarantor shall not be considered a "debtor" as defined in Section 9.102 of the Texas Business and Commerce Code (and any successor statute thereto), as amended.

7. Obligations Not Impaired.

(a) Guarantor agrees that its obligations hereunder shall not be released, diminished, impaired, reduced or affected by the occurrence of any one or more of the following events: (i) the death, disability or lack of corporate, company, partnership or trust power of Borrower, Guarantor or any other guarantor of all or any part of the Guaranteed Indebtedness; (ii) any receivership, insolvency, bankruptcy or other proceedings affecting Borrower, Guarantor or any other guarantor of all or any part of the Guaranteed Indebtedness, or any of their respective property; (iii) the partial or total release or discharge of Borrower or any other guarantor of all or any part of the Guaranteed Indebtedness, or any other person or entity from the performance of any obligation contained in any instrument or agreement evidencing, governing or securing all or any part of the Guaranteed Indebtedness, whether occurring by reason of law or otherwise; (iv) the taking or accepting of any collateral for all or any part of the Guaranteed Indebtedness or this Guaranty; (v) the taking or accepting of any other guaranty for all or any part of the Guaranteed Indebtedness; (vi) any failure by Lender to acquire, perfect or continue any lien or security interest on collateral securing all or any part of the Guaranteed Indebtedness or this Guaranty; (vii) the impairment of any collateral securing all or any part of the Guaranteed Indebtedness or this Guaranty; (viii) any failure by Lender to sell any collateral securing all or any part of the Guaranteed Indebtedness or this Guaranty in a commercially reasonable manner or as otherwise required by law; (ix) any invalidity or unenforceability of or defect or deficiency in any of the Loan Documents; (x) any other circumstance which might otherwise constitute a defense available to, or discharge of, Borrower or any other guarantor of all or any part of the Guaranteed Indebtedness; or (xi) the application by Lender of the proceeds from the sale, foreclosure or other realization of or on any collateral for the Guaranteed Indebtedness to any other indebtedness or obligations secured by such collateral.

(b) This Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of all or any part of the Guaranteed Indebtedness is rescinded or must otherwise be returned by Lender upon the insolvency, bankruptcy or reorganization of Borrower, Guarantor, any other guarantor of all or any part of the Guaranteed Indebtedness, or otherwise, all as though such payment had not been made.

(c) In the event Borrower is a corporation, limited liability company, joint stock association or partnership, or is hereafter any such entity, none of the following shall affect Guarantor's liability hereunder: (i) the unenforceability of all or any part of the Guaranteed Indebtedness against Borrower by reason of the fact that the Guaranteed Indebtedness exceeds the amount permitted by law; (ii) the act of creating all or any part of the Guaranteed Indebtedness is ultra vires; or (iii) the officers or partners creating all or any part of the Guaranteed Indebtedness acted in excess of their authority. Guarantor hereby acknowledges that withdrawal from, or termination of, any ownership interest in Borrower

now or hereafter owned or held by Guarantor shall not alter, affect or in any way limit the obligations of Guarantor hereunder.

8. Actions Against Guarantor. In the event of a default in the payment or performance of all or any part of the Guaranteed Indebtedness when such Guaranteed Indebtedness becomes due, whether by its terms, by acceleration or otherwise, Guarantor shall, without notice or demand, promptly pay the amount due thereon to Lender, in lawful money of the United States, at Lender's address set forth in Section 1(a) above. In order to collect payment, one or more successive or concurrent actions may be brought against Guarantor, either in the same action in which Borrower is sued or in separate actions, as often as Lender deems advisable. The exercise by Lender of any right or remedy under this Guaranty or under any other agreement or instrument, at law, in equity or otherwise, shall not preclude concurrent or subsequent exercise of any other right or remedy. The books and records of Lender shall be admissible as evidence in any action or proceeding involving this Guaranty and shall be prima facie evidence of the payments made on, and the outstanding balance of, the Guaranteed Indebtedness.

9. Payment by Guarantor. Whenever Guarantor makes any payment to Lender which is or may become due under this Guaranty, written notice must be delivered to Lender contemporaneously with such payment. Such notice shall be effective for purposes of this paragraph when, contemporaneously with such payment, Lender receives such notice either by: (a) personal delivery to the address and designated department of Lender identified in Section 1(a) above, or (b) United States mail, certified or registered, return receipt requested, postage prepaid, addressed to Lender at the address shown in Section 1(a) above. In the absence of such notice to Lender by Guarantor in compliance with the provisions hereof, any sum received by Lender on account of the Guaranteed Indebtedness shall be conclusively deemed paid by Borrower.

10. Reserved.

11. Reserved.

12. Waiver by Lender. No delay on the part of Lender in exercising any right hereunder or failure to exercise the same shall operate as a waiver of such right. In no event shall any waiver of the provisions of this Guaranty be effective unless the same be in writing and signed by an officer of Lender, and then only in the specific instance and for the purpose given.

13. Successors and Assigns. This Guaranty is for the benefit of Lender, its successors and assigns. This Guaranty is binding upon Guarantor and Guarantor's heirs, executors, administrators, personal representatives and successors, including, without limitation, any person or entity obligated by operation of law upon the reorganization, merger, consolidation or other change in the organizational structure of Guarantor.

14. Costs and Expenses. Guarantor shall pay on demand by Lender all costs and expenses, including, without limitation, all reasonable attorneys' fees, incurred by Lender in connection with the preparation, administration, enforcement and/or collection of this Guaranty. This covenant shall survive the payment of the Guaranteed Indebtedness.

15. Severability. If any provision of this Guaranty is held by a court of competent jurisdiction to be illegal, invalid or unenforceable under present or future laws, such provision shall be fully severable, shall not impair or invalidate the remainder of this Guaranty and the effect thereof shall be confined to the provision held to be illegal, invalid or unenforceable.

16. No Obligation. Nothing contained herein shall be construed as an obligation on the part of Lender to extend or continue to extend credit to Borrower.

17. Amendment. No modification or amendment of any provision of this Guaranty, nor consent to any departure by Guarantor therefrom, shall be effective unless the same shall be in writing and signed by an officer of Lender, and then shall be effective only in the specific instance and for the purpose for which given.

18. Cumulative Rights. All rights and remedies of Lender hereunder are cumulative of each other and of every other right or remedy which Lender may otherwise have at law or in equity or under any instrument or agreement, and the exercise of one or more of such rights or remedies shall not prejudice or impair the concurrent or subsequent exercise of any other rights or remedies. This Guaranty, whether general, specific and/or limited, shall be in addition to and cumulative of, and not in substitution, novation or discharge of, any and all prior or contemporaneous guaranty agreements by Guarantor in favor of Lender or assigned to Lender by others.

19. Governing Law, Venue. This Guaranty is intended to be performed in the State of Texas. Except to the extent that the laws of the United States may apply to the terms hereof, the substantive laws of the State of Texas shall govern the validity, construction, enforcement and interpretation of this Guaranty. In the event of a dispute involving this Guaranty or any other instruments executed in connection herewith, the undersigned irrevocably agrees that venue for such dispute shall lie in any court of competent jurisdiction in Bexar County, Texas.

20. Compliance with Applicable Usury Laws. Notwithstanding any other provision of this Guaranty or of any instrument or agreement evidencing, governing or securing all or any part of the Guaranteed Indebtedness, Guarantor and Lender by its acceptance hereof agree that Guarantor shall never be required or obligated to pay interest in excess of the maximum non-usurious interest rate as may be authorized by applicable law for the written contracts which constitute the Guaranteed Indebtedness. It is the intention of Guarantor and Lender to conform strictly to the applicable laws which limit interest rates, and any of the aforesaid contracts for interest, if and to the extent payable by Guarantor, shall be held to be subject to reduction to the maximum non-usurious interest rate allowed under said law.

21. Gender. Within this Guaranty, words of any gender shall be held and construed to include the other gender.

22. Captions. The headings in this Guaranty are for convenience only and shall not define or limit the provisions hereof.

23. Right of Revocation. Guarantor understands and agrees that Guarantor may revoke its future obligations under this Guaranty at any time by giving Lender written notice that Guarantor

will not be liable hereunder for any indebtedness or obligations of Borrower incurred on or after the effective date of such revocation. Such revocation shall be deemed to be effective on the day following the day Lender receives such notice delivered either by: (a) personal delivery to the address and designated department of Lender identified in Section 1(a) above, or (b) United States mail, registered or certified, return receipt requested, postage prepaid, addressed to Lender at the address shown in Section 1(a) above. Notwithstanding such revocation, Guarantor shall remain liable on its obligations hereunder until payment in full to Lender of (a) all of the Guaranteed Indebtedness that is outstanding on the effective date of such revocation, and any renewals and extensions thereof, and (b) all loans, advances and other extensions of credit made to or for the account of Borrower on or after the effective date of such revocation pursuant to the obligation of Lender under a commitment or agreement made to or with Borrower prior to the effective date of such revocation. The terms and conditions of this Guaranty, including without limitation the consents and waivers set forth in Section 6 hereof, shall remain in effect with respect to the Guaranteed Indebtedness described in the preceding sentence in the same manner as if such revocation had not been made by Guarantor.

[Signature on following page.]

EXECUTED as of the date first above written.

GUARANTOR:

STATE NATIONAL COMPANIES, INC.,
a Delaware corporation

By: /s/ Terry L. Ledbetter

Name: Terry L. Ledbetter

Title: Chief Executive Officer

PLEDGE AND SECURITY AGREEMENT

Borrower: T.B.A Insurance Group, Ltd.	Lender/Secured Party: Frost Bank
Address: 1900 L Don Dodson Drive	Address: P.O. Box 1600
Bedford, Texas 76021	San Antonio, TX 78296

THIS PLEDGE AND SECURITY AGREEMENT ("Agreement") is dated March 31, 2016, by and between Borrower and Lender ("Secured Party").

1. Definitions. As used in this Agreement, the following terms shall have the meanings indicated below:

(a) The term "Code" shall mean the Uniform Commercial Code as in effect in the State of Texas or of any other state having jurisdiction with respect to any of the rights and remedies of Secured Party on the date of this Agreement or as it may hereafter be amended from time to time

(b) The term "Collateral" shall mean all personal property of Grantor specifically described on Schedule A attached hereto and made a part hereof. The term Collateral, as used herein, shall also include (i) all certificates, instruments and/or other documents evidencing the foregoing, (ii) all renewals, replacements and substitutions of all of the foregoing, (iii) all Additional Property (as hereinafter defined), and (iv) all PRODUCTS and PROCEEDS of all of the foregoing. The delivery at any time by Grantor to Secured Party of any property as a pledge to secure payment or performance of any indebtedness or obligation whatsoever shall also constitute a pledge of such property as Collateral hereunder.

(c) The term "Grantor" shall mean Borrower, a Texas limited partnership, whose organization number is 800051681 and who is organized in the State of Texas.

(d) The term "Indebtedness" shall mean (i) all indebtedness, obligations and liabilities of Borrower to Secured Party now existing or hereafter arising under that one certain revolving promissory note ("Note") dated March 31 2016, in the original principal amount of \$15,000,000.00 executed by Borrower and payable to the order of Secured Party, (ii) all accrued but unpaid interest on any of the indebtedness described in (i) above, (iii) all obligations of Borrower to Secured Party under any documents evidencing, securing, governing and/or pertaining to all or any part of the indebtedness described in (i) and (ii) above, (iv) all costs and expenses incurred by Secured Party in connection with the collection and administration of all or any part of the indebtedness and obligations described in (i), (ii) and (iii) above or the protection or preservation of, or realization upon, the collateral securing all or any part of such indebtedness and obligations, including without limitation all reasonable attorneys' fees, and (v) all renewals, extensions, modifications and rearrangements of the indebtedness and obligations described in (i), (ii), (iii) and (iv) above.

(e) Reserved.

(f) The term "Loan Documents" shall mean all instruments and documents evidencing, securing, governing, guaranteeing and/or pertaining to the Indebtedness.

(g) The term "Securities Account" shall mean the account described in Schedule A hereto.

(h) Reserved.

All words and phrases used herein which are expressly defined in Section 1.201, Chapter 8 or Chapter 9 of the Code shall have the meaning provided for therein. Other words and phrases defined elsewhere in the Code shall have the meaning specified therein except to the extent such meaning is inconsistent with a definition in Section 1.201, Chapter 8 or Chapter 9 of the Code.

2. Security Interest. As security for the Indebtedness, Grantor, for value received, hereby grants to Secured Party a continuing security interest in the Collateral.

3. Additional Property. Collateral shall also include the following property (collectively, the "Additional Property") which Grantor becomes entitled to receive or shall receive in connection with the Collateral: (a) any stock certificate, including without limitation, any certificate representing a stock dividend or any certificate in connection with any recapitalization, reclassification, merger, consolidation, conversion, sale of assets, combination of shares, stock split or spin-off; (b) any option, warrant, subscription or right, whether as an addition to or in substitution of the Collateral; (c) any dividends or distributions of any kind whatsoever, whether distributable in cash, stock or other property; (d) any interest, premium or principal payments; and (e) any conversion or redemption proceeds; provided, however, that until the occurrence of an Event of Default (as hereinafter defined), Grantor shall be entitled to all cash dividends and all interest paid on the Collateral (except interest paid on any certificate of deposit pledged hereunder) free of the security interest created under this Agreement. All Additional Property received by Grantor shall be received in trust for the benefit of Secured Party. All Additional Property and all certificates or other written instruments or documents evidencing and/or representing the Additional Property that is received by Grantor, together with such instruments of transfer as Secured Party may request, shall immediately be delivered to or deposited with Secured Party and held by Secured Party as Collateral under the terms of this Agreement. If the Additional Property received by Grantor shall be shares of stock or other securities, and Secured Party shall reasonably determine that such action is necessary to continue Secured Party's perfection as to such Additional Property, such shares of stock or other securities shall, upon Secured Party's written request, be duly endorsed in blank or accompanied by proper instruments of transfer and assignment duly executed in blank with, if requested by Secured Party, signatures guaranteed by a bank or member firm of the New York Stock Exchange, all in form and substance satisfactory to Secured Party. Secured Party shall be deemed to have possession of any Collateral in transit to Secured Party or its agent.

4. Voting Rights . As long as no Event of Default shall have occurred hereunder, any voting rights incident to any stock or other securities pledged as Collateral may be exercised by Grantor; provided, however, that Grantor will not exercise, or cause to be exercised, any such voting rights, without the prior written consent of Secured Party, if the direct or indirect effect of such vote will result in an Event of Default hereunder.

5. Maintenance of Collateral . Other than the exercise of reasonable care to assure the safe custody of any Collateral in Secured Party's possession from time to time, Secured Party does not have any obligation, duty or responsibility with respect to the Collateral. Without limiting the generality of the foregoing, Secured Party shall not have any obligation, duty or responsibility to do any of the following: (a) ascertain any maturities, calls, conversions, exchanges, offers, tenders or similar matters relating to the Collateral or informing Grantor with respect to any such matters; (b) fix, preserve or exercise any right, privilege or option (whether conversion, redemption or otherwise) with respect to the Collateral unless (i) Grantor makes written demand to Secured Party to do so, (ii) such written demand is received by Secured Party in sufficient time to permit Secured Party to take the action demanded in the ordinary course of its business, and (iii) Grantor provides additional collateral, acceptable to Secured Party in its sole discretion, to the extent necessary to maintain certain minimum amounts of collateral; (c) collect any amounts payable in respect of the Collateral (Secured Party being liable to account to Grantor only for what Secured Party may actually receive or collect thereon); (d) sell all or any portion of the Collateral to avoid market loss; (e) sell all or any portion of the Collateral unless and until (i) Grantor makes written demand upon Secured Party to sell the Collateral, and (ii) Grantor provides additional collateral, acceptable to Secured Party in its sole discretion, to the extent necessary to maintain certain minimum amounts of collateral; or (f) hold the Collateral for or on behalf of any party other than Grantor.

6. Representations and Warranties . Grantor hereby represents and warrants the following to Secured Party:

(a) Authority . The execution, delivery and performance of this Agreement and all of the other Loan Documents by Grantor have been duly authorized by all necessary corporate action of Grantor, to the extent Grantor is a corporation, by all necessary partnership action, to the extent Grantor is a partnership, by all necessary company action of Grantor, to the extent Grantor is a limited liability company, by the provisions of the trust documents, to the extent Grantor is a trust.

(b) Accuracy of Information . All information heretofore, herein or hereafter supplied to Secured Party by or on behalf of Grantor with respect to the Collateral is true and correct in all material respects. The exact legal name and organization number of Grantor is correctly shown above.

(c) Enforceability . This Agreement and the other Loan Documents constitute legal, valid and binding obligations of Grantor, enforceable in accordance with their respective terms, except as limited by bankruptcy, insolvency or similar laws of general

application relating to the enforcement of creditors' rights and except to the extent specific remedies may generally be limited by equitable principles.

(d) Ownership and Liens. Grantor has good title to the Collateral free and clear of all liens, security interests, encumbrances or adverse claims, except for the security interest created by this Agreement. No dispute, right of setoff, counterclaim or defense exists with respect to all or any part of the Collateral. Grantor has not executed any other security agreement currently affecting the Collateral and no financing statement or other instrument similar in effect covering all or any part of the Collateral is on file in any recording office except as may have been executed or filed in favor of Secured Party.

(e) No Conflicts or Consents. Neither the ownership, the intended use of the Collateral by Grantor, the grant of the security interest by Grantor to Secured Party herein nor the exercise by Secured Party of its rights or remedies hereunder, will (i) conflict with any provision of (A) any domestic or foreign law, statute, rule or regulation, (B) the articles or certificate of incorporation, certificate of organization, charter, bylaws, partnership agreement or trust agreement, as the case may be, of Grantor, or (C) any agreement, judgment, license, order or permit applicable to or binding upon Grantor or otherwise affecting the Collateral, or (ii) result in or require the creation of any lien, charge or encumbrance upon any assets or properties of Grantor or of any person except as may be expressly contemplated in the Loan Documents. Except as expressly contemplated in the Loan Documents, no consent, approval, authorization or order of, and no notice to or filing with, any court, governmental authority or third party is required in connection with the grant by Grantor of the security interest herein or the exercise by Secured Party of its rights and remedies hereunder.

(f) Security Interest. Grantor has and will have at all times full right, power and authority to grant a security interest in the Collateral to Secured Party in the manner provided herein, free and clear of any lien, security interest or other charge or encumbrance. This Agreement creates a legal, valid and binding security interest in favor of Secured Party in the Collateral.

(g) Location/Identity. Grantor's principal residence or place of business and chief executive office (as those terms are used in the Code), as the case may be is located at the address set forth herein. Except as specified elsewhere herein, all Collateral and records concerning the Collateral shall be kept at such address. Grantor's organizational structure, state of organization, and organizational number (the "Organizational Information") are as set forth herein. Except as specified in Section 14 hereof, the Organizational Information shall not change.

(h) Solvency of Grantor. As of the date hereof, and after giving effect to this Agreement and the completion of all other transactions contemplated by Grantor at the time of the execution of this Agreement, (i) Grantor is and will be solvent, (ii) the fair saleable value of Grantor's assets exceeds and will continue to exceed Grantor's liabilities (both fixed

and contingent), (iii) Grantor is paying and will continue to be able to pay its debts as they mature, and (iv) if Grantor is not an individual, Grantor has and will have sufficient capital to carry on Grantor's businesses and all businesses in which Grantor is about to engage.

(i) Securities. Any certificates evidencing securities pledged as Collateral are valid and genuine and have not been altered. All securities pledged as Collateral have been duly authorized and validly issued, are fully paid and non-assessable, and were not issued in violation of the preemptive rights of any party or of any agreement by which Grantor or the issuer thereof is bound. No restrictions or conditions exist with respect to the transfer or voting of any securities pledged as Collateral, except as has been disclosed to Secured Party in writing. To the best of Grantor's knowledge, no issuer of such securities (other than securities of a class which are publicly traded) has any outstanding stock rights, rights to subscribe, options, warrants or convertible securities outstanding or any other rights outstanding entitling any party to have issued to such party capital stock of such issuer, except as has been disclosed to Secured Party in writing.

(j) Reserved.

(k) Reserved.

7. Affirmative Covenants. Grantor will comply with the covenants contained in this Section at all times during the period of time this Agreement is effective unless Secured Party shall otherwise consent in writing.

(a) Ownership and Liens. Grantor will maintain good title to all Collateral free and clear of all liens, security interests, encumbrances or adverse claims, except for the security interest created by this Agreement and the security interests and other encumbrances expressly permitted by the other Loan Documents. Grantor will not permit any dispute, right of setoff, counterclaim or defense to exist with respect to all or any part of the Collateral. Grantor will cause any financing statement or other security instrument with respect to the Collateral to be terminated, except as may exist or as may have been filed in favor of Secured Party. Grantor hereby irrevocably appoints Secured Party as Grantor's attorney-in-fact, such power of attorney being coupled with an interest, with full authority in the place and stead of Grantor and in the name of Grantor or otherwise, for the purpose of terminating any financing statements currently filed with respect to the Collateral. Grantor will defend at its expense Secured Party's right, title and security interest in and to the Collateral against the claims of any third party.

(b) Inspection of Books and Records. Grantor will keep adequate records concerning the Collateral and after prior notice to Grantor and provided such inspection shall be accompanied by a representative of Grantor, will permit Secured Party and all representatives and agents appointed by Secured Party to inspect Grantor's books and records of or relating to the Collateral at any time during normal business hours, to make and take

away photocopies, photographs and printouts thereof and to write down and record any such information.

(c) Adverse Claim. Grantor covenants and agrees to promptly notify Secured Party of any material adverse claim, action or proceeding affecting title to the Collateral, or any part thereof, or the security interest created hereunder and, at Grantor's expense, defend Secured Party's security interest in the Collateral against the claims of any third party. Grantor also covenants and agrees to promptly deliver to Secured Party a copy of all material written notices received by Grantor with respect to the Collateral, including without limitation, notices received from the issuer of any securities pledged hereunder as Collateral.

(d) Further Assurances. Grantor will contemporaneously with the execution hereof and from time to time thereafter at its expense promptly execute and deliver all further instruments and documents and take all further action necessary or appropriate or that Secured Party may request in order (i) to perfect and protect the security interest created or purported to be created hereby and the first priority of such security interest, (ii) to enable Secured Party to exercise and enforce its rights and remedies hereunder in respect of the Collateral, and (iii) to otherwise effect the purposes of this Agreement, including without limitation: (A) executing (if requested) and filing any financing or continuation statements, or any amendments thereto; (B) obtaining written confirmation from the issuer of any securities pledged as Collateral of the pledge of such securities, in form and substance satisfactory to Secured Party; (C) cooperating with Secured Party in registering the pledge of any securities pledged as Collateral with the issuer of such securities; (D) delivering notice of Secured Party's security interest in any securities pledged as Collateral to any financial intermediary, clearing corporation or other party required by Secured Party, in form and substance satisfactory to Secured Party; and (E) obtaining written confirmation of the pledge of any securities constituting Collateral from any financial intermediary, clearing corporation or other party required by Secured Party, in form and substance satisfactory to Secured Party. If all or any part of the Collateral is securities issued by an agency or department of the United States, Grantor covenants and agrees, at Secured Party's request, to cooperate in registering such securities in Secured Party's name or with Secured Party's account maintained with a Federal Reserve Bank.

(e) Control Agreements. Grantor will cooperate with Secured Party in obtaining a control agreement in form and substance satisfactory to Secured Party with respect to Collateral for which such agreement is required for perfection of a security interest pursuant to the Code (as determined by Secured Party in its sole discretion).

(f) Margin Maintenance. Borrower shall provide to Lender throughout the term of the Agreement Collateral described above acceptable to Lender having a market value of not less than \$25,000,000.00. If the market value of the collateral should ever fall below \$25,000,000.00, Borrower shall provide additional collateral satisfactory to Secured Party together with an executed security agreement and any other documents reasonably deemed necessary by the Secured Party for the granting and perfection of a first security

interest therein, within two (2) business days after a request for such additional collateral is made by Secured Party increasing the market value of the Collateral to not less than \$30,000,000.00.

8. Negative Covenants. Grantor will comply with the covenants contained in this Section at all times during the period of time this Agreement is effective, unless Secured Party shall otherwise consent in writing.

(a) Transfer or Encumbrance. Grantor will not (i) sell, assign (by operation of law or otherwise) or transfer Grantor's rights in the Securities Account, (ii) grant a lien or security interest in or execute, authorize, file or record any financing statement or other security instrument with respect to the Securities Account to any party other than Secured Party, or (iii) deliver actual or constructive possession of any certificate, instrument or document evidencing and/or representing any of the Collateral to any party other than Secured Party for the purpose of granting control over such certificate, instrument or document in order to perfect a security interest therein.

(b) Impairment of Security Interest. Grantor will not take or fail to take any action which would in any manner impair the value or enforceability of Secured Party's security interest in any Collateral.

(c) Restrictions on Securities. Grantor will not enter into any agreement creating any restriction or condition upon the transfer, voting or control of any securities pledged as Collateral, except as consented to in writing by Secured Party.

9. Rights of Secured Party. Secured Party shall have the rights contained in this Section at all times during the period of time this Agreement is effective.

(a) Power of Attorney. After an Event of Default, Grantor hereby irrevocably appoints Secured Party as Grantor's attorney-in-fact, such power of attorney being coupled with an interest, with full authority in the place and stead of Grantor and in the name of Grantor or otherwise, to take any action and to execute any instrument which Secured Party may from time to time in Secured Party's discretion deem necessary or appropriate to accomplish the purposes of this Agreement, including without limitation, the following action: (i) transfer any securities, instruments, documents or certificates pledged as Collateral in the name of Secured Party or its nominee; (ii) use any interest, premium or principal payments, conversion or redemption proceeds or other cash proceeds received in connection with any Collateral to reduce any of the Indebtedness; (iii) exchange any of the securities pledged as Collateral for any other property upon any merger, consolidation, reorganization, recapitalization or other readjustment of the issuer thereof, and, in connection therewith, to deposit and deliver any and all of such securities with any committee, depository, transfer agent, registrar or other designated agent upon such terms and conditions as Secured Party may deem necessary or appropriate; (iv) exercise or comply with any conversion, exchange, redemption, subscription or any other right, privilege or option

pertaining to any securities pledged as Collateral; provided, however, except as provided herein, Secured Party shall not have a duty to exercise or comply with any such right, privilege or option (whether conversion, redemption or otherwise) and shall not be responsible for any delay or failure to do so; and (v) file any claims or take any action or institute any proceedings which Secured Party may deem necessary or appropriate for the collection and/or preservation of the Collateral or otherwise to enforce the rights of Secured Party with respect to the Collateral.

(b) Performance by Secured Party. If Grantor fails to perform any agreement or obligation provided herein after five (5) days prior notice to Grantor and Grantor's failure to cure any such non-performance within such time, Secured Party may itself perform, or cause performance of, such agreement or obligation, and the expenses of Secured Party incurred in connection therewith shall be a part of the Indebtedness, secured by the Collateral and payable by Grantor on demand.

Notwithstanding any other provision herein to the contrary, Secured Party does not have any duty to exercise or continue to exercise any of the foregoing rights and shall not be responsible for any failure to do so or for any delay in doing so.

10. Events of Default. The occurrence of an "Event of Default" under any of the other Loan Documents shall constitute an Event of Default under this Agreement.

11. Remedies and Related Rights. If an Event of Default shall have occurred, and without limiting any other rights and remedies provided herein, under any of the other Loan Documents or otherwise available to Secured Party, Secured Party may exercise one or more of the rights and remedies provided in this Section.

(a) Remedies. Secured Party may from time to time at its discretion, without limitation and without notice:

(i) exercise in respect of the Collateral all the rights and remedies of a secured party under the Code (whether or not the Code applies to the affected Collateral);

(ii) reduce its claim to judgment or foreclose or otherwise enforce, in whole or in part, the security interest granted hereunder by any available judicial procedure;

(iii) sell or otherwise dispose of, at its office, on the premises of Grantor or elsewhere, the Collateral, as a unit or in parcels, by public or private proceedings, and by way of one or more contracts (it being agreed that the sale or other disposition of any part of the Collateral shall not exhaust Secured Party's power of sale, but sales or other dispositions may be made from time to time until all of the Collateral has been sold or disposed of or until the Indebtedness has been paid and performed in

full), and at any such sale or other disposition it shall not be necessary to exhibit any of the Collateral;

(iv) buy the Collateral, or any portion thereof, at any public sale;

(v) buy the Collateral, or any portion thereof, at any private sale if the Collateral is of a type customarily sold in a recognized market or is of a type which is the subject of widely distributed standard price quotations;

(vi) apply for the appointment of a receiver for the Collateral, and Grantor hereby consents to any such appointment; and

(vii) at its option, retain the Collateral in satisfaction of the Indebtedness whenever the circumstances are such that Secured Party is entitled to do so under the Code or otherwise, to the full extent permitted by the Code, Secured Party shall be permitted to elect whether such retention shall be in full or partial satisfaction of the Indebtedness.

In the event Secured Party shall elect to sell the Collateral, Secured Party may sell the Collateral without giving any warranties as and shall be permitted to specifically disclaim any warranties of title or the like. Further, if Secured Party sells any of the Collateral on credit, Grantor will be credited only with payments actually made by the purchaser, received by Secured Party and applied to the Indebtedness. In the event the purchaser fails to pay for the Collateral, Secured Party may resell the Collateral and Grantor shall be credited with the proceeds of the sale. Grantor agrees that in the event Grantor or any Borrower is entitled to receive any notice under the Code, as it exists in the state governing any such notice, of the sale or other disposition of any Collateral, reasonable notice shall be deemed given when such notice is deposited in a depository receptacle under the care and custody of the United States Postal Service, postage prepaid, at such party's address set forth on the first page hereof, ten (10) days prior to the date of any public sale, or after which a private sale, of any of such Collateral is to be held. Secured Party shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. Grantor further acknowledges and agrees that the redemption by Secured Party of any certificate of deposit pledged as Collateral shall be deemed to be a commercially reasonable disposition under Section 9.610 of the Code.

(b) Private Sale of Securities. Grantor recognizes that Secured Party may be unable to effect a public sale of all or any part of the securities pledged as Collateral because of restrictions in applicable federal and state securities laws and that Secured Party may, therefore, determine to make one or more private sales of any such securities to a restricted group of purchasers who will be obligated to agree, among other things, to acquire such securities for their own account, for investment and not with a view to the distribution or

resale thereof. Grantor acknowledges that each any such private sale may be at prices and other terms less favorable than what might have been obtained at a public sale and, notwithstanding the foregoing, agrees that each such private sale shall be deemed to have been made in a commercially reasonable manner and that Secured Party shall have no obligation to delay the sale of any such securities for the period of time necessary to permit the issuer to register such securities for public sale under any federal or state securities laws. Grantor further acknowledges and agrees that any offer to sell such securities which has been made privately in the manner described above to not less than five (5) bona fide offerees shall be deemed to involve a "public sale" for the purposes of Chapter 9 of the Code, notwithstanding that such sale may not constitute a "public offering" under any federal or state securities laws and that Secured Party may, in such event, bid for the purchase of such securities.

(c) Application of Proceeds. If any Event of Default shall have occurred, Secured Party may at its discretion apply or use any cash held by Secured Party as Collateral, and any cash proceeds received by Secured Party in respect of any sale or other disposition of, collection from, or other realization upon, all or any part of the Collateral as follows in such order and manner as Secured Party may elect:

(i) to the repayment or reimbursement of the reasonable costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) incurred by Secured Party in connection with (A) the administration of the Loan Documents, (B) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, the Collateral, and (C) the exercise or enforcement of any of the rights and remedies of Secured Party hereunder;

(ii) to the payment or other satisfaction of any liens and other encumbrances upon the Collateral;

(iii) to the satisfaction of the Indebtedness;

(iv) by holding such cash and proceeds as Collateral;

(v) to the payment of any other amounts required by applicable law (including without limitation, Section 9.615(a)(3) of the Code or any other applicable statutory provision); and

(vi) by delivery to Grantor or any other party lawfully entitled to receive such cash or proceeds whether by direction of a court of competent jurisdiction or otherwise.

(d) Deficiency. In the event that the proceeds of any sale of, collection from, or other realization upon, all or any part of the Collateral by Secured Party are insufficient to pay all amounts to which Secured Party is legally entitled, Borrower and any party who guaranteed or is otherwise obligated to pay all or any portion of the Indebtedness shall be liable for the deficiency, together with interest thereon as provided in the Loan Documents, to the full extent permitted by the Code.

(e) Non-Judicial Remedies. In granting to Secured Party the power to enforce its rights hereunder without prior judicial process or judicial hearing, Grantor expressly waives, renounces and knowingly relinquishes any legal right which might otherwise require Secured Party to enforce its rights by judicial process. Grantor recognizes and concedes that non-judicial remedies are consistent with the usage of trade, are responsive to commercial necessity and are the result of a bargain at arm's length. Nothing herein is intended to prevent Secured Party or Grantor from resorting to judicial process at either party's option.

(f) Other Recourse. Grantor waives any right to require Secured Party to proceed against any third party, exhaust any Collateral or other security for the Indebtedness, or to have any third party joined with Grantor in any suit arising out of the Indebtedness or any of the Loan Documents, or pursue any other remedy available to Secured Party. Grantor further waives any and all notice of acceptance of this Agreement and of the creation, modification, rearrangement, renewal or extension of the Indebtedness. Grantor further waives any defense arising by reason of any disability or other defense of any third party or by reason of the cessation from any cause whatsoever of the liability of any third party. Until all of the Indebtedness shall have been paid in full, Grantor shall have no right of subrogation and Grantor waives the right to enforce any remedy which Secured Party has or may hereafter have against any third party, and waives any benefit of and any right to participate in any other security whatsoever now or hereafter held by Secured Party. Grantor authorizes Secured Party, and without notice or demand and without any reservation of rights against Grantor and without affecting Grantor's liability hereunder or on the Indebtedness, to (i) take or hold any other property of any type from any third party as security for the Indebtedness, and exchange, enforce, waive and release any or all of such other property, (ii) apply such other property and direct the order or manner of sale thereof as Secured Party may in its discretion determine, (iii) renew, extend, accelerate, modify, compromise, settle or release any of the Indebtedness or other security for the Indebtedness, (iv) waive, enforce or modify any of the provisions of any of the Loan Documents executed by any third party, and (v) release or substitute any third party.

(g) Voting Rights. Upon the occurrence of an Event of Default, Grantor will not exercise any voting rights with respect to securities pledged as Collateral. Grantor hereby irrevocably appoints Secured Party as Grantor's attorney-in-fact (such power of attorney being coupled with an interest) and proxy to exercise any voting rights with respect to Grantor's securities pledged as Collateral upon the occurrence of an Event of Default.

(h) Dividend Rights and Interest Payments. Upon the occurrence of an Event of Default:

(i) all rights of Grantor to receive and retain the dividends and interest payments which it would otherwise be authorized to receive and retain pursuant to Section 3 shall automatically cease, and all such rights shall thereupon become vested with Secured Party which shall thereafter have the sole right to receive, hold and apply as Collateral such dividends and interest payments; and

(ii) all dividend and interest payments which are received by Grantor contrary to the provisions of clause (i) of this Subsection shall be received in trust for the benefit of Secured Party, shall be segregated from other funds of Grantor, and shall be forthwith paid over to Secured Party in the exact form received (properly endorsed or assigned if requested by Secured Party), to be held by Secured Party as Collateral.

12. INDEMNITY. GRANTOR (AND BORROWER, IF BORROWER IS NOT THE GRANTOR) EACH HEREBY INDEMNIFIES AND AGREES TO HOLD HARMLESS SECURED PARTY, AND ITS OFFICERS, DIRECTORS, EMPLOYEES, AGENTS AND REPRESENTATIVES (EACH AN "INDEMNIFIED PERSON") FROM AND AGAINST ANY AND ALL LIABILITIES, OBLIGATIONS, CLAIMS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, SUITS, COSTS, EXPENSES OR DISBURSEMENTS OF ANY KIND OR NATURE (COLLECTIVELY, THE "CLAIMS") WHICH MAY BE IMPOSED ON, INCURRED BY, OR ASSERTED AGAINST, ANY INDEMNIFIED PERSON ARISING IN CONNECTION WITH THE LOAN DOCUMENTS, THE INDEBTEDNESS OR THE COLLATERAL (INCLUDING WITHOUT LIMITATION, THE ENFORCEMENT OF THE LOAN DOCUMENTS AND THE DEFENSE OF ANY INDEMNIFIED PERSON'S ACTIONS AND/OR INACTIONS IN CONNECTION WITH THE LOAN DOCUMENTS); PROVIDED THAT SUCH INDEMNIFICATION SHALL NOT, AS TO ANY INDEMNIFIED PERSON, BE AVAILABLE TO THE EXTENT THAT SUCH LIABILITIES, CLAIMS, LOSSES, DAMAGES, PENALTIES, COSTS, EXPENSES OR DISBURSEMENTS (A) ARE DETERMINED BY A COURT OF COMPETENT JURISDICTION BY FINAL AND NONAPPEALABLE JUDGMENT TO HAVE RESULTED BY GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF SUCH INDEMNIFIED PERSON OR (B) RESULT FROM A CLAIM BROUGHT BY GRANTOR AGAINST AN INDEMNIFIED PERSON FOR BREACH IN BAD FAITH OF SUCH INDEMNIFIED PERSON'S OBLIGATIONS HEREUNDER OR ANY OTHER LOAN DOCUMENT, IF GRANTOR HAS OBTAINED A FINAL AND NONAPPEALABLE JUDGMENT IN ITS FAVOR ON SUCH CLAIM AS DETERMINED BY A COURT OF COMPETENT JURISDICTION. THE INDEMNIFICATION PROVIDED FOR IN THIS SECTION SHALL SURVIVE THE TERMINATION OF THIS AGREEMENT AND SHALL EXTEND AND CONTINUE TO

BENEFIT EACH INDIVIDUAL OR ENTITY WHO IS OR HAS AT ANY TIME BEEN AN INDEMNIFIED PERSON HEREUNDER.

13. Miscellaneous.

(a) Entire Agreement. This Agreement contains the entire agreement of Secured Party and Grantor (and Borrower, if Borrower is not the Grantor) with respect to the Collateral. If the parties hereto are parties to any prior agreement, either written or oral, relating to the Collateral, the terms of this Agreement shall amend and supersede the terms of such prior agreements as to transactions on or after the effective date of this Agreement, but all security agreements, financing statements, guaranties, other contracts and notices for the benefit of Secured Party shall continue in full force and effect to secure the Indebtedness unless Secured Party specifically releases its rights thereunder by separate release.

(b) Amendment. No modification, consent or amendment of any provision of this Agreement or any of the other Loan Documents shall be valid or effective unless the same is in writing and authenticated by the party against whom it is sought to be enforced, except to the extent of amendments specifically permitted by the Code without authentication by the Grantor.

(c) Actions by Secured Party. The lien, security interest and other security rights of Secured Party hereunder shall not be impaired by (i) any renewal, extension, increase or modification with respect to the Indebtedness, (ii) any surrender, compromise, release, renewal, extension, exchange or substitution which Secured Party may grant with respect to the Collateral, or (iii) any release or indulgence granted to any endorser, guarantor or surety of the Indebtedness. The taking of additional security by Secured Party shall not release or impair the lien, security interest or other security rights of Secured Party hereunder or affect the obligations of Grantor hereunder.

(d) Waiver by Secured Party. Secured Party may waive any Event of Default without waiving any other prior or subsequent Event of Default. Secured Party may remedy any default without waiving the Event of Default remedied. Neither the failure by Secured Party to exercise, nor the delay by Secured Party in exercising, any right or remedy upon any Event of Default shall be construed as a waiver of such Event of Default or as a waiver of the right to exercise any such right or remedy at a later date. No single or partial exercise by Secured Party of any right or remedy hereunder shall exhaust the same or shall preclude any other or further exercise thereof, and every such right or remedy hereunder may be exercised at any time. No waiver of any provision hereof or consent to any departure therefrom shall be effective unless the same shall be in writing and signed by Secured Party and then such waiver or consent shall be effective only in the specific instances, for the purpose for which given and to the extent therein specified. No notice to or demand in any case shall of itself entitle Grantor (or Borrower, if Borrower is not the Grantor) to any other or further notice or demand in similar or other circumstances.

(e) Costs and Expenses. Grantor (and Borrower, if Borrower is not the Grantor) will upon demand pay to Secured Party the amount of any and all costs and expenses (including without limitation, reasonable attorneys' fees and expenses), which Secured Party may incur in connection with (i) the transactions which give rise to the Loan Documents, (ii) the preparation of this Agreement and the perfection and preservation of the security interests granted under the Loan Documents, (iii) the administration of the Loan Documents, (iv) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, the Collateral, (v) the exercise or enforcement of any of the rights of Secured Party under the Loan Documents, or (vi) the failure by Grantor (or Borrower, if Borrower is not the Grantor) to perform or observe any of the provisions hereof.

(f) Controlling Law: Venue. This Agreement is executed and delivered as an incident to a lending transaction negotiated and consummated in Bexar County, Texas, and shall be governed by and construed in accordance with the laws of the State of Texas. Grantor (and Borrower, if Borrower is not the Grantor), for itself and its successors and assigns, hereby irrevocably (a) submits to the nonexclusive jurisdiction of the state and federal courts in Texas, (b) waives, to the fullest extent permitted by law, any objection that it may now or in the future have to the laying of venue of any litigation arising out of or in connection with any Loan Document brought in the District Court of Bexar County, Texas, or in the United States District Court for the Western District of Texas, San Antonio, Division, (c) waives any objection it may now or hereafter have as to the venue of any such action or proceeding brought in such court or that such court is an inconvenient forum, (d) agrees that any legal proceeding against any party to any Loan Document arising out of or in connection with any of the Loan Documents may be brought in one of the foregoing courts, and (e) agrees that service of process upon it may be made by certified or registered mail, return receipt requested, at its address specified herein. Nothing herein shall affect the right of Lender to serve process in any other manner permitted by law or shall limit the right of Lender to bring any action or proceeding against Grantor (and Borrower, if Borrower is not the Grantor) or with respect to any of Grantor's (or Borrower's, if Borrower is not the Grantor) property in courts in other jurisdictions. The scope of each of the foregoing waivers is intended to be all encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this transaction, including, without limitation, contract claims, tort claims, breach of duty claims, and all other common law and statutory claims. Grantor (and Borrower, if Borrower is not the Grantor) acknowledges that these waivers are a material inducement to Lender's agreement to enter into agreements and obligations evidenced by the Loan Documents, that Lender has already relied on these waivers and will continue to rely on each of these waivers in related future dealings. The waivers in this section are irrevocable, meaning that they may not be modified either orally or in writing, and these waivers apply to any future renewals, extensions, amendments, modifications, or replacements in respect of the applicable Loan Document. In connection with any litigation, this Agreement may be filed as a written consent to a trial by the court.

(g) Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be illegal, invalid or unenforceable under present or future laws,

such provision shall be fully severable, shall not impair or invalidate the remainder of this Agreement and the effect thereof shall be confined to the provision held to be illegal, invalid or unenforceable.

(h) No Obligation. Nothing contained herein shall be construed as an obligation on the part of Secured Party to extend or continue to extend credit to Borrower.

(i) Notices. All notices, requests, demands or other communications required or permitted to be given pursuant to this Agreement shall be in writing and given by (i) personal delivery, (ii) expedited delivery service with proof of delivery, or (iii) United States mail, postage prepaid, registered or certified mail, return receipt requested, sent to the intended addressee at the address set forth on the first page hereof or to such different address as the addressee shall have designated by written notice sent pursuant to the terms hereof and shall be deemed to have been received either, in the case of personal delivery, at the time of personal delivery, in the case of expedited delivery service, as of the date of first attempted delivery at the address and in the manner provided herein, or in the case of mail, upon deposit in a depository receptacle under the care and custody of the United States Postal Service. Either party shall have the right to change its address for notice hereunder to any other location within the continental United States by notice to the other party of such new address at least thirty (30) days prior to the effective date of such new address.

(j) Binding Effect and Assignment. This Agreement (i) creates a continuing security interest in the Collateral, (ii) shall be binding on Grantor and the heirs, executors, administrators, personal representatives, successors and assigns of Grantor (and Borrower, if Borrower is not the Grantor), and (iii) shall inure to the benefit of Secured Party and its successors and assigns. Without limiting the generality of the foregoing, Secured Party may pledge, assign or otherwise transfer the Indebtedness and its rights under this Agreement and any of the other Loan Documents to any other party, after prior notice to Grantor. Grantor's (and Borrower's, if Borrower is not the Grantor) rights and obligations hereunder may not be assigned or otherwise transferred without the prior written consent of Secured Party.

(k) Termination. It is contemplated by the parties hereto that from time to time there may be no outstanding Indebtedness, but notwithstanding such occurrences, this Agreement shall remain valid and shall be in full force and effect as to subsequent outstanding Indebtedness. Upon (i) the satisfaction in full of the Indebtedness, (ii) the termination or expiration of any commitment of Secured Party to extend credit to Borrower, (iii) written request for the termination hereof delivered by Grantor to Secured Party, and (iv) written release delivered by Secured Party to Grantor, this Agreement and the security interests created hereby shall terminate. Upon termination of this Agreement and Grantor's written request, Secured Party will, at Grantor's sole cost and expense, return to Grantor such of the Collateral as shall not have been sold or otherwise disposed of or applied pursuant to the terms hereof and execute and deliver to Grantor such documents as Grantor shall reasonably request to evidence such termination.

(l) Cumulative Rights. All rights and remedies of Secured Party hereunder are cumulative of each other and of every other right or remedy which Secured Party may otherwise have at law or in equity or under any of the other Loan Documents, and the exercise of one or more of such rights or remedies shall not prejudice or impair the concurrent or subsequent exercise of any other rights or remedies. Further, except as specifically noted as a waiver herein, no provision of this Agreement is intended by the parties to this Agreement to waive any rights, benefits or protection afforded to Secured Party under the Code.

(m) Gender and Number. Within this Agreement, words of any gender shall be held and construed to include the other gender, and words in the singular number shall be held and construed to include the plural and words in the plural number shall be held and construed to include the singular, unless in each instance the context requires otherwise.

(n) Descriptive Headings. The headings in this Agreement are for convenience only and shall in no way enlarge, limit or define the scope or meaning of the various and several provisions hereof.

14. Financing Statement Filings. Grantor recognizes that financing statements pertaining to the Collateral have been or may be filed in one or more of the following jurisdictions: the location of Grantor's principal residence, the location of Grantor's place of business, the location of Grantor's chief executive office, or other such place as the Grantor may be "located" under the provisions of the Code; where Grantor maintains any Collateral, or has its records concerning any Collateral, as the case may be. Without limitation of any other covenant herein, Grantor will neither cause or permit any change in the location of (i) any Collateral, (ii) any records concerning any Collateral, or (iii) Grantor's principal residence, the location of Grantor's place of business, or the location of Grantor's chief executive office, as the case may be, to a jurisdiction other than as represented in Subsection 6(g), nor will Grantor change its name or the Organizational Information as represented in Subsection 6(g), unless Grantor shall have notified Secured Party in writing of such change at least thirty (30) days prior to the effective date of such change, and shall have first taken all action reasonably required by Secured Party for the purpose of further perfecting or protecting the security interest in favor of Secured Party in the Collateral. Secured Party acknowledges that after the date hereof, Grantor may convert from a limited partnership to a different business entity type, provided that Grantor delivers notice thereof to Secured Party in accordance with the preceding sentence. In any written notice furnished pursuant to this Subsection, Grantor will expressly state that the notice is required by this Agreement and contains facts that may require additional filings of financing statements, amendments or other notices for the purpose of continuing perfection of Secured Party's security interest in the Collateral.

Without limiting Secured Party's rights hereunder, Grantor authorizes Secured Party to file financing statements or amendments thereto under the provisions of the Code as amended from time to time.

15. Reserved.

16. Counterparts; Facsimile Documents and Signatures. This Agreement may be separately executed in any number of counterparts, each of which will be an original, but all of which, taken together, will be deemed to constitute one and the same instrument. For purposes of negotiating and finalizing this Agreement, if this document or any document executed in connection with it is transmitted by facsimile machine, electronic mail or other electronic transmission, it will be treated for all purposes as an original document. Additionally, the signature of any party on this document transmitted by way of a facsimile machine or electronic mail will be considered for all purposes as an original signature. Any such transmitted document will be considered to have the same binding legal effect as an original document. At the request of any party, any faxed or electronically transmitted document will be re-executed by each signatory party in an original form.

17. Imaging of Documents. Grantor (and Borrower, if Borrower is not the Grantor) understands and agrees that (a) Lender's document retention policy may involve the electronic imaging of executed Loan Documents and the destruction of the paper originals, and (b) Grantor (and Borrower, if Borrower is not the Grantor) waives any right that it may have to claim that the imaged copies of the Loan Documents are not originals.

EXECUTED as of the date first written above.

BORROWER:

T.B.A. INSURANCE GROUP, LTD.,
a Texas limited partnership

By: SNC Financial GP, LLC, a Nevada limited
liability company, its General Partner

By: /s/ Terry L. Ledbetter
Printed Name: Terry L. Ledbetter
Title: Chief Executive Officer

SECURED PARTY:

FROST BANK,
a Texas state bank

By: /s/ Aaron Loose
Printed Name: Aaron Loose
Title: Assistant Vice President

EMPLOYMENT AGREEMENT

This Employment Agreement (the "**Agreement**") is made and entered into as of February 4, 2016, by and between T.B.A. Insurance Group, Ltd., a Texas limited partnership having its principal offices located at 1900 L. Don Dodson Drive, Bedford, Texas 76021 ("**Employer**" or "**Company**"), and Matthew A. Freeman ("**Employee**"), collectively, the "**Parties**."

WHEREAS, the Employer is an indirect subsidiary of State National Companies, Inc. ("**State National**"), and State National and its direct and indirect subsidiaries are the affiliates of the Employer;

WHEREAS, the Employer and its affiliates, in their business, use certain trade secrets, confidential information and data, confidential processes and confidential customer and supplier lists that will necessarily be communicated to, or acquired by, Employee by virtue of his employment by the Employer, and the Employer and its affiliates have expended and will expend considerable time, effort and money to develop said trade secrets and confidential information, data, processes and lists to promote and increase its business goodwill; and

WHEREAS, Employee is desirous of employment in the capacity set forth herein, and the Company desires to employ Employee provided that, in so doing, it can protect its trade secrets and confidential information, data, processes, customer and supplier lists, business, patronage and business goodwill;

NOW, THEREFORE, in consideration of the premises and of the promises and covenants contained in this Agreement, and for other good and valuable consideration, including without limitation employment with the Company, employment compensation and benefits, work experience, and access to the Company's business relationships, trade secrets, Confidential Information and goodwill, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

1. **Employment and Title.** Employee hereby agrees to enter into the employment of the Employer, and the Employer hereby agrees to employ Employee, on the terms and conditions hereinafter set forth. Employee's employment under this Agreement will commence on February 8, 2016 (the "**Effective Date**"). Employee's job title shall be President of State National and its direct and indirect subsidiaries. Employee shall report to the Chief Executive Officer of State National.

2. **Compensation and Benefits.**

(a) **Base Salary.** The Employer shall pay to Employee a base salary at the initial rate of \$550,000 per year, less applicable taxes and withholdings, payable in regular installments per the Company's general payroll practices, and prorated for partial years of employment (the "**Base Salary**"). The Company in its sole discretion may increase the Base Salary from time to time, without otherwise affecting this Agreement. The Company may not decrease Employee's Base salary except (i) with the prior written approval of Employee, or (ii) as part of across-the-board salary cuts affecting all Senior Vice Presidents and above, as approved by the Board of Directors of State National or its designee (the "**Board**").

(b) **Annual Bonus.** Employee will be eligible for an annual discretionary performance bonus (the "**Annual Bonus**") in the initial amount of \$400,000 (the "**Target Amount**"), subject to enhancement, reduction or denial per the terms of the Employee's executive bonus, incentive, or cash award plan for the then-applicable calendar year, and further subject to the determination, discretion, and approval of the Compensation Committee of the Board. The

opportunity to earn the Annual Bonus and the amount of same will be determined by, and within the discretion of, the Compensation Committee of the Board, in accordance with key performance indicators as to both Employee and the Company; provided that, the Annual Bonus for Employee shall be based on the same overall performance metrics and structure as the annual bonus for the Chief Executive Officer of the Company. Payment of the Annual Bonus, if any, will be made by no later than March 15th following the calendar year in which such bonus is earned. Payment of the Annual Bonus is expressly conditioned on Employee being currently employed with the Company through and including December 31st of the calendar year in which such bonus is earned. Notwithstanding the other terms of this Section, payment of the Target Amount of the Annual Bonus is guaranteed for 2016, provided that Employee does not resign without Good Reason (as such term is defined in the Parties' separate Severance Agreement) and is not fired for Cause (as such term is defined in the Parties' separate Severance Agreement), on or before December 31, 2016.

(c) **Restricted Stock Award.** On January 1, 2017, Employee will be eligible to receive \$250,000 in restricted stock of the Company, subject to enhancement or reduction (but not denial), per the terms of the State National Companies, Inc. 2014 Long-Term Incentive Plan and Employee's separate Restricted Stock Award Agreement with the Company, and per the determination, discretion, and approval of the Compensation Committee of the Board. On January 1, 2018 and thereafter on an annual basis, Employee will be eligible to receive restricted stock awards, subject to the terms and conditions of the State National Companies, Inc. 2014 Long-Term Incentive Plan and Employee's separate Restricted Stock Award Agreement with the Company, and further subject to the determination, discretion, and approval of the Compensation Committee of the Board; provided, however, that Employee's participation in such plan on January 1, 2018 and thereafter shall be at a level no less than the restricted stock granted to other senior executives of the Company, if any.

(d) **Stock Option Award.** On the Effective Date, the Company will grant Employee 500,000 shares of stock option awards, vesting over a three year period beginning on the Effective Date, subject in all respects to the terms of the State National Companies, Inc. 2014 Long-Term Incentive Plan and Employee's separate Stock Option Award Agreement with the Company.

(e) **Automobile Allowance.** The Company will pay Employee a car allowance of \$2,800 per month (the "*Car Allowance*") on or the before the last business day of the month. Payment of the Car Allowance is expressly conditioned on Employee being currently employed with the Company on the payment date.

(f) **Commuting Expense Reimbursement.** From the date of execution of this Agreement by Employee until and including August 31, 2016, the Company will reimburse Employee for the reasonable costs of travel and lodging, for Employee and his spouse to commute from Atlanta, Georgia to Dallas, Texas for the purposes of relocation to the Dallas, Texas area and initial Company employment, in accordance with Company policy for business expense reimbursement.

(g) **Relocation Expense Reimbursement.** By no later than December 30, 2016, the Company will reimburse Employee for the closing costs and broker's commission for the sale of Employee's home in Atlanta, Georgia; the closing costs for the purchase of Employee's new home in or near Dallas, Texas; the costs for moving Employee's property and that of his family to Employee's new home in or near Dallas, Texas; and other reasonable expenses of relocation to the Dallas, Texas area, up to a combined aggregate maximum total of \$150,000 (collectively,

“**Relocation Expenses**”), in accordance with Company policy for business expense reimbursement; provided, however, that if Employee is terminated from employment for Cause or resigns from employment without Good Reason within twenty (24) months of the Effective Date, Employee shall repay the Relocation Expenses, within six (6) months of the Termination Date.

(h) **Business Expense Reimbursement.** The Company will reimburse Employee for Employee's reasonable business costs and expenses incurred in connection with the performance of Employee's duties under this Agreement, in accordance with Company policy.

(i) **Deductions.** All compensation payable to Employee under this Agreement is stated in gross amounts. Employer shall have the right to deduct from the compensation payable to Employee all taxes which may be required to be deducted or withheld under any provision of applicable law (including, but not limited to, social security payments, income tax withholding and any other required deduction) now in effect or which may become effective any time during the term of this Agreement.

(j) **Vacation.** Employee shall accrue four (4) weeks of vacation annually; provided, however, that vacation leave planned by Employee prior to the Effective Date for the months of March, April and July 2016 is hereby authorized and approved, and shall not be counted against any portion of the four (4) weeks of annual vacation leave provided for in this Section. For purposes of entitlement, vacation is accrued monthly from the Effective Date.

(k) **Other Benefits.** During the Employment Period, Employee may participate in all benefit plans and programs for which similarly situated executive employees of the Company are eligible, subject to the terms of such plans and programs. Subject to applicable law, the Company in its sole discretion may change or terminate Employee's benefits from time to time, without otherwise affecting this Agreement.

3. **Job Duties.** Employee will have job duties commensurate with Employee's job title within State National's industry, subject to the direction of the Chief Executive Officer and the authority and control of the Board of State National. Employee shall devote his full business time and his best efforts, skills and abilities exclusively to the performance of his job duties and to the furtherance and preservation of the Employer's and State National's business. Employee shall use his best efforts to further and preserve the goodwill of all employees, customers, suppliers and other persons or entities having business relations with Employer. Performance reviews will be conducted annually in a month predetermined by Employer, in conjunction with the compensation process. Subject to the limitations set forth herein, Employee may participate in civil, charitable and religious activities and to business of a purely personal nature, so long as such duties do not materially interfere with Employee's performance of his duties hereunder.

4. **Employment At-Will; Final Compensation.** It is recognized and agreed that Employee's employment with the Company is at-will and shall continue indefinitely until terminated by either Employee or the Employer at any time, for any reason not prohibited by law or for no reason, with or without cause or notice, subject to Company policy and the terms of the Parties' agreements. All rights of Employee to compensation and benefits from the Company will cease as of the Termination Date, except that the Company will pay Employee the following compensation, if any such compensation is accrued and unpaid, subject to Company policy: (a) Base Salary, prorated through the Termination Date; (b) reimbursable expenses; (c) vested benefits due for payment under applicable benefit plans, if any; (d) the cash equivalent of unused paid vacation days, subject to the terms of the Company's employee policies; and (e) severance pay, if any, subject to the terms of the Parties' separate Severance Agreement. Except as otherwise provided herein or in other agreements between the Parties, all final compensation will be paid

in the same manner and on the same date as would have occurred if Employee's employment under this Agreement had not ceased.

5. **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 policies, rules and regulations now in effect or subsequently promulgated by the Employer governing the conduct of Company employees. In the event of a conflict between this Agreement and applicable policies, rules and regulations of the Company, this Agreement will govern.

6. **Discoveries.** Employee hereby irrevocably grants, assigns, conveys and otherwise transfers to Employer, its respective successors, licensees and assigns, or its designee, as the Employer's sole property, all of Employee's right, title and interest worldwide in and to any and all patents, patent applications, and patent rights, all inventions (including without limitation all types of technical, artistic or commercial creative work), innovations, discoveries, creative works, works of authorship, improvements, developments, modifications, enhancements, software, computer programs, mask works and mask work rights, concepts, ideas, know-how, methods, designs, formulations, drawings, analyses and reports, sui generis database rights, all similar or related information (in each case whether or not patentable, or registrable under copyright or similar laws), all copyrights and copyrightable works, all Confidential Information (as defined herein, including but not limited to trade secrets, confidential information and rights to same), all trademarks, branding and service marks, and all other forms of intellectual property and industrial property rights of any sort throughout the world, which is directly or indirectly written, conceived, discovered, reduced to practice, developed and/or made by Employee, during the term of Employee's employment with or services to Company, whether in oral, written, tangible or intangible form: (a) alone or with others within the course and scope of Employee's employment duties with or services to the Company (including without limitation, employment or services prior to the Effective Date); (b) using any equipment, supplies, facilities, assets, information (including without limitation Confidential Information), or resources of the Company; and/or (c) relating to or resulting from the Company's actual or planned business, products, services or research and development ("***Intellectual Property***"). Employee forever waives any and all right, title and interest to all Intellectual Property. Employee agrees that he will promptly and fully inform and disclose to Employer all Intellectual Property. In accordance with the foregoing assignment, Employer shall hold all ownership to all rights, without limitation, in and to all Intellectual Property. Employee shall assist Employer in obtaining patents, copyrights or other protective rights on all such inventions, designs, improvements, ideas and discoveries deemed necessary by 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 right, title, and interest thereto, and to protect the same against infringement by others, all without further compensation or consideration.

7. **Confidential Information.** In consideration of the restrictive covenants contained herein, Employer will provide Employee with access to Confidential Information (as defined herein) as reasonably necessary for the performance of Employee's job duties. For the purpose of this Agreement, "***Confidential Information***" means any and all information, material and/or data of, relating to, in the possession of, prepared by, prepared for, obtained by and/or compiled by the Company or its affiliates (and/or their customers), regardless of media or format, that is confidential, proprietary and/or a trade secret: by its nature; based on how it is treated or designated by the Company or any customer; based on the significance of its existing or potential commercial value or business utility; such that its retention, withholding, appropriation, use or disclosure would have a material adverse effect on the business or planned business of the Company; and/or as a matter of law. 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 information, methods, strategies and plans of doing business,

research, designs, data, charts, budgets, contractor names, pricing and cost information, development information, production and planning information, sales and marketing information and other confidential information. Confidential Information specifically includes, without limitation, any and all information, material and/or data that is referenced in the foregoing definition and examples of Confidential Information, that is created, contributed by, discovered, known to, disclosed to, accessed by, and/or developed by Employee during the Employment Period, and/or that otherwise comes within Employee's possession, custody or control as a result of Employee's employment with the Company. Employee acknowledges that such Confidential Information is owned and shall continue to be owned solely by Employer and/or its respective affiliate, and that Employee does not have any ownership or other rights in or to the Confidential Information. Employee shall not, in any manner, directly or indirectly: (a) retain, withhold, take, use or disclose any Confidential Information, except for the benefit of the Company or its affiliates, within the course and scope of Employee's employment; or (b) circumvent, interfere with or otherwise diminish the value of any Confidential Information to the Company and its affiliates. Employee shall protect and safeguard the Confidential Information as secret. Employee shall promptly deliver to the Company all Confidential Information within Employee's possession, custody or control immediately upon the Company's request and/or the Termination Date, as applicable. The Company will have the right of reasonable access to review, inspect, copy and/or confiscate Confidential Information. Both during and after the Employment Period, Employee shall promptly and timely provide the Company with a description, and if applicable, a copy, of any formal written demand or legally enforceable request, by legal process or otherwise, seeking Employee's direct or indirect disclosure of any Confidential Information to any person or entity. The Company will have the right to act in Employee's name, place and stead to defend and protect against the unauthorized retention, withholding, appropriation, use and/or disclosure of Confidential Information. Confidential Information does not include material, data and/or information that: (i) the Company and/or any affiliate has voluntarily and intentionally placed in the public domain for public disclosure; (ii) has been lawfully and independently developed and publicly disclosed by third parties without any direct or indirect access to any Confidential Information; and/or (iii) otherwise enters the public domain through lawful means, including compulsory legal process or court order; provided, however, that the unauthorized retention, withholding, appropriation, use or disclosure of Confidential Information by Employee, directly or indirectly, shall not affect the protection and relief afforded by this Agreement regarding such information. During the Employment Period, Employee shall not possess, retain, withhold, take, use, or disclose and/or bring onto the Company's premises any confidential or proprietary information of any customer or other third-party person or entity, unless lawfully authorized to do so, for the Company's benefit within the course and scope of Employee's employment, and consistent with the Company's agreement(s), if any, with such customer or other third-party.

8. **Documents.** All files, records, documents, drawings, specifications, information, data and similar items relating to the business of Employer and/or its affiliates, whether prepared by Employee or otherwise coming into his possession, shall remain the exclusive property of Employer or its affiliates. Under no circumstances shall Employee remove from the premises of Employer or any of its affiliates any of Employer's or its affiliate's books, records, documents or customer (or prospective customer) lists, or make any copies of such books, records, documents or customer (or prospective customer) lists for use outside of Employer's office, except for the benefit of Employer or its affiliates, within the course and scope of Employee's employment. 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. **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) invest, participate or engage in any business, or prepare to invest, participate or engage in any business, that is competitive with that of Employer or any of its affiliates, or otherwise accept or prepare to accept

employment with, or render services or prepare to render services to, a competitor of Employer or any of its affiliates as a director, manager, officer, agent, employee, consultant or otherwise; (b) solicit or accept or attempt to solicit or accept, or prepare to solicit or accept or attempt to solicit or accept, business that is competitive with the business being conducted by Employer or any of its affiliates from any Customers (as defined herein); or (c) engage in other activity or conduct which creates a conflict of interest between Employee and the business interests of Employer and/or its affiliates, per the terms of the Company's Code of Business Conduct and Ethics.

10. **Post-Employment Restrictive Covenants.** In consideration of the mutual promises herein (including Employer's promise to provide Employee with Confidential Information), upon termination or cessation of employment with Employer for any reason or for no reason and during the Restricted Period (as defined herein), Employee covenants and agrees that Employee, individually, shall not, without the prior written consent of Employer, directly or indirectly, in any Capacity (as defined herein):

(a) engage in Restricted Activities (as defined herein) for a Competing Business (as defined herein) within the Geographic Area (as defined herein);

(b) induce, or attempt to induce, any Customer (as defined herein), regardless of whether Employee initiates contact for such purposes, to: (i) do business with a Competing Business; or (ii) reduce, restrict or terminate business relationships with the Company and/or its affiliates; and/or

(c) (i) attempt to or actually solicit any then-current employee or independent contractor of the Company, to work or provide services to a person or entity other than the Company, regardless of whether Employee initiates contact for such purposes; or (ii) employ and/or establish an independent contractor relationship with any person who is a then-current employee or independent contractor of the Company.

11. **Definitions.** Initial capitalized terms not otherwise defined herein have the following definitions:

(a) "**Capacity**" means, on Employee's own behalf and/or on behalf of any other person or entity, owning, investing or otherwise taking a financial interest in, managing, operating, controlling, being employed by, being associated or affiliated with, providing services as a consultant or independent contractor to, and/or participating in the ownership, management, operation or control of; provided, however, that this definition does not preclude ownership of less than 1% of the outstanding equity securities of any publicly reporting company.

(b) "**Competing Business**" means any person or entity in the business of supplying, creating, producing, designing, selling and/or marketing, as applicable, products and/or services that are the same or substantially similar to the products and/or services that the Company or its affiliates supplied, created, produced, designed, sold and/or marketed during the Reference Period, including but not limited to, any person or entity in the business of providing, or performing services related to: (i) fronting (as that term is commonly understood in State National's industry, where a majority of the business risk is ceded to another party for insurance or reinsurance portfolios), and/or (ii) automobile collateral protection insurance.

(c) "**Customer**" means any person or entity in an actual or prospective customer, insurer, or reinsurer relationship with the Company and/or any of its affiliates: (i) for which

Employee, or any employees working under Employee's direct supervision, had responsibility during the Reference Period; (ii) that holds a contract with Employer or any of its affiliates; (iii) that had a written contract proposal made to it by Employer or any of its affiliates within the Reference Period; (iv) that Employee had contact with during the Reference Period; and/or (v) about which Employee learned Confidential Information as a result of employment with the Company or any of its affiliates.

(d) "**Employment Period**" means Employee's term of employment, from the first day of Employee's work for the Company or its affiliates through the last day of Employee's work for the Company or its affiliates. The Employment Period is not dependent on the date of this Agreement.

(e) "**DISPUTE(S)**" means any controversies or claims (including all claims pursuant to common and/or statutory law) between the Parties, including without limitation, any controversies and/or claims arising from and/or relating to: (i) the subject matter of this Agreement, the Parties other agreements, and/or Employee's plans and benefits with the Company; (ii) Employee's employment with, termination, or resignation from the Company and/or its affiliates; and/or (iii) the Parties' relationship.

(f) "**Geographic Area**" means: (i) the geographic area encompassed by Employee's job duties, responsibilities and actual job activities for the Company or its affiliates during the Reference Period; and/or (ii) the counties encompassing the office(s) of the Company or its affiliates where Employee worked, was based, was supported and/or for which the Employee was responsible, during the Reference Period.

(g) "**Reference Period**" means the lesser of: (i) the Employment Period; or (ii) the eighteen (18) months prior to the Termination Date.

(h) "**Restricted Activities**" means work activities, duties and/or responsibilities that are the same as, substantially similar to, or include, the kind of work activities, duties and/or responsibilities that Employee had with the Company or its affiliates during the Reference Period.

(i) "**Restricted Period**" means the twenty-four (24) month period commencing on the Termination Date.

(j) "**Termination Date**" means the last day of the Employment Period.

12. **Employee Warranties.** Employee represents and warrants that Employee has provided the Company with a true and correct copy of all currently enforceable employment or contractor agreements to which Employee is a party, and that as of the Effective Date, Employee has not violated any lawful provisions of any such agreements. Employee acknowledges the Company's policy and practice to respect the information and property rights of others. Employee represents and warrants that Employee does not have possession, custody or control of any confidential, proprietary or trade secret information of any former employer or third-party. Except with respect to matters previously disclosed in writing by Employee to the Company, Employee represents and warrants that Employee's execution and performance of this Agreement does not and will not conflict with, violate, or cause a default under any lawful obligation by which Employee is bound.

13. **Corporate Opportunities.** During the Employment Period, Employee shall submit to the Board all business, commercial and investment opportunities or offers presented to Employee or of which

Employee becomes aware, outside of the course and scope of Employee's Company employment, which may affect the Company or relate to its business ("**Corporate Opportunities**"). Unless approved by the Board, Executive shall not accept or pursue, directly or indirectly, any Corporate Opportunities on Employee's own behalf.

14. **Life Insurance.** The Company may, at its discretion, apply for and procure in its own name and for its own benefit life and/or disability insurance on Employee in any amount or amounts considered advisable. Employee agrees to cooperate in any medical or other examination, supply any information, and execute and deliver any applications or other instruments in writing as may be reasonably necessary to obtain and constitute such insurance.

15. **Cooperation.** During and after the Employment Period, Employee shall cooperate with the Company in any internal investigation, administrative, regulatory or judicial investigation or proceeding, or any dispute with a third-party, as reasonably requested by the Company, including, without limitation, being available to the Company upon reasonable notice for interviews and factual investigations, appearing at the Company's request to give testimony without requiring service of a subpoena or other legal process, volunteering to the Company all pertinent information, and turning over to the Company all relevant documents, all at times and on schedules reasonably consistent with Employee's activities and commitments.

16. **UNDERSTANDING.** EMPLOYEE ACKNOWLEDGES AND REPRESENTS THAT EMPLOYEE HAS READ THIS AGREEMENT BEFORE SIGNING IT, AND THAT EMPLOYEE FULLY UNDERSTANDS ITS PURPOSES, TERMS AND PROVISIONS, WHICH EMPLOYEE EXPRESSLY ACKNOWLEDGES TO BE REASONABLE IN ALL RESPECTS. Employee further acknowledges receipt of one copy of this Agreement.

17. **Modification of Restrictions.** The post-employment restrictive covenants contained in 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 agree that if any post-employment restrictive covenant set forth herein is found to be unreasonable as to scope, time period, territorial restraint or otherwise by a court of competent jurisdiction, then the Parties agree and submit to the reduction thereof to such scope, time period or territory as is deemed reasonable by such court.

18. **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 Chief Executive Officer of the Company or a duly authorized designee of the Board, 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 or for no reason, he will be able to earn a livelihood without violating the post-employment restrictive covenants contained in **Section 10** of this Agreement; (b) that he is capable of pursuing a career and earning a livelihood in other businesses or industries within the Geographic Area that 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.

19. **Survival.** The obligations contained in this Agreement which by their terms are intended to survive this Agreement, 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.

20. **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, such 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.

21. **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, or threaten to 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.

22. **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; the obligations of both Parties shall continue in full force and effect.

23. **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 Employee shall not, without the written consent of the Company, assign or transfer this Agreement or any rights or obligations hereunder. Employer may assign or transfer this Agreement to any of its affiliates; and 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 assets.

24. **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 wire, telex or telefax, addressed as follows:

If to Employee, to the attention of Matthew A. Freeman at the most recent home address provided to Company.

If to Company:	1900 L. Don Dodson Drive
	Bedford, Texas 76210
	Fax: (817) 861-1051
	Attn: Chief Executive Officer

or to such other address or to the attention of such other person as hereafter shall be designated in writing by the applicable party in accordance herewith. 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.

25. **Entire Agreement.** This Agreement constitutes the entire agreement among the Parties relating to the subject matter hereof and supersedes all prior agreements and understandings, whether oral or written, with respect to the same, except for the Parties' separate Severance Agreement, and benefit, retirement, equity and incentive plans.

26. **Governing Law and Exclusive Venue.** This Agreement, and the rights and obligations of the Parties, 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. EMPLOYER AND EMPLOYEE CONSENT, STIPULATE AND AGREE THAT THE EXCLUSIVE VENUE OF ANY DISPUTE OR LITIGATION ARISING UNDER OR RELATED TO THIS AGREEMENT SHALL BE TARRANT COUNTY, TEXAS AND EACH OF EMPLOYER AND EMPLOYEE HEREBY SUBMITS TO THE JURISDICTION OF THE COURTS OF APPROPRIATE JURISDICTION LOCATED IN TARRANT COUNTY, TEXAS FOR SUCH PURPOSE.

27. **WAIVER OF TRIAL BY JURY.** THE PARTIES EACH WAIVE THE RIGHT TO TRIAL BY JURY WITH REGARD TO ALL DISPUTES. The Parties acknowledge that: (a) they are waiving the right to trial by jury; (b) they have each knowingly and voluntarily entered into this waiver of trial by jury; and (c) this Agreement shall evidence the Parties' waiver of jury trial, and consent to bench trial, for all DISPUTES.

28. **Costs.** If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party, whether plaintiff or defendant, 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.

29. **Modification.** No alteration or modification to any of the provisions of this Agreement shall be valid unless made in writing and signed by both Parties._

30. **Interpretation.** Initial capitalized terms not otherwise defined herein have the definitions stated in the Parties' separate Severance Agreement. In this Agreement, (a) "***including***" does not denote or signify any limitation; (b) "***Section***" is a reference to a Section in this Agreement, including any subparts as applicable, unless otherwise stated; (c) "***herein,***" "***hereunder,***" "***hereof***" and similar terms are references to this Agreement as a whole, and not to any particular provision of this Agreement; (d) "***affiliate(s)***" 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; and (e) "***Employer***" and "***Company***" include any successors to or permitted assigns of Employer. 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

31. **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 either Employer or Employee, the other party will confirm facsimile or PDF counterparts by signing a duplicate original document.

32. **NO RELIANCE.** NO PARTY IS RELYING ON ANY REPRESENTATION OR STATEMENT OF THE OTHER PARTY OUTSIDE OF THE TERMS OF THIS AGREEMENT; THE PARTIES HAVE ENTERED INTO THIS AGREEMENT BASED EACH ON THEIR OWN INDEPENDENT JUDGMENT.

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EMPLOYMENT AGREEMENT - 11

NOTICE: THIS AGREEMENT CONTAINS RESTRICTIVE COVENANTS AND A WAIVER OF TRIAL BY JURY.

IN WITNESS WHEREOF, the Parties 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 L. Ledbetter

Name: Terry L. Ledbetter

Title: Chief Executive Officer

EMPLOYEE:

/s/ Matthew A. Freeman

Matthew A. Freeman

SEVERANCE agreement

This Severance Agreement (this “*Agreement*”) dated as of February 4, 2016, is entered into by and between Matthew A. Freeman (“*Employee*”) and T.B.A. Insurance Group, Ltd., a Texas limited partnership (the “*Company*” or “*Employer*”), collectively, the “*Parties.*”

WHEREAS, Employer has agreed to hire Employee, and Employee has agreed to accept employment with Employer, as President of the Company, as described in that certain employment agreement dated February 4, 2016, signed by the Parties (the “*Employment Agreement*”), such employment to commence on February 8, 2016 (the “*Effective Date*”);

WHEREAS, the Employer is an indirect subsidiary of State National Companies, Inc. (“*State National*”), and State National and its direct and indirect subsidiaries are the affiliates of the Employer; and

WHEREAS, the Parties now desire to enter into this Agreement regarding, among other things, an amount payable by Employer to Employee upon termination of Employee’s employment with the Company under certain circumstances.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties covenant and agree as follows:

1. **Effective Time and “At-Will” Employment.** This Agreement shall become effective on the Effective Date. Employee acknowledges that under the Employment Agreement, Employee’s employment with the Company is at-will and shall continue indefinitely until terminated by either Employee or Employer at any time, for any reason not prohibited by law or for no reason, with or without cause or notice, subject to Company policy and the terms of the Parties’ agreements.

2. **Severance Eligibility and Benefit.** If the Company terminates Employee’s employment for any reason other than for Cause (as hereinafter defined), death or Disability (as defined herein), or if Employee resigns for Good Reason (as defined herein), then Employee shall be entitled to severance pay equal to thirty (30) months of Employee’s Base Salary (as defined in the Employment Agreement) as of the Termination Date, less applicable taxes (the “*Severance Benefit*”). Payment of the Severance Benefit is subject to the terms of this Agreement, including but not limited to, **Sections 4 and 16.**

3. **Definitions.** This Agreement uses initial capitalized terms as defined in the Employment Agreement, unless otherwise stated. Initial capitalized terms not otherwise defined herein have the following definitions:

(a) “*Cause*” means the following based on Employee’s acts or omissions, as determined by the Company: (i) conviction of, or entry of a plea of guilty or no contest by, Employee with respect to a felony or any lesser crime of which fraud or dishonesty is a material element; (ii) Employee’s willful and continued failure to perform Employee’s duties with the Company or Employee’s material breach of the Employment Agreement, which is not cured by Employee within thirty (30) days advance written notice by the

Company; (iii) Employee's failure to comply, in any material respect, with applicable laws with respect to the execution of the Company's business operations; (iv) Employee's theft, fraud, embezzlement, dishonesty, or similar conduct that, in the reasonable judgment of the Company, has resulted or is reasonably likely to result in damage to the Company or the Company's reputation, (v) Employee's habitual intoxication or continued abuse of illegal drugs, or other misconduct, including, without limitation, material and willful violation of Company policy regarding discrimination, harassment, or retaliation.

(b) **"Change of Control"** means the first to occur of any of the following events:

(i) any "Person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, except for any of the Company's employee benefit plans, or any entity holding the Company's voting securities for, or pursuant to, the terms of any such plan (or any trust forming a part thereof) (the **"Benefit Plan(s)"**), is or becomes the beneficial owner, directly or indirectly, of (Y) the Company's securities representing 30% or more of the combined voting power of the Company's then outstanding securities or (Z) 90% or more of the Company's operating assets, other than pursuant to a transaction excepted in **Section 3(b)(ii)** below;

(ii) the consummation of a merger, consolidation, or other reorganization of the Company, unless:

1. under the terms of the agreement providing for such merger, consolidation, or reorganization, the stockholders of the Company immediately before such merger, consolidation, or reorganization, will own, directly or indirectly immediately following such merger, consolidation, or reorganization, at least 51% of the combined voting power of the outstanding voting securities of the Company resulting from such merger, consolidation, or reorganization (the **"Surviving Company"**) in substantially the same proportion as their ownership of the voting securities immediately before such merger, consolidation, or reorganization;

2. the individuals who were members of the board of directors of the Company immediately prior to the execution of such agreement constitute at least a majority of the members of the board of directors of the Surviving Company after such merger, consolidation, or reorganization; and

3. no Person (other than (A) the Company or any subsidiary of the Company, (B) any Benefit Plan, (C) the Surviving Company or any subsidiary of the Surviving Company, (D) the Ledbetter Group or any member of the Ledbetter Group; or (E) any Person who, immediately prior to such merger, consolidation, or reorganization had beneficial ownership of 51% or more of the then outstanding voting securities) will have

beneficial ownership of 51% or more of the combined voting power of the Surviving Company's then outstanding voting securities; or

(iii) during any period of two consecutive years, individuals, who at the beginning of such period, constituted the Board cease for any reason to constitute at least a majority of the Board unless the election, or the nomination for election by the Company's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period.

Notwithstanding **Section 3(b)(i)** above, a Change of Control shall not be deemed to have occurred if a Person becomes the beneficial owner, directly or indirectly, of the Company's securities representing 51% or more of the combined voting power of the Company's then outstanding securities solely as a result of an acquisition by the Company of its voting securities which, by reducing the number of shares outstanding, increases the proportionate number of shares beneficially owned by such Person to 51% or more of the combined voting power of the Company's then outstanding securities; provided, however, that if a Person becomes a beneficial owner of 51% or more of the combined voting power of the Company's then outstanding securities by reason of share purchases by the Company and shall, after such share purchases by the Company, become the beneficial owner, directly or indirectly, of any additional voting securities of the Company (other than as a result of a stock split, stock dividend or similar transaction), then a Change of Control of the Company shall be deemed to have occurred with respect to such Person under **Section 3(b)(i)**. In no event shall a Change of Control of the Company be deemed to occur by virtue of: (i) the acquisition of the Company's securities by one or more Benefit Plans and/or members of the Ledbetter Group; or (ii) any change in the composition of the Board as the result of any actions taken at a special election meeting of the stockholders of the Company pursuant to Section 2.3(c) of the Bylaws of the Company.

(c) “**Disability**” means 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 judgment.

(d) “**Good Reason**” means the occurrence of any of the following events (except for the occurrence of such an event in connection with the termination of Employee by the Company for Cause), which is not cured by the Company, following thirty (30) days advance written notice by Employee: (i) a material diminution by the Company of Employee's Base Salary, except (A) with the prior written approval of Employee, or (B) as part of across-the-board salary cuts affecting all Senior Vice Presidents and above, as approved by the Board; (ii) a material diminution in Employee's authority, duties, or responsibilities, except with the prior written approval of Employee; and/or (iii) the Company's requiring Employee to be based anywhere other than within 50 miles of Employee's office location as of the Effective Date, except for requirements of reasonably required travel on Company business.

(e) **“Ledbetter Group”** (individually, a “member of the Ledbetter Group”) means and includes Lonnie Ledbetter, Terry Ledbetter, their respective spouses and descendants (including adopted children) and/or entities controlled by any of such individuals, spouses or descendants (including adopted children) that are the primary beneficiaries or owners (e.g., corporation, limited liability companies, partnerships or trusts).

4. **Severance Payment.** The Severance Benefit shall be payable in a single lump sum within fourteen (14) days after the Release Date (as defined herein). Subject to the terms hereof, if Employee resigns from employment for other than Good Reason, or is discharged for Cause, dies or terminates employment on account of a Disability, then Employee shall be entitled only to the compensation earned by him as of the Termination Date, and shall not be entitled to any portion of the Severance Benefit. In no event shall the Severance Benefit be paid if Employee's termination occurs more than seven (7) years after the Effective Date.

5. **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, such 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.

6. **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.

7. **Applicability.** This Agreement shall be binding upon and shall inure to the benefit of the Parties and their successors, permitted assigns, heirs, executors, administrators and personal representatives. This Agreement is personal in nature and neither Employer nor Employee shall, without the written consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided, however, (i) Employer may assign or transfer this Agreement to any of its affiliates and (ii) that in the event of a merger, consolidation or transfer or sale of all or substantially all of the assets of Employer, this Agreement shall inure to the benefit of and be binding upon the successor to the Employer's business and/or assets.

8. **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 party to receive the notice at such party's address or facsimile number set forth on the signature page of this Agreement, or to such other address or facsimile number as hereafter shall be designated in writing by the applicable party in accordance with this Section. 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.

9. **Entire Agreement.** This Agreement constitutes the entire agreement among the Parties relating to the subject matter hereof and supersedes all prior agreements and understandings, whether oral or written, with respect to the same, except for the Employment Agreement, and benefit, retirement, equity and incentive plans.

10. **Governing Law and Exclusive Venue.** This Agreement, and the rights and obligations of the Parties, 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. EMPLOYER AND EMPLOYEE CONSENT, STIPULATE AND AGREE THAT THE EXCLUSIVE VENUE OF ANY DISPUTE OR LITIGATION ARISING UNDER OR RELATED TO THIS AGREEMENT SHALL BE TARRANT COUNTY, TEXAS AND EACH OF EMPLOYER AND EMPLOYEE HEREBY SUBMITS TO THE JURISDICTION OF THE COURTS OF APPROPRIATE JURISDICTION LOCATED IN TARRANT COUNTY, TEXAS FOR SUCH PURPOSE.

11. **WAIVER OF TRIAL BY JURY.** THE PARTIES EACH WAIVE THE RIGHT TO TRIAL BY JURY WITH REGARD TO ALL DISPUTES (as defined in the Employment Agreement). The Parties acknowledge that: (a) they are waiving the right to trial by jury; (b) they have each knowingly and voluntarily entered into this waiver of trial by jury; and (c) this Agreement shall evidence the Parties' waiver of jury trial, and consent to bench trial, for all DISPUTES.

12. **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 either Employer or Employee, the other party will confirm facsimile or PDF counterparts by signing a duplicate original document.

13. **Costs.** If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party, whether plaintiff or defendant, 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.

14. **Modification.** No alteration or modification to any of the provisions of this Agreement shall be valid unless made in writing and signed by both Parties.

15. **Confidentiality of this Agreement.** Employee agrees that the existence 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.

16. **General Release Condition.** Notwithstanding any provision herein to the contrary, as a condition precedent to Employee's entitlement to the Severance Benefit, within forty-five (45) days after the Termination Date (the "**Release Date**"), Employee must execute and effectuate a general release agreement in a form satisfactory to the Company, including but not limited to, terms for (a) Employee's general release of the Company and affiliates (with a broad

definition of claims released); (b) confidentiality of the general release agreement and terms; (c) payment of the Severance Benefit contingent on Employee's compliance with post-employment terms of the Employment Agreement, including but not limited to, Sections 6, 7, and 10 of the Employment Agreement; (d) continuation of Employee's contractual obligations with the Company that are applicable post-termination; and (e) return of Company property.

17. **Withholding.** The Severance Benefit, if payable, shall be reduced by all applicable income, employment or other taxes withheld by the Company from such payment.

18. **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) then by 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.

19. **Compliance with Section 409A of the Code.** The provisions of this Section 19 shall apply solely to the extent that a payment under this Agreement is subject to Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”).

(a) **Interpretation.** The Parties agree that this Agreement shall be interpreted to comply with or be exempt from Section 409A of the Code, and the regulations and authoritative guidance promulgated thereunder to the extent applicable, and all provisions of this Agreement shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A of the Code. In no event whatsoever will Employer, any of its affiliates, or any of their respective directors, officers, agents, attorneys, employees, executives, shareholders, investors, members, managers, trustees, fiduciaries, representatives, principals, accountants, insurers, successors or assigns be liable for any additional tax, interest or penalties that may be imposed on Employee under Section 409A of the Code or any damages for failing to comply with Section 409A of the Code.

(b) **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.

(c) **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.

(d) **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 benefits or otherwise) will be treated as a right to receive a series of separate payments and, accordingly, each installment payment under this Agreement, if any, will at all times be considered a separate and distinct payment.

(e) **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) (relating to short-term deferrals), 1.409A-1(b)(9)(iii) (relating to separation pay plans), or 1.409A-3(a)(4) (relating to payments made on a specified date), 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.

20. **UNDERSTANDING.** EMPLOYEE ACKNOWLEDGES AND REPRESENTS THAT EMPLOYEE HAS READ THIS AGREEMENT BEFORE SIGNING IT, AND THAT EMPLOYEE FULLY UNDERSTANDS ITS PURPOSES, TERMS AND PROVISIONS, WHICH EMPLOYEE EXPRESSLY ACKNOWLEDGES TO BE REASONABLE IN ALL RESPECTS. Employee further acknowledges receipt of one copy of this Agreement.

21. **Definitions and Interpretation.** Initial capitalized terms not otherwise defined herein have the definitions stated in the Employment Agreement. Interpretation of this Agreement is subject to the same terms of interpretation stated in the Employment Agreement.

22. **Survival.** The obligations contained in this Agreement which by their terms are intended to survive this Agreement, shall survive cessation of employment and the termination of this Agreement.

23. **NO RELIANCE.** NO PARTY IS RELYING ON ANY REPRESENTATION OR STATEMENT OF THE OTHER PARTY OUTSIDE OF THE TERMS OF THIS AGREEMENT; THE PARTIES HAVE ENTERED INTO THIS AGREEMENT BASED EACH ON THEIR OWN INDEPENDENT JUDGMENT.

THE REST OF THIS PAGE IS INTENTIONALLY BLANK.

THE SIGNATURE PAGE IS NEXT.

NOTICE: THIS AGREEMENT CONTAINS A WAIVER OF TRIAL BY JURY.

IN WITNESS WHEREOF, the Parties 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 L. Ledbetter

Name: Terry L. Ledbetter

Title: Chief Executive Officer

Address: 1900 L. Don Dodson Drive

Bedford, Texas 76021

Attn: _____

Facsimile: (817) 861-1051

EMPLOYEE:

/s/ Matthew A. Freeman

Matthew A. Freeman

Address: most recent home address provided to
Employer

STATE NATIONAL COMPANIES, INC.
2014 LONG-TERM INCENTIVE PLAN

RESTRICTED STOCK AWARD AGREEMENT
(PERFORMANCE-BASED)

Name of Recipient: _____

Total Restricted Stock Award: _____ Shares

Vesting: This Restricted Stock Award is subject to the performance-based and other conditions set forth in Exhibit A to this Award Agreement, which are incorporated herein by reference. Except as otherwise expressly provided for herein, no Shares subject to this Restricted Stock Award shall be vested until the Committee certifies that the performance-based conditions set forth in Exhibit A have been attained. The Committee cannot delegate this certification function.

Qualified Performance-Based Award: _____ Yes
_____ No

Date of Grant: _____

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 in a manner deemed

acceptable by the Board of Directors, such Awards shall continue in accordance with their terms (with such adjustments to the Performance Criteria and Performance Goals to reflect the Change of Control as the Committee or any successor thereto may reasonably determine to be equivalent); provided, however, that if the Recipient is terminated without Cause or voluntarily terminates with Good Reason within 12 months after the Change of Control, then such Awards shall be automatically converted into a fully vested fixed cash award with an economic value equal to the value of such Awards assuming the attainment of the "Target" goals set forth in the table in Exhibit A over the entirety of such Performance Period. The closing price of the Shares (or any security into which they may have been converted) on the stock exchange on which they trade on the last trading day immediately preceding the date of termination shall be used to convert the number of Shares derived in accordance with the preceding sentence into the amount of the fixed cash award. The fixed cash award will be paid to the Recipient within 60 days following his or her termination of employment.

In the event of a Change of Control prior to the end of a Performance Period and the successor to the Company does not continue or assume the Awards associated with that Performance Period in a manner deemed acceptable by the Board of Directors, then the Committee will convert the Awards into a fixed cash award with an economic value equal to the value of such Awards assuming the attainment of the "Target" goals set forth in the table in Exhibit A over the entirety of such Performance Period. The closing price of the Shares on the stock exchange on which they trade on the last trading day immediately preceding the date of the Change of Control shall be used to convert the number of Shares derived in accordance with the preceding sentence into the amount of the fixed cash award. The fixed cash award will vest on the effective date of the Change of Control and be paid within 60 days thereafter.

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. For avoidance of doubt, except as provided immediately below, if any Shares are forfeited, any associated dividends shall be forfeited as well. 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 the Committee determines to 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. In addition, the terms of any Severance Agreement that is from time to time in effect between the Recipient and the Company, including without limitation, any Code Section 280G Parachute Payment provisions, are hereby 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, and applicable provisions of any related Severance 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 ____ day of _____ 20__.

STATE NATIONAL COMPANIES, INC.

By: _____

RECIPIENT

EXHIBIT A

PERFORMANCE-BASED AND OTHER VESTING CONDITIONS

STATE NATIONAL COMPANIES, INC.
2014 LONG-TERM INCENTIVE PLAN

RESTRICTED STOCK AWARD AGREEMENT
(TIME-BASED)

Name of Recipient: _____

Total Restricted Stock Award: Number of Shares equal to \$_____ divided by Fair Market Value of a Share on the Date of Grant, rounded down to the nearest whole Share

Vesting: This Restricted Stock Award is subject to the time-based and other vesting conditions set forth in Exhibit A to this Award Agreement, which are incorporated herein by reference.

Qualified Performance-Based Award: _____ Yes
_____ No

Date of Grant: _____

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.

Change of Control: In the event of a Change of Control prior to a vesting date and the successor to the Company continues or assumes the Awards associated with this Agreement in a manner approved by the Board of Directors, such Awards shall continue in accordance with their terms; provided, however, that if the Recipient is terminated without Cause or voluntarily terminates with Good Reason within 12 months after the Change of Control, then 100% of the Shares associated with this Agreement that are not already forfeited at the time of termination will vest as of the date of termination.

If the successor to the Company does not continue or assume the Awards associated with this Agreement in a manner approved by the Board of Directors, then 100% of the Shares associated with this Agreement that are not already forfeited at the time of the Change of Control shall vest as of the Change of Control.

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. For avoidance of doubt, except as provided immediately below, if any Shares are forfeited, any associated dividends shall be forfeited as well. 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 the Committee determines to 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. In addition, the terms of any Severance Agreement that is from time to time in effect between the Recipient and the Company, including without limitation any Code Section 280G Parachute Payment provisions, are hereby 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, and applicable provisions of any related Severance 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 ____ day of _____ 20__.

STATE NATIONAL COMPANIES, INC.

By: _____

RECIPIENT

EXHIBIT A

TIME-BASED AND OTHER VESTING CONDITIONS

STATE NATIONAL COMPANIES, INC.

CERTIFICATION

Pursuant to Rule 13a – 14(a) / 15d-14(a)

I, Terry Ledbetter, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: May 9, 2016

/s/ Terry Ledbetter

Terry Ledbetter
Chief Executive Officer

STATE NATIONAL COMPANIES, INC.

CERTIFICATION

Pursuant to Rule 13a – 14(a) / 15d-14(a)

I, David Hale, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: May 9, 2016

/s/ David Hale

David Hale
Chief Operating Officer and Chief Financial Officer

**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 Quarterly Report on Form 10-Q of State National Companies, Inc., a Delaware corporation (the "Company"), for the quarter ended March 31, 2016, 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: May 9, 2016

/s/ Terry Ledbetter

Terry Ledbetter

Chief Executive Officer

Date: May 9, 2016

/s/ David Hale

David Hale

Chief Operating Officer and Chief Financial Officer
