OFFICIAL STATEMENT
Dated September 24, 2014

NEW ISSUE – BOOK-ENTRY-ONLY UNRATED

In the opinion of Winstead PC and Andrews Kurth LLP, Co-Bond Counsel, under existing law, interest on the Series 2014 Bonds is includable in gross income for federal tax purposes. See *"**CERTAIN TAX MATTERS RELATING TO THE SERIES 2014 BONDS**" herein for a discussion of the opinion of Co-Bond Counsel.*

$500,000,000
TEXAS PUBLIC FINANCE AUTHORITY
TEXAS WINDSTORM INSURANCE ASSOCIATION PREMIUM REVENUE
TAXABLE BONDS, SERIES 2014

Interest to Accrue from Delivery Date **Maturity Date: July 1, as shown on the inside front cover**

The Texas Public Finance Authority (the "Authority" or the "Issuer") is issuing in a public offering the Texas Public Finance Authority Texas Windstorm Insurance Association Premium Revenue Taxable Bonds, Series 2014 (the "Series 2014 Bonds") on behalf of the Texas Windstorm Insurance Association (the "Association") for the purposes described below. The Series 2014 Bonds are issued pursuant to a master resolution adopted by the Board of Directors of the Authority (the "Board") on September 24, 2014 (the "Master Resolution"), and a first supplemental resolution adopted by the Board on September 24, 2014 (the "First Supplemental Resolution," and together with the Master Resolution, the "Resolutions"). The Series 2014 Bonds constitute the initial series of Class 1 Public Securities (as defined herein) of the Authority secured by and payable from the Pledged Revenues (as defined herein) irrevocably pledged under the Resolutions. The Association has pledged the Pledged Revenues to the Authority pursuant to a Financing and Pledge Agreement dated as of September 1, 2014 between the Authority and the Association.

Interest on the Series 2014 Bonds is payable on January 1 and July 1 of each year, commencing on January 1, 2015.

The Series 2014 Bonds are subject to optional redemption, in whole or in part, as described herein. See "**THE SERIES 2014 BONDS – Optional Redemption with Make-Whole Premium**", and – "**Optional Redemption at Par Plus Accrued Interest**". The Series 2014 Bonds designated as term bonds are subject to mandatory redemption as described herein. See "**SERIES 2014 BONDS – "Mandatory Sinking Fund Redemption**". The proceeds from the sale of the Series 2014 Bonds will be used for the purpose of financing future costs of the Association Program (as defined herein), funding debt service reserves and paying all or part of the cost of issuance of the Series 2014 Bonds. See "**PLAN OF FINANCING – Purpose**".

THE SERIES 2014 BONDS ARE PAYABLE SOLELY FROM THE PLEDGED REVENUES AND ARE NOT AN OBLIGATION OF THE STATE, ANY AGENCY OF THE STATE, POLITICAL CORPORATION, OR POLITICAL SUBDIVISION OF THE STATE, AND NONE OF THEM IS OBLIGATED TO PAY THE SERIES 2014 BONDS, EXCEPT TO THE EXTENT THE ASSOCIATION IS OBLIGATED TO PAY UNDER THE FINANCING AND PLEDGE AGREEMENT AND THE AUTHORITY IS OBLIGATED TO PAY PURSUANT TO THE RESOLUTIONS AND THE AUTHORIZING LAW. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY AGENCY, POLITICAL CORPORATION OR POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE SERIES 2014 BONDS. ALTHOUGH, THE AUTHORITY IS THE ISSUER FOR THE SERIES 2014 BONDS AS REQUIRED BY THE ACT, THE AUTHORITY HAS NOT PERFORMED AN ANALYSIS OF THE ASSOCIATION'S FINANCIAL CONDITION OR ITS ABILITY TO PAY THE PRINCIPAL OF OR THE INTEREST ON THE SERIES 2014 BONDS WHEN DUE. SEE "RISK FACTORS".

THE SERIES 2014 BONDS ARE UNRATED, AND INVESTMENT IN THE SERIES 2014 BONDS INVOLVES A SUBSTANTIAL DEGREE OF RISK RELATED TO, AMONG OTHER THINGS, THE NATURE OF THE ASSOCIATION'S BUSINESS, THE REGULATORY ENVIRONMENT, AND THE PROVISIONS OF THE PRINCIPAL DOCUMENTS. EACH PROSPECTIVE INVESTOR SHOULD CONSIDER ITS FINANCIAL CONDITION AND THE RISKS INVOLVED TO DETERMINE THE SUITABILITY OF INVESTING IN THE SERIES 2014 BONDS. THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT INTENDED TO BE A SUMMARY OF ALL FACTORS RELATING TO AN INVESTMENT IN THE SERIES 20I4 BONDS. INVESTORS SHOULD REVIEW THE ENTIRE OFFICIAL STATEMENT, INCLUDING IN PARTICULAR THE SECTIONS ENTITLED "SECURITY FOR THE SERIES 2014 BONDS" AND "RISK FACTORS" HEREIN, FOR A DISCUSSION OF CERTAIN RISK FACTORS THAT SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE SERIES 2014 BONDS BEFORE MAKING ANY INVESTMENT DECISIONS.

The Series 2014 Bonds will be issued in principal denominations of $100,000 or any integral multiple of $5,000 in excess of $100,000. The Series 2014 Bonds are initially issuable only to Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the book-entry-only system described herein. Beneficial ownership of the Series 2014 Bonds may be acquired in denominations of $100,000 or integral multiples of $5,000 in excess thereof. No physical delivery of the Series 2014 Bonds will be made to the initial purchaser named below (the "Underwriters") or the beneficial owners of the Series 2014 Bonds. Principal of and interest on the Series 2014 Bonds will be payable by the Authority (which will act as the initial Paying Agent/Registrar) to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Series 2014 Bonds. See "**THE SERIES 2014 BONDS – Book-Entry-Only System**".

The Series 2014 Bonds are offered for delivery when, as, and if issued and accepted by the Underwriters, and subject to approval of legality by the Attorney General of the State of Texas and the opinion of Winstead PC and Andrews Kurth LLP, Co-Bond Counsel. Certain legal matters will be passed upon for the Association by its Vice President – Legal and Fulbright & Jaworski LLP, a member of Norton Rose Fulbright. Certain legal matters will be passed upon for the Authority by McCall, Parkhurst & Horton L.L.P, disclosure counsel to the Authority. Certain legal matters will be passed upon for the Underwriters by their counsel Bracewell & Giuliani LLP. See "**LEGAL MATTERS**". The Series 2014 Bonds are expected to be available for delivery through the facilities of DTC on or about September 30, 2014.

BofA Merrill Lynch

Citigroup **Goldman, Sachs & Co.** **J.P. Morgan**
Raymond James **RBC Capital Markets** **Siebert Brandford Shank & Co. LLC**

TEXAS PUBLIC FINANCE AUTHORITY
TEXAS WINDSTORM INSURANCE ASSOCIATION
PREMIUM REVENUE TAXABLE BONDS,
SERIES 2014

Maturity Schedule

$85,400,000 5.25% Term Bond due July 1, 2017, Price 100% to Yield 5.25%[**]; CUSIP No.[*] 882756 2R9

$414,600,000 8.25% Term Bond due July 1, 2024, Price 100% to Yield 8.25%[**]; CUSIP No.[*] 882756 2Q1

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[*] CUSIP numbers are included solely for the convenience of the owners of the Series 2014 Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services. None of the Underwriters, the Authority, nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

[**] The initial reoffering prices or yields of the Series 2014 Bonds are furnished by the Underwriters and represent the initial offering prices or yields to the public, which may be changed by the Underwriters at any time.

USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized by the Association or the Authority to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Association or the Authority. All other information contained herein has been obtained from the Authority, the Association, DTC and other sources which are believed to be reliable. Such other information is not guaranteed as to accuracy or completeness by, and is not to be relied upon as, or construed as a promise or representation by, the Authority, the Association or the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of, any Series 2014 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create an implication that there has been no change in the affairs of the Association or the Authority or other matters described herein since the date hereof. See "**CONTINUING DISCLOSURE OF INFORMATION**" for a description of the Association's undertaking to provide certain information on a continuing basis.

Marketability

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2014 BONDS AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE SERIES 2014 BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

All of the summaries of the statutes, resolutions, contracts, financial statements, reports, agreements, and other related documents set forth in this Official Statement are qualified in their entirety by reference to such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the Authority.

Securities Laws

No registration statement relating to the Series 2014 Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon an exemption provided thereunder. The Series 2014 Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Series 2014 Bonds been registered or qualified under the securities laws of any other jurisdiction. The Association and the Authority assume no responsibility for registration or qualification for sale or other disposition of the Series 2014 Bonds under the securities laws of any jurisdiction in which the Series 2014 Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Series 2014 Bonds should not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

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INFORMATION CONCERNING OFFERING RESTRICTIONS IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES[(1)]

European Economic Area

This Official Statement is not a prospectus for the purposes of European Commission Regulation 809/2004 or European Commission Directive 2003/71/EC (as amended, including by European Commission Directive 2010/73/EU, as applicable) (the "Prospectus Directive"). It has been prepared on the basis that all offers of the Series 2014 Bonds will be made pursuant to an exemption under Article 3 of the Prospectus Directive, as implemented in Member States of the European Economic Area, from the requirement to produce a prospectus for such offers. This Official Statement is only addressed to and directed at persons in member states of the European economic area who are qualified investors within the meaning of Article 2(l)(e) of the Prospectus Directive and any relevant implementing measure in each Member State of the European Economic Area ("Qualified Investors"). This Official Statement must not be acted on or relied on in any such Member State of the European Economic Area by persons who are not Qualified Investors. Any investment or investment activity to which this Official Statement relates is available only to Qualified Investors in any Member State of the European Economic Area and will not be engaged in with any other persons.

Bermuda

The Series 2014 Bonds may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act of 2003 of Bermuda which regulates the sale of securities in Bermuda. Additionally, non-Bermudian persons (including companies) may not carry on or engage in any trade or business in Bermuda unless such persons are permitted to do so under applicable Bermuda legislation.

Cayman Islands

The Series 2014 Bonds may be sold by or on behalf of the Issuer in the Cayman Islands provided that such sale would not require the Issuer to be registered as a foreign company under the Companies Law (2013 Revision) of the Cayman Islands.

Italy

The offering of the Series 2014 Bonds has not been registered pursuant to Italian securities legislation and, accordingly, the Series 2014 Bonds may not be offered, sold or delivered, nor may copies of the Official Statement or of any other document relating to the Series 2014 Bonds be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the "Financial Services Act") and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time ("Regulation No. 11971"); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

[(1)]Neither the Authority or the Association has provided any of the information under this caption and the Authority and the Association make no representation as to the accuracy, adequacy or completeness of such information.

Any offer, sale or delivery of the Series 2014 Bonds or distribution of copies of the Official Statement or any other document relating to the Series 2014 Bonds in the Republic of Italy under (i) or (ii) above must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the "Banking Act"); and

(b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and

(c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

Please note that in accordance with Article 100-bis of the Financial Services Act, where no exemption from the rules on public offerings applies under (i) and (ii) above, the subsequent distribution of the Series 2014 Bonds on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Financial Services Act and Regulation No. 11971. Failure to comply with such rules may result in the sale of such Series 2014 Bonds being declared null and void and in the liability of the intermediary transferring the financial instruments for any damages suffered by the investors.

Germany

The Series 2014 Bonds may be offered in Germany only pursuant to an exemption from the prospectus requirements of, and otherwise in compliance with, the German Securities Prospectus Act (*Wertpapierprospektegesetz*) (e.g. offers to qualified investors) and any other applicable laws and regulations of Germany.

The Netherlands

The Series 2014 Bonds may only be offered in the Netherlands to qualified investors within the meaning of Article 2(l)(e) of the Prospectus Directive.

Sweden

The Series 2014 Bonds may not, directly or indirectly, be offered for subscription or purchase, nor may any invitations to subscribe for or buy the Series 2014 Bonds be issued or any draft or final document in relation to any such offer, invitation or sale be distributed except in circumstances that will not result in a requirement to prepare a prospectus pursuant to the provisions of the Swedish Financial Instruments Trading Act (lag (1991:980) *om handel med finansiella instrument*)

Switzerland

This Official Statement is not intended to constitute an offer or solicitation to purchase or invest in the Series 2014 Bonds. The Series 2014 Bonds may not be offered, sold, advertised or otherwise distributed, directly or indirectly, in, into or from Switzerland except to individually selected qualified investors as defined in and in accordance with article 10 of the Swiss Collective Investment Schemes Act and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland.

Neither this Official Statement nor any other offering or marketing material relating to the Series 2014 Bonds constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations nor a simplified prospectus as such term is understood pursuant to article 5 of the Swiss Collective Investment Schemes Act, and neither this Official Statement nor any other offering or marketing material relating to the Series 2014 Bonds may be distributed or otherwise made publicly available, in, into or from Switzerland.

Neither this Official Statement nor any other offering or marketing material relating to the offering of the Series 2014 Bonds has been or will be filed with or approved by any Swiss regulatory authority. The Series 2014 Bonds do not constitute a participation in a collective investment scheme in the meaning of the Swiss Collective Investment Schemes Act and are not subject to the supervision by any Swiss regulatory authority, e.g., the Swiss Financial Market Supervisory Authority FINMA, and investors in the Series 2014 Bonds will not benefit from protection under the Swiss Collective Investment Schemes Act or supervision by any Swiss regulatory authority.

United Kingdom

This Official Statement has not been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 ("FSMA") and does not constitute an offer to the public in accordance with the provisions of Section 85 of the FSMA. It is for distribution only to, and is directed solely at, persons who (i) are outside the United Kingdom, (ii) are investment professionals, as such term is defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Financial Promotion Order''), (iii) are persons falling within Article 49(2)(a) to (d) of the Financial Promotion Order, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) in connection with the issue or sale of any securities may otherwise be lawfully communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This Official Statement is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons, including in circumstances in which section 21(1) of the FSMA applies to the Issuer. Any investment or investment activity to which this Official Statement relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this Official Statement or any of its contents.

NOTICE TO PROSPECTIVE INVESTORS IN THE CANADIAN PROVINCE OF ONTARIO[(1)]

The offering of the Series 2014 Bonds in Canada is being made in the Province of Ontario pursuant to exemptions from the prospectus and registration requirements of applicable securities laws. The Series 2014 Bonds will be offered to "accredited investors" in the Province of Ontario pursuant to Section 2.3 (the *"Accredited Investor Exemption"*) of National Instrument 45-106 - *Prospectus and Registration Exemptions* ("NI 45-106") who are also "Permitted Clients" as defined in National Instrument 33-103 - Registration Requirements, exemptions and ongoing registrant obligations (*"NI 33-103"*).

This Official Statement constitutes an offering of the Series 2014 Bonds only in those jurisdictions and to those persons where and to whom they may be lawfully offered for sale, and therein only by persons permitted to sell the Series 2014 Bonds. This Official Statement is not, and should not under any circumstances be construed as, an advertisement or a public offering of the Series 2014 Bonds in Canada. No securities commission or similar securities regulatory authority in Canada has reviewed or in any way

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[(1)]Neither the Authority or the Association has provided any of the information under this caption and the Authority and the Association make no representation as to the accuracy, adequacy or completeness of such information.

passed upon this Official Statement or the merits of the Series 2014 Bonds and any representation to the contrary is an offence under applicable Canadian securities laws.

The offering is being made exclusively through this Official Statement and not through any advertisement of the Series 2014 Bonds in any printed media of general and regular paid circulation, radio or television, electronic media or any other form of advertising. No person has been authorized to give any information or to make any representation other than those contained in this Official Statement and any decision to purchase the Series 2014 Bonds should be made solely based on the information contained in this Official Statement. An investment in the Series 2014 Bonds being offered for sale is speculative and involves a high degree of risk. An investment in the Series 2014 Bonds should only be made by persons who can afford the total loss of their investment. The risk factors identified under the headings "Risk Factors" in the Official Statement should be carefully reviewed and evaluated by prospective investors before purchasing any securities being offered under the Official Statement.

Notice to clients of Merrill Lynch Pierce Fenner & Smith Incorporated ("Merrill")

Merrill is not registered in the Province of Ontario to trade the Series 2014 Bonds and is relying upon Section 8.18 of NI 33-103 (the "*International Dealer Exemption*") to distribute the Series 2014 Bonds in the Province of Ontario to "accredited investors" who are also "permitted clients". The principal place of business of Merrill is located in New York, New York. All or substantially all of the assets of Merrill may be situated outside of Canada, and each purchaser of the Series 2014 Bonds resident in the Province of Ontario (each an "*Ontario Purchaser*") may have difficulty enforcing legal rights against Merrill as a result. The name and address for the agent of service of process of Merrill in the Province of Ontario is McCarthy Tétrault LLP, Box 48, Suite 5300, Toronto Dominion Bank Tower, Toronto, Ontario M5K 1E6 Canada.

Resale Restrictions

The Issuer is not a "reporting issuer," as such term is defined under applicable Canadian securities regulations, in any province or territory of Canada. The distribution of the Series 2014 Bonds in Canada is being made only on a private placement basis exempt from the requirement that the Issuer prepare and file a prospectus with the securities regulatory authorities in each province where trades of securities are made. Any resale of the Series 2014 Bonds in Canada will be subject to resale restrictions and must be made in accordance with applicable securities laws, which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority and in compliance with the dealer registration requirements of Canadian securities laws. Ontario Purchasers are advised to seek legal advice prior to any resale of any of the securities.

Representations and Acknowledgements of Ontario Purchasers

By acceptance of a bond an Ontario Purchaser is deemed to represent or acknowledge to the Issuer and the dealer participating in the sale of the Series 2014 Bonds that:

(A) Such Ontario Purchaser:

(I) Is a purchaser that is entitled under applicable Canadian securities law to purchase such Series 2014 Bonds without the benefit of a prospectus qualified under those Canadian securities laws;

(II) Is resident in the Province of Ontario; and

(III) Has reviewed and acknowledges the terms referred to above under the heading "Resale Restrictions";

(B) The Ontario Purchaser is an "Accredited Investor" as defined in National Instrument 45-106 - P*rospectus and Registration Exemptions* ("*NI 45-106*") and is not a person created or being used solely to purchase or hold securities as an accredited investor as described in paragraph (m) of the definition of "Accredited Investor" in Section 1.1 of NI 45-106;

(C) The Ontario Purchaser is a "Permitted Client" as defined in NI 31-103, or as otherwise interpreted and applied by the Canadian securities administrators; and

(D) The Ontario Purchaser is either purchasing Series 2014 Bonds as principal for its own account, or is deemed to be purchasing the Series 2014 Bonds as principal for its own account, in accordance with the applicable securities laws of the province in which such purchaser is resident.

Indirect Collection of Personal Information

By purchasing the Series 2014 Bonds, an Ontario Purchaser acknowledges that its name, residential address, telephone number, the amount of Series 2014 Bonds it has purchased and other specified information may be disclosed to Canadian securities regulatory authorities and become available to the public in accordance with the requirements of applicable Canadian laws. An Ontario Purchaser consents to the disclosure of such information.

By purchasing the Series 2014 Bonds, an Ontario Purchaser acknowledges that it has been notified by the Issuer: (a) of the requirement to deliver to the Ontario Securities Commission (the *"OSC"*) the full name, residential address and telephone number of such purchaser, the number and type of securities purchased, the total purchase price, the exemption relied upon and the date of distribution; (b) that this information is being collected indirectly by the OSC under the authority granted to it in applicable securities legislation; (c) that this information is being collected for the purposes of the administration and enforcement of the securities legislation of Ontario; and (d) that the administrative support clerk can be contacted at the Ontario Securities Commission, Suite 1903, box 55, 20 Queen Street West, Toronto, Ontario M5H 3S8, or at (416) 593-3684, and can answer any questions about the OSC's indirect collection of this information.

Rights of Actions for Damages or Rescission-Ontario Purchasers

The Securities Act (Ontario) (the *"Ontario Act"*) provides Ontario Purchasers with, in addition to any other right they may have at law, rights of rescission or damages, or both, where this preliminary Official Statement and any amendment to it contains a misrepresentation (as defined below). However, such rights must be exercised by the purchasers within the time limits prescribed by the Ontario Act. Ontario Purchasers should consult with a legal advisor or refer to the applicable provisions of the Ontario Act, found in Section 130.1, for the complete text of these rights, the defenses available to the Issuer and others and the time limits during which these rights must be exercised.

The rights of action summarized below shall be available to each Ontario Purchaser of the Series 2014 Bonds resident in Ontario and are in addition to and without derogation from any other right or remedy available at law to such purchaser and are intended to correspond to the rights against an Issuer of securities provided in the Ontario Act and are subject to the defenses contained therein. Where used in this section, *"misrepresentation"* means an untrue statement of material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

In the event that this Official Statement, together with any amendments hereto, is delivered to a prospective Ontario Purchaser and contains a misrepresentation which was a misrepresentation at the time of purchase of the series 2014 bonds, such Ontario Purchaser will have a statutory right of action against the Issuer either for damages or alternatively, while still the owner of any of the Series 2014 Bonds, rescission, in which case the Ontario Purchaser will have no right of action for damages, provided that:

(a) an action is commenced to enforce such right (i) in the case of an action for rescission, within 180 days after the date of purchase, or (ii) in the case of an action for damages, within the earlier of 180 days following the date such purchaser first had knowledge of the misrepresentation and three years after the date of the purchase;

(b) a person or company will not be liable if it proves that such purchaser purchased the Series 2014 Bonds with knowledge of the misrepresentation;

(c) in the case of an action for damages, the Issuer will not be liable for all or any portion of the damages that it proves does not represent the depreciation in value of the Series 2014 Bonds as a result of the misrepresentation relied upon;

(d) in no case will the amount recoverable in any action exceed the price at which the Series 2014 Bonds were sold to such purchaser; and

(e) if such purchaser elects to exercise the right of rescission, it will have no right of action for damages.

Notwithstanding the foregoing, an Ontario Purchaser will not have the rights referred to above if such purchaser is:

(a) a Canadian financial institution, meaning either:

(i) an association governed by the *Cooperative Credit Associations Act* (Canada) or a central cooperative credit society for which an order has been made under Section 473(1) of that act; or

(ii) a bank, loan corporation, trust company, trust corporation, insurance company, treasury branch, credit union, caisse populaire, financial services corporation, or league that, in each case, is authorized by an enactment of Canada or a jurisdiction of Canada to carry on business in Canada or a jurisdiction in Canada;

(b) a Schedule III bank, meaning an authorized foreign bank named in Schedule III of the Bank Act (Canada);

(c) the Business Development Bank of Canada incorporated under the Business Development Bank of Canada Act (Canada); or

(d) a subsidiary of any person referred to in paragraphs (a), (b) or (c), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by the directors of the subsidiary.

The foregoing summary is subject to the express provisions of the Ontario Act and the respective regulations and rules thereunder. Each Ontario Purchaser should refer to the complete text of such provisions or consult with a legal advisor.

Canadian Federal Income Tax Considerations

Prospective Ontario Purchasers of Series 2014 Bonds should consult their own tax advisors regarding the Canadian federal income tax considerations relevant to the purchase of Series 2014 Bonds having regard to their particular circumstances.

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TEXAS PUBLIC FINANCE AUTHORITY

BOARD OF DIRECTORS

Name	Title	Term Expiration (February)
Billy M. Atkinson, Jr.	Chair	2017
Ruth C. Schiermeyer	Vice-Chair	2019
Gerald Alley	Secretary	2019
Mark W. Eidman	Member	2015
Rodney K. Moore	Member	2015
Robert T. Roddy, Jr.	Member	2017
Walker N. Moody	Member	2019

CERTAIN APPOINTED OFFICERS

Lee Deviney, Executive Director
John Hernandez, Deputy Director
Kevin D. Van Oort, General Counsel
Pamela Scivicque, Director of Business Administration

Consultants and Advisors

Financial Advisor.. First Southwest Company

Co-Bond Counsel..Winstead PC
Andrews Kurth LLP

Disclosure Counsel.. McCall, Parkhurst & Horton L.L.P.

TEXAS WINDSTORM INSURANCE ASSOCIATION

BOARD OF DIRECTORS

Name	Position	Term Expiration (March)
Georgia R. Neblett, Chairman	Public Member from First-Tier County	2017
Richard Clifton Craig, Vice Chairman	Public Member from Non-Seacoast Territory	2016
Michael Gerik, Secretary/Treasurer	Member of the Insurance Industry	2016
Steve Elbert	Public Member & Agent from First-Tier County	2016
William David Franklin, Sr.	Non-voting Member, Licensed Engineer	2016
Lyndell Haigood	Member of the Insurance Industry	2015
Ron Lawson	Member of the Insurance Industry	2017
Michael O'Malley	Member of the Insurance Industry	2017
Gene Seaman	Public Member from First-Tier County	2015
Edward James Sherlock	Public Member & Agent from First-Tier County	2015

CERTAIN APPOINTED OFFICIALS

Name	Title
John W. Polak	General Manager
James C. Murphy	Vice-President – Chief Actuary
Peter H. Gise	Chief Financial Officer
David Durden	Vice-President - Legal

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OFFICIAL STATEMENT

relating to

$500,000,000
TEXAS PUBLIC FINANCE AUTHORITY
TEXAS WINDSTORM INSURANCE ASSOCIATION
PREMIUM REVENUE TAXABLE BONDS,
SERIES 2014

INTRODUCTION

This Official Statement, including the cover page and the Appendices hereto, provides certain information regarding the issuance in a public offering by the Texas Public Finance Authority (the "Authority" or the "Issuer"), on behalf of the Texas Windstorm Insurance Association (the "Association"), of the $500,000,000 Texas Public Finance Authority Texas Windstorm Insurance Association Premium Revenue Taxable Bonds, Series 2014 (the "Series 2014 Bonds"). The Series 2014 Bonds, together with any other Bonds issued under the Resolutions (as hereinafter defined), are payable from and secured by a first lien on the Authority's right, title and interest in Pledged Revenues (as defined herein). See "**SECURITY FOR THE SERIES 2014 BONDS**". The Authority is authorized to issue the Series 2014 Bonds on behalf of the Association pursuant to the Authorizing Law (as defined herein). Capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings assigned to such terms in the Resolutions (as defined herein). See "**APPENDIX B – GLOSSARY OF TERMS**".

This Official Statement contains summaries and descriptions of the plan of financing, the Series 2014 Bonds, the Resolutions, the Financing and Pledge Agreement, the Association, the Authority, and other related matters. All references to and descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the Executive Director, Texas Public Finance Authority, 300 West 15th Street, Suite 411, Austin, Texas 78701, (512) 463-5544.

INVESTORS SHOULD REVIEW THIS ENTIRE OFFICIAL STATEMENT, INCLUDING IN PARTICULAR THE SECTIONS ENTITLED "SECURITY FOR THE SERIES 2014 BONDS" AND "RISK FACTORS" HEREIN, FOR A DISCUSSION OF CERTAIN RISK FACTORS THAT SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE SERIES 2014 BONDS BEFORE MAKING ANY INVESTMENT DECISIONS. THE SERIES 2014 BONDS ARE UNRATED, AND INVESTMENT IN THE SERIES 2014 BONDS INVOLVES A SUBSTANTIAL DEGREE OF RISK RELATED TO, AMONG OTHER THINGS, THE NATURE OF THE ASSOCIATION'S BUSINESS, THE REGULATORY ENVIRONMENT, AND THE PROVISIONS OF THE PRINCIPAL DOCUMENTS. EACH PROSPECTIVE INVESTOR SHOULD CONSIDER ITS FINANCIAL CONDITION AND THE RISKS INVOLVED TO DETERMINE THE SUITABILITY OF INVESTING IN THE SERIES 2014 BONDS.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of this Official Statement will be submitted by the Underwriters to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system. See "**CONTINUING DISCLOSURE OF INFORMATION**" for a description of the Association's undertaking to provide certain information on a continuing basis.

TEXAS WINDSTORM INSURANCE ASSOCIATION PROGRAM

General

The Association, established pursuant to Chapter 2210, Texas Insurance Code, as amended ("Chapter 2210" or the "Act"), is a validly existing state association consisting of a pool of all property and casualty insurance companies authorized to write coverage in the State of Texas (the "State"). Finding that the provision of adequate windstorm and hail insurance is necessary to the economic welfare of the State, including its orderly growth and development, the Legislature of the State (the "Legislature") established the Association in 1971 to provide basic wind and hail insurance coverage for Gulf Coast property owners who might otherwise be left uninsured. The Association functions as the insurer of last resort for wind and hail coverage in Texas's 14 coastal counties (consisting of Aransas, Cameron, Jefferson, Matagorda, San Patricio, Brazoria, Chambers, Kenedy, Nueces, Willacy, Calhoun, Galveston, Kleberg and Refugio Counties, collectively, "Tier 1 Counties") and portions of Harris County (including the Cities of Pasadena, Morgan's Point, Shoreacres, Seabrook and La Porte) (together with the Tier 1 Counties, collectively the "Coverage Area"). See "**THE ASSOCIATION**".

The Association's authorizing statute requires it to (i) function in such a manner as to not be a direct competitor in the private insurance market and (ii) provide windstorm and hail insurance coverage to those who are unable to obtain that coverage in the private market. The Association functions in a manner similar to traditional for-profit insurance carriers, using written contracts that specify the extent and restrictions of the insurance coverage it provides, collecting premiums and paying valid claims. Prospective policyholders owning property in the Coverage Area submit applications for coverage through insurance agents and brokers.

Traditional for-profit insurance companies must assess risk differently than the Association does. Generally, traditional markets provide some windstorm coverage even in high-risk areas. They may withdraw from this territory after catastrophic losses occur or due to other market conditions. When traditional markets withdraw, the Association absorbs policies no longer written by other carriers. Because it is a provider of last resort, the Association may offer less extensive coverage or higher prices than traditional for-profit insurance companies. In addition the Texas Legislature has enacted laws restricting claimants' ability to file lawsuits against the Association. The Association's standard deductible is 1.00%; however the deductible may be as high as 5.00% for either residential or commercial accounts. For more detailed information on the Association and the policy coverages offered by the Association, see "**THE ASSOCIATION**".

Public Securities and the Association Program

Pursuant to Chapter 2210, the Association is authorized, with the approval of the Texas Commissioner of Insurance (the "Commissioner"), to request the Authority to issue three classes of public securities, the proceeds of which may be used to: (i) pay incurred loss claims and operating expenses of the Association; (ii) purchase reinsurance for the Association; (iii) pay the costs of issuing the securities and related administrative expenses, if any; (iv) provide a debt service reserve fund for the public securities; (v) pay capitalized interest and principal on the public securities for a period determined necessary by the Association; (vi) pay private financial agreements entered into by the Association as temporary sources of payment of losses and operating expenses of the Association; and (vii) reimburse the Association for any costs described by clauses (i) through (vi) paid by the Association before the issuance of the public securities (collectively, the "Association Program"). Notwithstanding the above, Chapter 2210 provides that the proceeds of Class 1 Public Securities issued as Pre-Event Class 1 Public Securities, such as the Series 2014 Bonds, may not be used to purchase reinsurance. Any excess public security proceeds remaining after the purposes are satisfied for which such securities were issued may be used to purchase or redeem outstanding public securities or, if no such public securities are outstanding, must be transferred to the catastrophe reserve trust fund (the "Catastrophe Fund") established pursuant to Chapter 2210.

Public Securities

The Authority is issuing the Series 2014 Bonds as Pre-Event Class 1 Public Securities, based on the Association's request for financing, which request has been approved by the Commissioner. Class 1 Public Securities consist of debt instruments or other public securities, including commercial paper, authorized to be issued by the Authority before, at the time of or after an occurrence or series of occurrences in a catastrophe area results in insured losses and operating expenses of the Association exceeding its premium and other revenues ("Catastrophic Event"). Class 1 Public Securities must be paid from Association net premiums and other Association revenues. The maximum amount of Class 1 Public Securities that may be issued is $1 billion per Catastrophe Year, and Pre-Event Class 1 Public Securities may not, in the aggregate, exceed $1 billion outstanding at any one time. The Series 2014 Bonds have been authorized as Pre-Event Class 1 Public Securities in the amount of $500 million.

After issuance of the Series 2014 Bonds, the principal amount remaining of Post-Event Class 1 Public Securities approved by the Commissioner for 2014 (or in the following year if such public securities cannot reasonably be issued in 2014) will be $500 million. No assurance can be given that Association net premium and other Association revenues will be sufficient to support $500 million in Post-Event Class 1 Securities or that market conditions will permit their issuance.

If the entire $1 billion of Class 1 Public Securities cannot be issued, Section 2210.6136 of the Texas Insurance Code allows the Commissioner to authorize the issuance of Class 2 Public Securities without issuing the full authorized principal amount of Class 1 Public Securities. The Texas Department of Insurance ("TDI" or the "Department") recently adopted administrative rules in Subchapter E of Chapter 5 of Part I of Title 28 of the Texas Administrative Code (the "TDI Rules") implementing Section 2210.6136. Before issuing Class 2 Public Securities in lieu of Class 1 Public Securities, the TDI Rules require that the Association in consultation with the Authority demonstrate to the Commissioner that the Class 1 Public Securities are not marketable under the standards established in Sections 5.4126 and 5.4135 of the TDI Rules. Based on the information provided to the Commissioner, the Commissioner may order the issuance of Class 2 Public Securities following the issuance of any Post-Event Class 1 Public Securities that can be issued. The Class 2 Public Securities issued through this process are secured by premium surcharges (70%) and member assessments (30%) in the same manner as other Class 2 Public Securities. However, the TDI Rules require the Association to repay the costs of the Class 2 Public Securities issued under the procedure described in this paragraph in an amount equal to the lesser of (i) $500 million in total principal amount, plus any associated costs, or (ii) that portion of the total $1 billion in principal amount of Class 1 Public Securities that cannot be issued, plus any costs associated with that portion. This repayment is accomplished by repaying the amount of premium surcharges and member assessments that are paid or payable on the total principal amount of the Class 2 Public Securities issued in lieu of Class 1 Public Securities, plus any costs and contractual coverage amount associated with that amount from (a) the Association's net premium and other Association revenue (i.e. the Pledged Revenues) that is not contractually pledged to Class 1 payment obligations, and (b) excess amounts released from the Obligation Revenue Fund. In addition to collecting premium and other revenue amounts to pay its payment obligations on Class 1 Public Securities, the TDI Rules require the Association to collect premium and other revenue in an amount sufficient to make the required repayments of premium surcharges and member assessments. If Class 2 Public Securities are issued in the manner described in this paragraph, Class 3 public securities may be issued only after Class 2 Public Securities have been issued in the statutorily authorized principal amount of $1 billion for that catastrophe year.

Following the issuance of Class 1 Public Securities, the Association is authorized to issue Class 2 Public Securities in a maximum amount of $1 billion per calendar year for a Catastrophic Event occurring in that calendar year, net of any Class 2 Public Securities issued as described immediately above. If issued, 70% of the debt service of the Class 2 Public Securities must be paid by premium surcharges on certain policies insuring property in the catastrophe area and the remaining 30% of the debt service of Class 2 Public Securities must be paid by assessments on the Association's members. The Commissioner has approved the issuance of up to $1 billion in Class 2 Public Securities for 2014 (or in the following year if such public

securities cannot reasonably be issued in 2014), but the Authority has taken no action to authorize the issuance of any Class 2 Public Securities.

Following the issuance of Class 1 Public Securities and Class 2 Public Securities as described above, the Association is also authorized to issue Class 3 Public Securities in a maximum amount of $500 million per calendar year for a Catastrophic Event occurring in that calendar year. Any such Class 3 Public Securities must be paid solely through assessments on the Association's members. The Commissioner has approved the issuance of up to $500 million in Class 3 Public Securities for 2014 (or in the following year if such public securities cannot reasonably be issued in 2014), but the Authority has taken no action to authorize the issuance of any Class 3 Public Securities.

The designation of Class 1 Public Securities, Class 2 Public Securities and Class 3 Public Securities does not imply any priority of the security for a Class over another Class, and each Class would be payable from its own separate security and source of payment. Because Class 1 Public Securities, Class 2 Public Securities and Class 3 Public Securities are secured by separate security and sources of payment, the credit quality of each class of securities may vary. See "– **Potential Claim Funding for 2014**".

Catastrophe Reserve Trust Fund

The Catastrophe Fund was created by the Legislature in 1993, as part of the State's plan to address catastrophic losses associated with a major windstorm. To fund the Catastrophe Fund, the Association deposits on an annual basis the net gain from operations of the Association in excess of incurred losses, operating expenses, costs of reinsurance, public securities obligations and public securities administration expense. Additionally, certain policyholder surcharges for structures insured under the Association Program are deposited into the Catastrophe Fund. The Catastrophe Fund is a State fund held by the Comptroller outside the State Treasury on behalf of, and with legal title in, TDI. The Catastrophe Fund is designed to fund losses in excess of the Association premiums and other Association revenue. The Catastrophe Fund may be terminated only by law. If the Catastrophe Fund is terminated by law, all assets of the Catastrophe Fund revert to the State to provide funding for a mitigation and preparedness plan.

As of June 30, 2014, the balance of the Catastrophe Fund was approximately $212 million. The balance of the Catastrophe Fund typically declines if a Catastrophic Event impacts the Coverage Area. For example, in September 2005, $65 million was withdrawn from the Catastrophe Fund to pay excess losses resulting from Hurricane Rita; $30 million was returned to the Catastrophe Fund prior to the end of 2005. On June 30, 2008, the balance of the Catastrophe Fund was approximately $468 million; $100 million of the Catastrophe Fund was used to pay excess losses resulting from Hurricane Dolly in July of 2008, and the remainder of the fund was used to pay for excess losses resulting from Hurricane Ike in September of 2008. The result of claims derived from Hurricane Dolly and Hurricane Ike depleted all of the Catastrophe Fund in 2008. Since 2008, no Catastrophic Event has occurred.

Potential Claim Funding for 2014

In the event a Catastrophic Event occurs in the Coverage Area in 2014, the Association expects to fund the payment of claims from a number of sources in the following priority: (i) approximately $400 million from available premium ($185 million) and amounts in the Catastrophe Fund ($215 million); (ii) up to $500 million from the proceeds of Class 1 Public Securities, such as the Series 2014 Bonds; (iii) up to $1 billion from the proceeds of Class 2 Public Securities; (iv) up to $1.45 billion from payments from reinsurance; and (v) up to $500 million from Class 3 Public Securities.

The Association also has the authority to pay losses with the proceeds of private financial arrangements. Under Chapter 2210 and the TDI Rules, the Association may enter into private financing arrangements payable from (i) net premium and other revenue not required for the payment of Class 1 Public Securities or repayment of premium surcharges and member assessment repayment obligations in connection with Class 2 Public Securities issued in lieu of Class 1 Public Securities, (ii) reinsurance proceeds, (iii) the proceeds of a private financing arrangement, (iv) the proceeds of any class of public securities issued under

Chapter 2210 of the Texas Insurance Code or (v) any other association asset. The Association's ability to enter into such private financial arrangements is dependent upon a number of factors, and because there is no assurance that the Association would be able to enter into such private financial arrangements, the Association has disregarded them for purposes of determining its sources of payment for potential claims.

No source of payment has been identified for potential claims in excess of $3.85 billion other than an additional $500 million from proceeds of Post-Event Class 1 Public Securities. Because no assurance exists that such Post-Event Class 1 Public Securities will be issued, the Association has disregarded them in determining its sources of payment for potential claims. The actual amount of funds available to pay claims following the issuance of public securities may be reduced to the extent that bond proceeds are used to pay costs of issuance and to establish reserves. When the costs of issuance, debt service account minimum balance and debt service reserves funded from the proceeds of the Series 2014 Bonds are taken into account, the funds available to pay claims are reduced to approximately $3.79 billion. It is possible that costs of issuance and reserves for future series of public securities will be funded from the proceeds of such public securities, which would further reduce the funds available to pay claims. Based on the Association's loss estimates, which are derived from industry standard modeling, $3.79 billion is the estimated amount of the liability that would result from a 70 year storm; i.e., a storm of such magnitude that it would be expected to occur with a probability of 1 in 70, or approximately 1.4%. Investors should be aware that estimating losses resulting from catastrophic events is an inherently subjective, imprecise process, and based on numerous assumptions. See "**RISK FACTORS – Limitations of Loss Modeling Analysis.**" Actual loss experience may materially differ from the Association's loss estimates, and the Association does not guarantee or warrant the correctness of such loss estimates for any purpose. The amount of public securities that may be issued is dependent on a number of factors, including the premium revenue generated by the Association, market conditions and approval by various state agencies. The Association does not have the authority to make assessments to cover claims in excess of the funding provided by Chapter 2210. See "– **Public Securities and the Association Program**", "– **Public Securities**" and "**– Catastrophic Reserve Trust Fund**" above, "**THE ASSOCIATION**" and "**RISK FACTORS**".

PLAN OF FINANCING

Authority for Issuance

The Series 2014 Bonds are being issued in accordance with the Constitution and general laws of the State, including Chapter 2210; the TDI Rules; and Chapters 1201 and 1232, Texas Government Code, as amended (collectively the "Authorizing Law"), and pursuant to a master resolution adopted by the Board of Directors of the Authority (the "Board") on September 24, 2014 (the "Master Resolution") and a first supplemental resolution adopted by the Board on September 24, 2014 (the "First Supplemental Resolution," and together with the Master Resolution, the "Resolutions"), excerpts of which are attached hereto as **APPENDIX C**.

Pursuant to the Resolutions and the Authorizing Law, the Authority has the exclusive authority to issue, upon the request of the Association and the approval of the Commissioner, one or more series of Class 1 Public Securities in an aggregate principal amount not to exceed $1 billion per Catastrophe Year, but no more than $1 billion of Pre-Event Class 1 Public Securities may be outstanding at any one time. Class 1 Public Securities are secured by and payable solely from the Pledged Revenues irrevocably pledged by the Authority under the Resolutions and by the Association under the Financing and Pledge Agreement dated as of September 1, 2014 (the "Financing and Pledge Agreement") between the Authority and the Association. The Commissioner has approved the Association's request for the issuance of up to $1 billion in Class 1 Public Securities for 2014 (or in the following year if such public securities cannot reasonably be issued in 2014) to pay costs of the Association Program, which approval permits the issuance of Pre-Event Class 1 Public Securities and Post-Event Class 1 Public Securities, pursuant to which the Board of Directors of the Authority has authorized the issuance of the Series 2014 Bonds in the aggregate principal amount of $500 million as Pre-Event Class 1 Public Securities.

Purpose

Pursuant to the Resolutions and the Financing and Pledge Agreement, net proceeds of the Series 2014 Bonds will be used for the purposes of financing future costs of the Association Program, funding a minimum balance to be held in the debt service fund as well as debt service reserves and paying all or part of the cost of issuance of the Series 2014 Bonds.

Sources and Uses of Proceeds

The proceeds of the Series 2014 Bonds are expected to be applied as follows:

Sources:	
Principal Amount	$500,000,000.00
Uses:	
Deposit to 2014 Pre-Event Program Subaccount	$443,939,424.37
Deposit to 2014 Debt Service Subaccount	30,656,000.00
Deposit to 2014 Debt Service Reserve Subaccount	19,344,000.00
Underwriting Fee	6,060,575.63
Total	$500,000,000.00

The Association will pay from its available funds certain costs of issuance of the Series 2014 Bonds in the estimated amount of $1.5 million.

THE SERIES 2014 BONDS

General

The Series 2014 Bonds are being issued and will mature on the dates and in the principal amounts, bear interest from their date at the rates per annum, and be payable semiannually on the dates set forth on the inside cover page of this Official Statement. Interest on the Series 2014 Bonds will be calculated on the basis of a 360-day year of twelve 30-day months.

The Series 2014 Bonds of each maturity and interest rate will be issuable in fully registered form only, without coupons, in the denominations of $100,000 and any integral multiple of $5,000 in excess of $100,000.

If the specified date for any payment of principal of or interest on the Series 2014 Bonds is not a Business Day, such payment may be made on the next succeeding Business Day without additional interest and with the same force and effect as if made on the specified date for such payment. "Business Day" means any day other than a Saturday, Sunday, legal holiday or other day on which banking institutions in New York, New York or Austin, Texas are generally authorized or obligated by law or executive order to close or a day on which the New York Stock Exchange is closed or a day on which the Trust Company or Paying Agent/Registrar is closed.

Optional Redemption with Make-Whole Premium

The Series 2014 Bonds are subject to optional make-whole redemption, in whole or in part, at the option of the Authority, at the request of the Association, on or after the Issuance Date of the Series 2014 Bonds, anticipated to be September 30, 2014, and prior to July 1, 2019 at a redemption price equal to the greater of (i) 100% of the principal amount of the Series 2014 Bonds to be redeemed or (ii) the sum of the present values of the remaining scheduled payments of principal of and interest on the Series 2014 Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the

Treasury Rate plus 100 basis points, plus, in each case, accrued and unpaid interest on the Series 2014 Bonds being redeemed to the date fixed for redemption.

For the purposes of determining the Treasury Rate, the following definitions shall apply:

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Series 2014 Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the applicable Series 2014 Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the applicable Series 2014 Bonds to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a particular Series 2014 Bond, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Deal Quotations, or (2) if the Designated Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Designated Investment Banker" means one of the Reference Treasury Dealers appointed by the Authority.

"Reference Treasury Dealer" means Merrill Lynch Pierce Fenner & Smith Incorporated and its successors and three other firms, specified by the Authority from time to time, that are primary U.S. Government securities dealers in the City of New York, New York (each a "Primary Treasury Dealer"); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the Authority shall substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date for a particular Series 2014 Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

Optional Redemption at Par Plus Accrued Interest

The Series 2014 Bonds are also subject to optional redemption prior to maturity on or after July 1, 2019, in whole or in part, at a redemption price equal to the principal amount of Series 2014 Bonds to be redeemed plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption

The Series 2014 Bonds maturing in 2017 and 2024, respectively (the "Term Bonds"), shall be subject to mandatory sinking fund redemption, in whole or in part (at a redemption price equal to the principal amount thereof and any accrued interest thereon to the date set for redemption), on July 1 in each of the years and in the amounts set forth below:

Bonds Maturing July 1, 2017	
Year	Amount
2016	$41,600,000
2017*	43,800,000

*Stated Maturity

Bonds Maturing July 1, 2024	
Year	Amount
2018	$46,100,000
2019	49,900,000
2020	54,000,000
2021	58,500,000
2022	63,300,000
2023	68,600,000
2024*	74,200,000

*Stated Maturity

At least 30 days prior to the mandatory redemption date for the Term Bonds, the Paying Agent/Registrar shall select pro rata the numbers of the Term Bonds to be redeemed. Any Term Bonds, or a portion thereof, not selected for prior redemption shall be paid on the date of final maturity. To the extent, however, that the Term Bonds of a maturity which at least 45 days prior to a mandatory redemption date have been (i) defeased or acquired by the Authority and delivered to the Paying Agent/Registrar at the request of the Authority, or (ii) called for optional redemption in part and other than from a sinking fund redemption payment, the annual sinking fund payments therefore shall be reduced by the amount obtained by multiplying the principal amount of the Term Bonds of such maturity so purchased or redeemed by the ratio which each remaining annual sinking fund redemption payment therefore bears to the total sinking fund payments for such maturity, and by rounding each such payment to the nearest $5,000 integral.

Redemption Procedures

The Series 2014 Bonds may be redeemed in part only in integral multiples of $100,000 or any integral multiple of $5,000 in excess thereof. If a Series 2014 Bond subject to redemption is in a denomination larger than $5,000, a portion of such Series 2014 Bond may be redeemed, but only in integral multiples of $100,000 or any integral multiple of $5,000 in excess thereof. In selecting portions of the Series 2014 Bonds for redemption, the Paying Agent/Registrar shall allocate the principal amount to be redeemed as nearly as feasible pro rata among the maturities (and among mandatory redemption requirements within maturities) and interest rates of all the Series 2014 Bonds (subject to DTC operational requirements for the Series 2014 Bonds held by DTC). A partial redemption of the Series 2014 Bonds processed through DTC will be treated, in accordance with DTC's rules and procedures, as a "Pro Rata Pass-Through Distribution of Principal".

Notice of Redemption

So long as the Series 2014 Bonds are Book-Entry Bonds, all redemption notices and payments upon redemption shall be made by the Paying Agent/Registrar to DTC and not the Owners of the Series 2014 Bonds; otherwise the Paying Agent/Registrar will give notice of any redemption of the Series 2014 Bonds by sending notice by first class United States mail, postage prepaid, not less than 30 days before the date fixed for redemption, to the Owner of each Series 2014 Bond (or part thereof) to be redeemed, at the address shown on the Register. The notice will state the redemption date, the redemption price, the place at which the Series 2014 Bonds are to be surrendered for payment, and, if less than all the Series 2014 Bonds outstanding are to be redeemed, an identification of the Series 2014 Bonds or portions thereof to be

redeemed. Any notice given as provided in the Resolutions will be conclusively presumed to have been duly given, whether or not the Owner receives such notice. Failure to give notice of redemption to any Owner of the Series 2014 Bonds, or any defect therein, will not affect the validity of any proceedings for the redemption of any Series 2014 Bonds for which notice was properly given.

The Authority reserves the right to give notice of its election or direction to redeem all or a portion of the Series 2014 Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys or Sufficient Assets, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar no later than the redemption date or (ii) that the Authority retains the right to rescind such notice at any time prior to the scheduled redemption date if the Authority delivers a certificate of an Authority Representative to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption will be of no effect if such moneys or Sufficient Assets are not so deposited or if the notice is rescinded. The Paying Agent/Registrar will give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Series 2014 Bonds subject to conditional redemption where redemption has been rescinded will remain Outstanding, and the rescission will not constitute an event of default. Further, in the case of a conditional redemption, the failure of the Authority to make funds available in part or in whole on or before the redemption date will not constitute an event of default.

Paying Agent/Registrar

The Authority will be the initial Paying Agent/Registrar for the Series 2014 Bonds, and will perform all the duties and functions required to be performed with respect to the Series 2014 Bonds under the Resolutions by the Paying Agent/Registrar; provided, however, that the Authority may appoint a third party Paying Agent/Registrar if the Series 2014 Bonds cease to be Book-Entry Bonds. Any Paying Agent/Registrar appointed by the Authority will be subject to the terms and provisions of the Resolutions and a Paying Agent Agreement.

Transfer, Exchange, and Registration

The Paying Agent/Registrar will maintain a register for the Series 2014 Bonds (the "Register") at its principal office. A transfer of a Series 2014 Bond is not effective until entered in the Register. The transfer of a Series 2014 Bond will be made by the Paying Agent/Registrar upon the surrender to the Paying Agent/Registrar of the Series 2014 Bond by the Owner (or such Owner's duly authorized representative), together with such endorsement or other evidence of transfer as is satisfactory to the Authority and the Paying Agent/Registrar. To effect a transfer, the Authority will execute and the Paying Agent/Registrar will authenticate and deliver to the transferee a new Series 2014 Bond or Series 2014 Bonds (each in an authorized denomination) of the same tenor and aggregate principal amount and interest rate as the Series 2014 Bond or Series 2014 Bonds surrendered for transfer. A transfer of a Series 2014 Bond will be made without any charge to the Owner, except that any tax or other governmental charge imposed with respect to the transfer will be paid by the Owner requesting the transfer.

Any Series 2014 Bond(s) may be exchanged for a new Series 2014 Bond or Series 2014 Bonds (each in an authorized denomination) of the same tenor and aggregate principal amount and interest rate upon the surrender to the Paying Agent/Registrar by the Owner (or such Owner's duly authorized representative) of the Series 2014 Bond(s) to be exchanged. To effect an exchange, the Authority will execute and the Paying Agent/Registrar will authenticate and deliver to the Owner the new Series 2014 Bond or Series 2014 Bonds in exchange for the surrendered Series 2014 Bond(s). An Owner exchanging any Series 2014 Bond(s) will pay an amount sufficient to reimburse any out-of-pocket expenses incurred by the Authority or the Paying Agent/Registrar in connection with making the exchange, and any tax or other governmental charge imposed with respect to the exchange. The Paying Agent/Registrar is not required to transfer or exchange any Series 2014 Bond: (i) between a Record Date and the related Interest Payment Date; (ii) during the 30-day period preceding the maturity date of such Series 2014 Bond; or (iii) which has been selected for redemption in whole or in part.

Book-Entry-Only System

The Series 2014 Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for DTC, which will act as securities depository for the Series 2014 Bonds, until DTC resigns or is discharged. The Series 2014 Bonds will be available to purchasers only in book-entry form. For as long as Cede & Co. is the exclusive registered owner of the Series 2014 Bonds, the principal of and interest on the Series 2014 Bonds will be payable by the Paying Agent/Registrar to DTC, which will be responsible for making such payments to DTC Participants for subsequent remittance to the owners of beneficial interests in the Series 2014 Bonds. The purchasers of the Series 2014 Bonds will not receive certificates representing their beneficial ownership interests therein. For additional information regarding DTC, see "**APPENDIX E – DEPOSITORY TRUST COMPANY**".

Discharge and Defeasance

The benefits of the Resolutions, and the covenants of the Authority contained in the Resolutions in support of the Bonds, will be discharged by a deposit of Sufficient Assets pursuant to the Resolutions and the covenants of the Authority contained in the Resolutions in support of the Series 2014 Bonds will be deemed redeemed and discharged with respect to the Series 2014 Bonds when the following requirements have been satisfied: (i) the payment of such Bonds has been provided for by irrevocably depositing Sufficient Assets into the respective subaccount of the Debt Service Account or with the Paying Agent/Registrar or a financial institution or trust company designated by the Authority, which will be held in trust in a separate escrow account and applied exclusively to the payment of such Bonds; (ii) the Authority has received a certificate or verification report that confirms that such deposit of Sufficient Assets is adequate to pay the Bonds on the applicable redemption or maturity date; (iii) the Authority has received an opinion of Bond Counsel to the effect that such deposit of Sufficient Assets complies with State law, and all conditions precedent to such Bonds being deemed discharged have been satisfied; (iv) all amounts of money (other than Obligations) due, or reasonably estimated by the Paying Agent/Registrar to become due, under the Resolutions with respect to such Bonds have been paid, or provision satisfactory to the Person to whom any such payment is or will be due for making such payment has been made; and (v) the Paying Agent/Registrar has received its compensation and such other documentation and assurance as the Paying Agent/Registrar reasonably may request.

If a deposit of Sufficient Assets pursuant to the paragraph above is to provide for the payment of less than all of the Outstanding Bonds, the particular series and maturity or maturities of the Series 2014 Bonds (or, if less than all of a particular series and maturity, the principal amounts) will be as specified by the Authority, and the particular Bonds or portions thereof will be treated by DTC, in accordance with its rules and procedures, as a "Pro Rata Pass-Through Distribution of Principal".

Amendments

The Resolutions may be amended both with and without the consent of the Owners of at least a majority in aggregate principal amount of the Outstanding Bonds affected by such amendment. See "**APPENDIX C – EXCERPTS OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – The Master Resolution – Section 7.01. Amendment of Resolution**" for a description of the procedures for amendments and the types of amendments that do not require consent of the Owners.

State Not to Impair Public Security

Under Section 2210.616 of the Texas Insurance Code, the State has pledged for the benefit and protection of financing parties, such as the Owners, the Authority and the Association, that the State will not take or permit any action that would in any way impair the rights and remedies of the public securities owners until the public securities are fully discharged.

Bondholder's Remedies

Under Section 2210.617 of the Act, a writ of mandamus and any other legal and equitable remedies are available to a party at interest, such as an Owner or the Authority, to require the Association or another party to fulfill an agreement and to perform functions and duties under: (i) Subchapter M of the Act; (ii) the Texas Constitution; or (iii) a relevant public security resolution. See "**SECURITY FOR THE SERIES 2014 BONDS – Events of Default and Remedies**".

SECURITY FOR THE SERIES 2014 BONDS

This summary of certain provisions of the Resolutions and the Financing and Pledge Agreement does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the actual terms of such documents. Excerpts from the Resolutions and the Financing and Pledge Agreement are contained in ***APPENDIX C****, and copies of such documents are available for examination at the Authority's office. Capitalized terms used in this section and not otherwise defined herein have the same meanings assigned to such terms in the Resolutions. See* "**APPENDIX B – GLOSSARY OF TERMS**" and "**APPENDIX C – EXCERPTS OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS**".

Pledged Revenues

This section summarizes primary components of Pledged Revenues. However, potential investors should read "**SECURITY FOR THE SERIES 2014 BONDS**" in its entirety along with "**APPENDIX B – GLOSSARY OF TERMS**" and "**APPENDIX C – EXCERPTS OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS**" for a more complete description of the security for the Series 2014 Bonds.

The Series 2014 Bonds are secured by a pledge of Pledged Revenues, which primarily consist of Net Premium (also known as earned premium) and Other Revenue along with amounts on deposit in the Funds and Accounts created under the Resolutions. See "**APPENDIX B – GLOSSARY OF TERMS**," and "**APPENDIX C – EXCERPTS OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS**". Other Revenue is primarily composed of net investment income on eligible Association funds. Net Premium and Other Revenue do not include premium surcharges or member assessments securing Class 2 Public Securities or Class 3 Public Securities or any investment earnings on such amounts.

Net Premium is defined as Gross Premium less Unearned Premium. Gross Premium is the amount of Premium the Association receives, less Premium returned to policyholders for cancelled or reduced policies. Unearned Premium is that portion of Gross Premium that has been collected in advance for insurance that the Association has not yet earned because of the unexpired portion of the time for which the insurance policy was in effect. In practice, a policyholder generally prepays twelve months' of premium at the time the policy holder purchases an Association policy, and a portion of the premium on each policy is earned each day the policy in in force. The Association's earned premium in Fiscal Years 2012 and 2013 was $429,594,000 and $456,630,000, respectively. See "**THE ASSOCIATION – Table 9**: **Summary of Financial Results**," and "**DEBT SERVICE AND COVERAGE SCHEDULES**".

In addition to Net Premium and Other Revenues, amounts on deposit in the Funds and Accounts created under the Resolutions, including Investment Income or earnings, if any, credited to such Funds and Accounts are considered part of the Pledged Revenues. Proceeds of the Series 2014 Bonds in the amount of $30,656,000 are being deposited in the Debt Service Account to provide a Minimum Debt Service Account Balance and proceeds of the Series 2014 Bonds in the amount of $19,344,000 are being deposited in the Debt Service Reserve Fund to fund the Debt Service Reserve Requirement. In addition, the proceeds of the Series 2014 Bonds are being deposited in the 2014 Pre-Event Program Subaccount to pay costs of the Association Program. The Financing and Pledge Agreement provides that any excess proceeds from the Class 1 Public Securities remaining after the purposes for which the Class 1 Public Securities were issued are satisfied may be used to purchase or redeem Outstanding Class 1 Public Securities (subject to approval by the Board of Directors of the Association and with approval of the Commissioner). Acceleration is not a remedy available to the Bondholders in the event of a default.

Pledge of Pledged Revenues by the Association

In the Financing and Pledge Agreement, the Association has irrevocably pledged and assigned to the Authority the Pledged Revenues and acknowledges and agrees and authorizes the Authority to pledge and assign the Pledged Revenues to secure the payment of the Bonds and the Administrative Expenses.

Chapter 1208, Texas Government Code, as amended, applies to the pledge of the Pledged Revenues granted by the Association to the Authority under the Financing and Pledge Agreement, and such pledge is, therefore, valid, effective, and perfected. However, in order to assure the perfection and delivery of the security interest in and the first lien on the Pledged Revenues on deposit in the Association's Operating Account, the Association and the Authority have also provided for the perfection of the security interest under the requirements of Chapter 9, Texas Business and Commerce Code, as amended, through the execution of a Deposit Account and Control Agreement and the filing of a financing statement. The Association and the Authority have further agreed to take such measures as are reasonable and necessary under State law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, as amended, and to cause to be filed all documents, security instruments, and financing statements as may be necessary to perfect the security interest in the Pledged Revenues.

Pledge of Pledged Revenues by the Authority

In the Resolutions, the Authority has pledged as the sole security and sole source of payment for the Bonds (including the Series 2014 Bonds) and Administrative Expenses, all of the Authority's right, title, and interest in and to the Financing and Pledge Agreement, the Funds Management Agreement, the Deposit Account Control Agreement and the Pledged Revenues. Such pledge is an irrevocable first lien on such Pledged Revenues for the payment of the Bonds and Administrative Expenses in accordance with the terms of the Resolutions.

The pledge of the Authority's right, title, and interest in and to the Pledged Revenues will be effective as of the date of delivery of the Series 2014 Bonds. Chapter 1208, Texas Government Code, as amended, applies to the security interest that secures payment of the Bonds (including the Series 2014 Bonds) and the pledge of the Pledged Revenues granted by the Authority under the Resolutions, and such pledge is, therefore, valid, effective, and perfected. If State law is amended at any time while the Bonds are Outstanding such that the pledge of the Pledged Revenues hereunder is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, as amended, then in order to preserve to the Owners of the Bonds the perfection of the security interest in said pledge, the Authority agrees to take such measures as it determines are reasonable and necessary under State law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, as amended, and enable a filing or other action to perfect the security interest in the Pledged Revenues to occur.

Limited Obligations

THE SERIES 2014 BONDS ARE PAYABLE SOLELY FROM THE PLEDGED REVENUES AND ARE NOT AN OBLIGATION OF THE STATE, ANY AGENCY OF THE STATE, POLITICAL CORPORATION, OR POLITICAL SUBDIVISION OF THE STATE, AND NONE OF THEM IS OBLIGATED TO PAY THE SERIES 2014 BONDS, EXCEPT TO THE EXTENT THE ASSOCIATION IS OBLIGATED TO PAY UNDER THE FINANCING AND PLEDGE AGREEMENT AND THE AUTHORITY IS OBLIGATED TO PAY PURSUANT TO THE RESOLUTIONS AND THE AUTHORIZING LAW. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY AGENCY, POLITICAL CORPORATION OR POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE SERIES 2014 BONDS. ALTHOUGH, THE AUTHORITY IS THE ISSUER OF THE SERIES 2014 BONDS AS REQUIRED BY THE ACT, THE AUTHORITY HAS NOT PERFORMED AN ANALYSIS OF THE ASSOCIATION'S FINANCIAL CONDITION OR ITS ABILITY TO PAY THE PRINCIPAL OF OR THE INTEREST ON THE SERIES 2014 BONDS WHEN DUE.

Flow of Funds

On each Date of Calculation, the Authority shall direct the Trust Company to transfer Pledged Revenues on deposit in the Premium Revenue Account to the following funds and accounts and in the following order of priority:

First, to the Debt Service Account, amounts which, when added to other amounts in the Debt Service Account (excluding amounts maintained as the Debt Service Account Minimum Balance), equal the amount required to pay Obligations on the Bonds as follows, unless otherwise provided in a Supplemental Resolution (collectively, the "Required Monthly Debt Service Deposit"):

(i) 1/6th of any interest to become due and payable on Outstanding Bonds on the next succeeding Interest Payment Date calculated from the previous Interest Payment Date; or if interest on the Bonds bears interest payable on other than a semiannual basis or on a truncated or stub interest period, the amount required to provide for the payment of interest thereon becoming due on the next succeeding Interest Payment Date in substantially equal monthly installments calculated from the previous Interest Payment Date;

(ii) 1/12th of any principal scheduled to become due and payable on the Outstanding Bonds on the next succeeding principal payment date commencing within twelve months of the Date of Calculation; provided, however, that this required monthly deposit may be satisfied, in whole or in part, to the extent that funds on deposit in the Program Fund have been transferred and deposited in the Debt Service Account by the Authority prior to the Date of Calculation in accordance with the Master Resolution.

(iii) 1/12th of any principal amount subject to mandatory sinking fund redemption on a mandatory redemption date occurring within twelve months of the Date of Calculation or previous mandatory redemption date; provided, however, that this required monthly deposit may be satisfied, in whole or in part, to the extent that funds on deposit in the Program Fund have been transferred and deposited in the Debt Service Account by the Authority prior to the Date of Calculation in accordance with the Master Resolution; and

(iv) amounts due on Credit Agreements, excluding any termination payments arising under any such Credit Agreements shall be determined in the applicable Supplemental Resolution authorizing such Credit Agreement.

To the extent that sufficient Pledged Revenues are not on deposit in the Debt Service Account and are not available on a date on which the Required Monthly Debt Service Deposit is required to be made or are not available on any Interest Payment Date, at any Stated Maturity Date, or upon mandatory redemption or any sinking fund installment to make such payments, the Authority covenants to promptly exercise any and all rights under the Financing and Pledge Agreement and the Master Resolution to cause the transfer of the following amounts until such Debt Service Account attains an amount equal to the Required Monthly Debt Service Deposit or the amounts required to be available on any Interest Payment Date, at any Stated Maturity Date or upon mandatory redemption to make such payment; *first*, from the Pledged Revenues deposited to the Premium Revenue Account, *second*, from amounts on deposit in the Debt Service Account maintained as the Debt Service Account Minimum Balance, and *third*, from amounts on deposit in the Debt Service Reserve Account;

Second, to the Administrative Expenses Account from Pledged Revenues after the payment and transfers in (a) above, 1/12th of the amount of Pledged Revenues representing the amount needed to pay Administrative Expenses occurring within twelve months of the Date of Calculation, unless otherwise provided in a Supplemental Resolution;

Third, to the Debt Service Account from Pledged Revenues after the payment and transfers in ***First*** and ***Second*** above, in addition to the Required Monthly Debt Service Deposit, the amount of Pledged

Revenues necessary to replenish in equal monthly installments within three months the Debt Service Account Minimum Balance, which will be funded initially with proceeds of the Series 2014 Bonds in the amount of $30,656,000;

Fourth, to the Debt Service Reserve Account from Pledged Revenues after payment of ***First*** through ***Third*** above, the amount of Pledged Revenues necessary to replenish in equal monthly installments within three months the Debt Service Reserve Requirement, which will be funded initially with proceeds of the Series 2014 Bonds in the amount of $19,344,000;

Fifth, after payment and transfers in ***First*** through ***Fourth***, to the payment of obligations related to any Subordinate Lien Bonds, Administrative Expenses of any Subordinate Lien Bonds, any reserve fund requirements related thereto, and obligations under any credit agreement related thereto, when and in the amounts required by any resolution or order authorizing the issuance of such Subordinate Lien Bonds; and

Sixth, after deposit, payment, and transfer of Pledged Revenues as provided in subsections ***First*** through ***Fifth*** and subject to the further limitations contained in the Resolutions, to the Association to be used for any lawful purpose; provided, however, Pledged Revenues consisting of proceeds from Pre-Event Bonds shall not be used to pay Reinsurance Costs; provided further, if the monthly installment to replenish the Debt Service Account Minimum Balance and the Debt Service Reserve Requirement as required under subsections ***Third*** and ***Fourth*** have been made but there still exists a deficiency in the Debt Service Account Minimum Balance or the Debt Service Reserve Requirement, Pledged Revenues may be transferred to the Association solely for the payment of current monthly Operating Expenses, Non-Catastrophic Losses, and Reinsurance Costs, and any remaining Pledged Revenues shall be used to further replenish *first*, the Debt Service Account to the Debt Service Account Minimum Balance, and *second*, the Debt Service Reserve Account to the Debt Service Reserve Requirement, before being used for any other purpose. While there is a deficiency in any Account, the Association shall certify to the Authority as to the amount of Pledged Revenues required for the payment of current monthly Operating Expenses, Non-Catastrophic Losses, and Reinsurance Costs prior to such funds being transferred to the Association.

2014 Debt Service Subaccount

Pursuant to the Resolutions, the 2014 Debt Service Subaccount of the Debt Service Account is created and established for all purposes under the Act and will at all times be held by the Trust Company as a dedicated fund outside of the Treasury of the State.

(i) In addition to the deposits required pursuant to the Flow of Funds above, there will be maintained in the 2014 Debt Service Subaccount the Debt Service Account Minimum Balance. The Debt Service Account Minimum Balance will be initially funded from the proceeds of the Series 2014 Bonds on the Issuance Date.

(ii) Subject to the Flow of Funds above, if and whenever the balance in the 2014 Debt Service Subaccount is reduced below the Debt Service Account Minimum Balance for any given calendar year, the Authority will, from the first available and unallocated Pledged Revenues (excluding proceeds of the Series 2014 Bonds on deposit in the 2014 Pre-Event Program Subaccount), cause amounts equal in the aggregate to any such deficiency to be set apart and transferred into the 2014 Debt Service Subaccount from the Premium Revenue Account of the Obligation Revenue Fund; provided, however, that in any event the 2014 Debt Service Account will be restored to the Debt Service Account Minimum Balance in equal monthly installments within three months of such reduction.

(iii) Subject to the Flow of Funds above, if at the end of any calendar year, surplus funds remain in 2014 Debt Service Subaccount resulting from any reduction of the Debt Service Account Minimum Balance or otherwise, such surplus funds will remain in the 2014 Debt Service Subaccount to be applied to the payment of interest and principal on the Series 2014 Bonds (or the Make-Whole Redemption Price, if applicable) in the succeeding year, and transfers into the 2014

Debt Service Subaccount of the Obligation Revenue Fund from the Premium Revenue Account of the Obligation Revenue Fund will be reduced accordingly.

(iv) Any amount maintained in the 2014 Debt Service Subaccount, including the Debt Service Account Minimum Balance, will be applied to the payment of interest and principal on the Series 2014 Bonds (or the Make-Whole Redemption Price, if applicable) in the year of final maturity or upon redemption or defeasance of the Series 2014 Bonds.

(v) As of the Issuance Date of the Series 2014 Bonds, the Debt Service Account Minimum Balance is $30,656,000.

2014 Debt Service Reserve Subaccount

Pursuant to the Resolutions, the 2014 Debt Service Reserve Subaccount of the Debt Service Reserve Account is created and established for all purposes under the Act and will at all times be held by the Trust Company as a dedicated fund outside of the Treasury of the State.

(i) The 2014 Debt Service Reserve Subaccount will be used to pay interest and principal on the Series 2014 Bonds when and to the extent the amounts in the Debt Service Account, including any amount maintained as the Debt Service Account Minimum Balance, available for such payment are insufficient for such purpose, and may be used for the purpose of finally retiring the last of the Outstanding Series 2014 Bonds.

(ii) There will be maintained in the 2014 Debt Service Reserve Subaccount an amount equal to the Debt Service Reserve Requirement. The 2014 Debt Service Reserve Subaccount will be initially funded from the proceeds of the Series 2014 Bonds on the Issuance Date in an amount equal to Debt Service Reserve Requirement.

(iii) If and whenever the balance in the 2014 Debt Service Reserve Subaccount is reduced below the Debt Service Reserve Requirement, the Authority will, from the first available and unallocated Pledged Revenues (excluding proceeds of the Series 2014 Bonds on deposit in the 2014 Pre-Event Program Subaccount), cause amounts equal in the aggregate to any such deficiency to be set apart and transferred into the 2014 Debt Service Reserve Subaccount from the Premium Revenue Account of the Obligation Revenue Fund; provided, however, that in any event the Debt Service Reserve Requirement will be replenished to the Debt Service Reserve Requirement in equal monthly installments within three months of such reduction.

(iv) If at the end of any calendar year, surplus funds remain in 2014 Debt Service Reserve Subaccount resulting from any reduction of the Debt Service Reserve Requirement or otherwise, such surplus funds will be promptly transferred from the 2014 Debt Service Reserve Subaccount into the 2014 Debt Service Subaccount of the Obligation Revenue Fund to be applied in accordance with clause (i) above, and transfers into the 2014 Debt Service Subaccount of the Obligation Revenue Fund from the Premium Revenue Account of the Obligation Revenue Fund will be reduced accordingly.

(v) Any amounts maintained in the 2014 Debt Service Reserve Subaccount will be applied to the payment of interest and principal on the Series 2014 Bonds in the year of final maturity or upon redemption or defeasance of the Series 2014 Bonds.

(vi) As of the Date of Issuance of the Series 2014 Bonds, the 2014 Debt Service Reserve Requirement is $19,344,000.

Covenants of the Association

The Association hereby has agreed in the Financing and Pledge Agreement that:

(a) so long as there are Outstanding Class 1 Public Securities and Administrative Expenses are incurred, it will take actions, including but not limited to Reinsurance Costs adjustment and premium charges according to the requirements of the Act, subject to the limitations imposed by the Act, that will produce Projected Net Coverage Revenues in an amount not less than:

(i) 1.25 times the amount of Obligations due in the next calendar year; and

(ii) 1.25 times the estimated amount of Administrative Expenses due in the next calendar year (the "Net Coverage Revenues Covenant");

(b) the Association shall, not later than 45 days after the end of each calendar quarter, file with the Authority a certificate of the Association Representative demonstrating the following:

(i) Actual Net Coverage Revenues during the immediately preceding four completed calendar quarters; and additionally, if the Actual Net Coverage Revenues were less than 110% of the Obligations and Administrative Expenses, the Association shall also disclose in its certificate to the Authority the circumstances or events relating to its failure to meet the Actual Net Coverage Revenue Requirement and the Association shall specifically describe the action or actions, if any, that it will take (including but not limited to rate changes, Reinsurance Costs adjustments, and other fiscal steps) to meet the Actual Net Coverage Revenue Requirement in the future or why the Association believes that it will not be necessary to take any action in order to meet the Actual Net Coverage Revenue Requirement in the future; and

(ii) the Projected Net Coverage Revenues for the next succeeding four calendar quarters and the assumptions, calculations, and components used by the Association in calculating the Projected Net Coverage Revenues; and additionally, if the Projected Net Coverage Revenues are less than 125% of the Obligations and Administrative Expenses to become due and owing during such four calendar quarters, the Association shall disclose in its certificate to the Authority the action or actions (including but not limited to rate changes, Reinsurance Costs adjustments, and other fiscal steps) necessary to meet the Projected Net Coverage Revenue Requirement;

(c) it will calculate on or before the fourth Business Day of each calendar month the Net Premium and Other Revenue available to the Association, and deliver written notice by electronic transmission of such deposit to the Authority;

(d) it will transfer and deposit on or before each Date of Calculation the Net Premium and Other Revenue on deposit in the Operating Account to the Trust Company;

(e) in addition to making Required Monthly Debt Service Deposits, it will maintain the Debt Service Account Minimum Balance in the Debt Service Account and replenish the Debt Service Account to the Debt Service Account Minimum Balance as required under the Master Resolution and any Supplemental Resolution; and

(f) it will maintain the required balance equal the Debt Service Reserve Requirement in the Debt Service Reserve Account and replenish the Debt Service Reserve Account to the Debt Service Reserve Requirement as required under the Master Resolution and any Supplemental Resolution.

Other Covenants of the Association

The Association has also agreed in the Financing and Pledge Agreement that:

(a) during each calendar year (or more often as necessary) it will review all relevant data and confirm that it has established and/or taken actions, or it will endeavor to establish and/or take actions, including rate changes and Reinsurance Costs adjustments, sufficient to result in Net Coverage Revenues adequate to comply with the Net Coverage Revenues Covenant;

(b) during each calendar year it will annually (or more often as necessary) make a filing with the Department pursuant to the Subchapter H of the Act and Title 28, Texas Administrative Code, Section 5.4136 that includes rates sufficient to meet the Net Coverage Revenues Covenant and, to the extent that such filings are not approved by the Commissioner, the Association shall take such action as allowed under the Act, including but not limited to rate changes (including the ability to file under Section 2210.352 of the Act), Reinsurance Costs adjustments, and other fiscal steps necessary to increase coverage to the Projected Net Coverage Revenue Requirement;

(c) to keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Pledged Revenues and that such accounting records shall at all times during business hours be subject to the inspection of the Authority (who has no duty to inspect) or any Owner or representative of an Owner authorized in writing;

(d) for so long as the Bonds are Outstanding, prior to the approval or issuance of any additional Class 1 Public Securities or entry into Financing Arrangements, it will provide the Authority with a certificate of the Association Representative demonstrating that after taking into account the approval or issuance of such Class 1 Public Securities, the Association will be in compliance with the Master Resolution;

(e) prior to implementing any Policy Takeout Proposals, the Association shall provide a report to the Authority demonstrating the expected effects of the Policy Takeout Proposal and the impact of such Policy Takeout Proposal on the Net Coverage Revenues Covenant. If the expected effect of the Policy Takeout Proposal would be to reduce the Projected Net Coverage Revenues below the amounts required by the Net Coverage Revenues Covenant, the Association shall take such action as allowed under the Act, including but not limited to rate changes (including the ability to file under Section 2210.352 of the Act), Reinsurance Costs adjustments, and other fiscal steps necessary to increase coverage to the Projected Net Coverage Revenue Requirement in connection with the implementation of the Policy Takeout Proposal;

(f) for so long as Bonds are Outstanding, prior to entering into any Financial Arrangement the Association Representative shall provide a certificate to the Authority demonstrating that (i) the Additional Obligations Test described below would be satisfied with respect to the proposed issuance of or entry into the Financial Arrangement; and (ii) any such Financial Arrangements entered into by the Association shall be payable, in whole or in part, from a pledge of Net Premium and Other Revenue junior and subordinate to the pledge of Pledged Revenues pertaining to the Bonds and Subordinate Lien Bonds, if any; and

(g) for so long as the Bonds are Outstanding, the Association will (i) maintain the Operating Account at a Depository Bank subject to a deposit account control agreement so as to maintain a perfected security interest in the Net Premium and Other Revenue held therein for the benefit of the Owners, and if the Association changes or adds another Depository Bank, the Operating Account or additional account will be subject to a deposit account control agreement that is substantially similar to the Deposit Account Control Agreement, (ii) deposit Gross Premium as received into such Operating Account, (iii) transfer Net Premium and Other Revenues as required under this Agreement, and (iv) comply with its continuing disclosure undertakings described herein.

Special Covenants of the Authority

The Authority has agreed in the Financing and Pledge Agreement that:

(a) upon its receipt of a Request for Financing of Class 1 Public Securities, it will use its best efforts to cause a Series of Bonds to be sold pursuant to Authorizing Law, as soon as such sale can be accomplished, to comply with the financing request;

(b) it will provide the Association and the Trust Company confirmation of the sale of Bonds and the amount and time Obligations are due;

(c) it will only redeem any Outstanding Bonds as provided in the Resolution pursuant to the prior written direction of the General Manager of the Association (upon the approval of the Board of Directors of the Association and approval of the Commissioner, as provided in the Act);

(d) to the extent permitted by law and the TPFA Act, the Authority shall utilize all available remedies to cause the Association to comply with its covenants, duties, or obligations under the Transaction Documents, and, as further described in the Transaction Documents, if the Association shall not be in compliance with any covenants, the Authority shall provide the Association with written notice by electronic transmission or other means of a description of the failure or non-compliance with any covenant, duty, or obligation and an opportunity to cure any matter described in such notice within 20 days' after such notice thereof prior to exercising any such remedies provided to the Authority under the Transaction Documents and the Act; provided, however, that such notice and cure provisions do not apply to the enforcement of the Association's covenants to make timely transfers of Net Premium to the Trust Company, to maintain the Debt Service Account Minimum Balance and Debt Service Reserve Requirement, and to have sufficient Pledged Revenues to pay Obligations and fully fund certain accounts, which may be enforced without the 20 day notice and cure period. Notwithstanding the foregoing, the Authority will not invoke its rights under the Deposit Account Control Agreement except in circumstances when the Association fails to make transfers, deposits and payments as required under the Agreement and funds on deposit in the Debt Service Account, including any subaccount created thereunder, are not sufficient to make such payments.

Events of Default and Remedies

Event of Default and Remedies. Upon the occurrence of any Event of Default, any party at interest, including an Owner, may seek a writ of mandamus (as set forth under Section 2210.617 of the Act) and any other legal and equitable remedies to require the Association or another party, including without limitation the Authority, to perform functions and duties under: (i) subchapter M of the Act; (ii) the Texas Constitution; (iii) the Master Resolution; (iv) any Supplemental Resolution; and (v) any other Transaction Document. See "**APPENDIX C – The Master Resolution – Section 5.01 Events of Default**".

Additional Remedies. (a) In addition to the remedies provided under the Master Resolution, the Owners may exercise any other rights and remedies afforded by law. No delay or omission to exercise any right or power existing upon the breach of the Master Resolution or any Transaction Document shall impair such right or power or constitute a waiver thereof, and each such right or power may be exercised as often as may be deemed expedient.

(b) No remedy under the Transaction Documents available to the Authority or the Owners is intended to be exclusive of any other remedy, except as expressly provided herein, and each such remedy shall be cumulative.

(c) Supplemental Resolutions may provide for additional remedies available to the parties.

(d) Under no circumstance shall the Owners be entitled to acceleration of payments as a remedy for any Event of Default.

Issuance of Additional Bonds

Following the issuance of the Series 2014 Bonds and subject to the Financing and Pledge Agreement and the requirements of the Resolutions imposing any additional restriction thereon, the Authority, on behalf of the Association, may issue one or more series of Bonds for the purpose of financing, in whole or in part, the Association Program, or for the purpose of refunding and defeasing any outstanding obligations which are Bonds. Such Bonds, when issued, and the interest thereon shall be equally and ratably secured by and payable from an irrevocable first lien on and pledge of Pledged Revenues, in the same manner and to the same extent as the Bonds Outstanding at the time, and shall be on a parity and in all respects of equal dignity

with other Bonds. Notwithstanding the foregoing, no installment, series, or issue of Bonds shall be issued and delivered unless:

(i) the Association delivers a Public Securities Request to the Commissioner;

(ii) the Commissioner executes and delivers written approval of the Public Securities Request relating to issuance of the Series of Bonds and the authorized maximum principal amount of such Series;

(iii) the Association delivers a request for financing to the Authority;

(iv) the Authority adopts, executes, and delivers a Supplemental Resolution authorizing the issuance of the series of Bonds;

(v) the Authority Representative certifies that the Authority is not in default, or as of the date of issuance and delivery of any Bonds then being issued will not be in default, as to any of its covenants, conditions, or obligations set forth in the Transaction Documents to which it is a party;

(vi) the Association Representative certifies that the Association is not in default as to any of its covenants, conditions, or obligations set forth in the Financing and Pledge Agreement and the Deposit Account Control Agreement;

(vii) the Trust Company Representative certifies that the Trust Company is not in default as to any covenants, conditions, or obligations set forth in the Funds Management Agreement;

(viii) the Authority Representative certifies (which certification may rely on certificates and other documentation delivered by the Municipal Advisor or the Association Representative) to the effect that the Financing and Pledge Agreement (as the same may be amended) will provide Pledged Revenues sufficient to pay Obligations and Administrative Expenses on all then Outstanding Bonds and any additional Series of Bonds then proposed to be issued, stating:

(A) the principal and interest to be due on the Outstanding Bonds and any Financial Arrangements in each year after giving effect to the proposed Bonds; and

(B) that the Additional Obligations Test set forth below will be met with respect to the issuance of the proposed Bonds; and

(ix) the Authority obtains an opinion of Bond Counsel that the execution of the Supplemental Resolution has been duly authorized by the Authority in accordance with this Master Resolution; that such Series of Bonds when duly executed by the Authority and authenticated by the Paying Agent/Registrar, will be valid and binding obligations of the Authority; and that upon the delivery of such Bonds the aggregate principal amount of the Bonds then Outstanding will not exceed the amount permitted by the Authorizing Law and the Master Resolution.

Subordinate Lien Bonds

Subject to the Financing and Pledge Agreement, the Authority reserves the right and may issue Subordinate Lien Bonds as authorized by and in accordance with requirements of the Act. The issuance of such Subordinate Lien Bonds shall be subject to any applicable requirements set forth in the resolution of the Authority approving the issuance of such Subordinate Lien Bonds and shall not be delivered unless the Association Representative certifies to the Authority (which certification may rely on certificates and other documentation delivered by the Municipal Advisor or the Association Representative) that the Additional

Obligations Test in set forth below will be met with respect to the proposed issuance of the Subordinate Lien Bonds.

Financial Arrangements

The Association may enter into Financial Arrangements as authorized by the Act; provided that such Financial Arrangements shall not be delivered unless (i) the Association Representative certifies to the Authority (which certification may rely on certificates and other documentation delivered by the Municipal Advisor or the Association Representative) that the Additional Obligations Test set forth below will be met with respect to the proposed entry into the Financial Arrangements; and (ii) such Financial Arrangements are payable, in whole or in part, from a pledge of Net Premium and Other Revenue junior and subordinate to the pledge of the Pledged Revenues pertaining to the Bonds or Subordinate Lien Bonds, if any.

Refunding Bonds

Bonds may be issued to refund or refinance one or more series of Outstanding Bonds, Subordinate Lien Bonds, or any Obligation of a Credit Provider secured on parity with the Bonds; provided that (i) if such refunding or refinancing of Outstanding Bonds (including any cash contribution from the Association) results in a net present value savings, the Additional Obligations Test shall not apply; (ii) if any refunding or refinancing of Outstanding Bonds does not result in a net present value savings, such refunding or refinancing shall comply with the Additional Obligations Test; or (iii) if any refunding or refinancing of Outstanding Subordinate Lien Bonds is proposed, such refunding or refinancing shall comply with the Additional Obligations Test.

Additional Obligations Test

Prior to the Authority's issuance of any Bonds or any Subordinate Lien Bonds, or the Association entering into a Financial Arrangement, the Authority Representative shall certify that (which certification may rely upon certificates or other documentation delivered by the Municipal Advisor and the Association Representative) the Additional Obligations Test set forth below (the "Additional Obligations Test") will be met with respect to the Authority's issuance of proposed Bonds or Subordinate Lien Bonds or the Association's entry into such Financial Arrangement, as applicable:

> (i) the ratio of (A) Actual Net Coverage Revenues for the most recently ended calendar year to (B) the sum of (x) Maximum Annual Obligations, Maximum Annual Subordinate Obligations, and maximum annual payments on Financial Arrangements to be Outstanding (or with respect to Financial Arrangements, those to be effective) after the issuance of the proposed Bonds, Subordinate Lien Bonds, or incurrence of or entry into Financial Arrangements, as applicable, plus (y) the projected Maximum Annual Administrative Expenses, calculated within 30 days of the date of sale of such proposed Bonds, Subordinate Lien Bonds, or incurrence of or entry into Financial Arrangements, as applicable, will not be less than 1.25:1.00; or
>
> (ii) the ratio of (A) Projected Net Coverage Revenues for the next calendar year, to (B) the sum of (x) projected Maximum Annual Obligations, Maximum Annual Subordinate Obligations, and maximum annual payments on Financial Arrangements to be Outstanding (or with respect to Financial Arrangements, those to be effective) after the issuance of the proposed Bonds, Subordinate Lien Bonds, or incurrence of or entry into Financial Arrangements, as applicable, plus (y) projected Maximum Annual Administrative Expenses, calculated within 30 days of the date of sale of such proposed Bonds, Subordinate Lien Bonds, or the incurrence of or entry into Financial Arrangements, as applicable will not be less than 1.25:1.00.

See "**APPENDIX C – EXCERPTS OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – The Master Resolution – Section 2.05. Issuance of Bonds**" for a complete description of the conditions to issuance.

RISK FACTORS

Purchase of the Series 2014 Bonds described herein involves a substantial degree of risk, and the Series 2014 Bonds are a speculative investment. Given these risks, purchasers should be capable of suffering a loss of the entirety of its investment represented by the Series 2014 Bonds. Set forth below are certain specific risk factors associated with an investment in the Series 2014 Bonds that should be carefully considered by prospective investors. The following enumeration of risk factors is not intended to be, and is not, exhaustive. Additional considerations are discussed throughout this Official Statement, and inclusion under the heading "RISK FACTORS" should not be intended to signify any such factors are of more or less significance than those discussed elsewhere. Prospective investors should consider carefully the following factors relating to the Association and the security for the Series 2014 Bonds, in addition to the other information contained in this Official Statement, before purchasing the Series 2014 Bonds.

Catastrophe Losses

The incidence and severity of catastrophes are inherently unpredictable. Policy holders are concentrated in those coastal areas that appear to be at the highest risk of hurricane damage based upon historical experience and loss model results. Increased levels of coastal development in recent years and the withdrawal of private insurers from the Coverage Area since 2005 have significantly increased the Association's exposure to potential losses in the Coverage Area. See "**Table 4 – Historical Insurance Data**".

While the Association cannot predict the level of hurricanes or other catastrophes in the State, the National Oceanic and Atmospheric Administration has concluded that the United States has been in a cycle of heightened Atlantic Ocean hurricane activity since 1995 because of naturally occurring cycles in tropical climate patterns near the equator. In addition to hurricanes, other unforeseen catastrophes and acts of God may occur that could cause property losses and disrupt the operations of the Association.

In the event a Catastrophic Event occurs in the Coverage Area, the Association will fund the payment of claims from a number of sources including available premium, the Catastrophe Fund, Class 1 Public Securities, Class 2 Public Securities, Reinsurance and Class 3 Public Securities. Other than the potential issuance of an additional $500 million of Class 1 Public Securities, if marketable, no source of payment, after taking into account costs of issuance and reserves funded with proceeds of the Series 2014 Bonds, has been identified for potential sources of claims in excess of $3.79 billion during 2014, though the total amount of funding available may vary based on the total amount of Class 1 Public Securities issued and the availability of financing under private financing arrangements. See "**TEXAS WINDSTROM INSURANCE ASSOCIATION PROGRAM – Potential Claim Funding for 2014**". Further, there is no guarantee that there will be a market for Class 1, Class 2 or Class 3 Public Securities. The catastrophe loss funding model established by the Legislature in 2009 eliminated the authority for unlimited assessments to pay claims, which limits the Association's options for accessing funds to pay claims following a Catastrophic Event. See "**RISK FACTORS – Future Legislative and Regulatory Changes**". If funds are unavailable to pay claims, it may have a substantial negative effect on the financial viability of the Association and the willingness of property owners to purchase insurance through the Association, which could negatively affect the Association's ability to meet its payment obligations in connection with the Series 2014 Bonds.

Actuarial Adequacy of Rates

The Association Program has several potential layers of coverage, including available premium and funds from the Catastrophe Fund, the proceeds of public securities and payments on reinsurance for claims made. These levels of coverage could total $3.79 billion for 2014, after taking into account costs of issuance and reserves funded with proceeds of the Series 2014 Bonds. See "**TEXAS WINDSTORM INSURANCE ASSOCIATION PROGRAM – Potential Claim Funding for 2014**" for a discussion of claims funding sources available under Chapter 2210.

The Association has performed internal studies to determine the premium rate level necessary for actuarial soundness. The studies done by the Association show a required increase of 26% for residential rates and 21% for commercial rates in order to achieve this goal. The studies are based on assumptions as to events that may or may not occur, and the impossibility of predicting the timing or size of storms means that the studies will not reflect what actually happens in the future.

Having premium rates below those required to achieve actuarial soundness affects the ability of the Association to produce revenues and establish reserves to cover claims associated with Catastrophic Events, and results in the Association having access to a smaller pool of resources to pay claims than it would have if premium rates were established at levels required to establish actuarial soundness. The Association does not have the authority to make assessments to cover claims in excess of the funding provided by Chapter 2210, which amount is approximately $3.79 billion, and there is no guarantee that the Legislature would establish a mechanism for funding claims in excess of current funding mechanisms in the aftermath of a Catastrophic Event.

The Association is required to review rate adequacy at least annually and make a filing with TDI. The Association recently approved a 5% rate increase for 2015 as an incremental step to meeting the actuarial goal. The rate increase will be effective on January 1, 2015.

Dilution of Security in Pledged Revenues

Class 1 Public Securities may be issued in amounts of up to $1 billion per Catastrophe Year, and if such Class 1 Public Securities cannot be issued, Class 2 Public Securities may be issued pursuant to Section 2210.6136 of the Texas Insurance Code. Such Class 1 Public Securities would be payable from Pledged Revenues and such Class 2 Public Securities would be payable from premium surcharges (70%) and member assessments (30%). The amount of premium surcharges and member assessments that are paid or payable on the Class 2 Public Securities issued pursuant to Section 2210.6136 of the Texas Insurance Code would be subject to repayment from Pledged Revenues not contractually pledged to payment obligations on Class 1 Public Securities and from excess amounts released from the Obligation Revenue Fund. See "**TEXAS WINDSTORM INSURANCE ASSOCIATION PROGRAM – Public Securities**" herein.

TDI rules require that while there are outstanding Class 1 Public Securities or repayment obligations resulting from the issuance of Class 2 Public Securities pursuant to Section 2210.6136 of the Texas Insurance Code, the Association must include in a rate filing submitted to the Department, an analysis that demonstrates that the filed rates produce premium sufficient to provide for at least (i) the expected operating costs of the Association, including expected non-hurricane wind and hail losses and loss adjustment expenses and (ii) the expected repayment of Class 1 Public Securities and the expected repayment of Class 2 Public Securities.

If Class 1 Public Securities are issued following one or more Catastrophic Events, or if Class 2 Public Securities are issued pursuant to Section 2210.6136 of the Texas Insurance Code following one or more Catastrophic Events, the levels of debt service on all Public Securities (including the Series 2014 Bonds) payable from Pledged Revenues would be substantially increased in future years, which could have a material adverse impact on the ability of the Association to meet certain of its covenants, including the Net Coverage Revenues Covenant, and to pay debt service on its obligations, including the Series 2014 Bonds.

TDI Approval of Association Rates and Limitations on Rates

Under some circumstances, the rates charged by the Association must be approved by the Commissioner. Section 2210.355 of the Texas Insurance Code requires that rates be adopted after considering a number of factors including but not limited to the payment of public security obligations for Class 1 Public Securities (such as the Bonds) and debt service coverage obligations. The Commissioner is not required by law to approve rates requested by the Association in accordance with the Net Coverage Revenues Covenant. The Association may appeal the Commissioner's disapproval of a rate by requesting a hearing before the

Commissioner, and may appeal to a state district court in Travis County, Texas the Commissioner's decision resulting from that hearing.

An annual rate filing approved by the Commissioner generally may not reflect an average rate change that is more than 10% higher or lower than the rate for commercial or noncommercial windstorm and hail insurance in effect on the filing date. The rate may not reflect a rate change for an individual rating class that is 15% higher or lower than the rate in effect on the filing date. The Commissioner may remove these restrictions on a finding that a catastrophe loss or series of occurrences resulting in losses in the catastrophe area justify a need to ensure rate adequacy and availability of insurance. See "**THE ASSOCIATION – Association Rate Structure**".

The inability of the Association to guarantee the imposition of rates in accordance with the Net Coverage Revenues Covenant may have a substantial negative effect on its ability to meet its obligations on the Bonds as well as the market price and marketability of the Bonds.

Limitations of Loss Modeling Analysis

Loss distributions are used for a variety of purposes, including a determination of potential exposure based on subjective assumptions relating to environmental, demographic and economic factors. Such factors are inherently uncertain and the Association does not model all of the types of perils that may result in losses to the Association. Certain events that may result in losses to the Association are not considered in the development of the loss estimates contained in this Official Statement, including tropical storms and depressions of less than hurricane strength and other non-tropical wind events such as straight line wind and hailstorms. The assumptions and/or methodologies used in connection with the preparation of estimated losses derived by the Association may not constitute the exclusive set of reasonable assumptions, and the use of alternative assumptions and/or methodologies could yield results materially different from those generated or relied upon by the Association. Each model run is based on exposure information that will differ from the Association's actual exposure during the term of the Series 2014 Bonds based on future action the Association may take, including changes to existing policies and the writing of new business. Loss distribution models are not facts, projections or predictions of future losses, and should not be relied upon as such. Actual loss experience can materially differ from the loss estimates used by the Association in the course of its business operations.

Possible Changes in the Market for Property Insurance

The availability and affordability of property insurance in the State has been and may continue to be affected by changes in premiums charged, risk covered, deductible imposed, willingness of companies to write policies and the financial stability of such companies as well as regulatory requirements and statutory changes. One or more storms or other catastrophes in the future could result in the Association incurring additional deficits, which would further increase the cost of insurance. In addition, the cumulative effect of the increased premiums described above could have a material adverse effect on the level of real estate development and economic activity in the State and in the Coverage Area. In addition, the transfer of additional policies from the voluntary market to the Association may have a material adverse change on the financial condition and the operations of the Association. The Association cannot predict any market or legislative changes that may increase or decrease the number of additional policies to the Association. There is no assurance that voluntary market insurers will not discontinue covering property in the Coverage Area, causing additional growth in the Association's policy count and loss exposure, or increase covering property in the Coverage Area, causing a reduction in the Association's policy count and loss exposure.

Depopulation

Sections 2210.009 and 2210.053 of the Texas Insurance Code require the development of programs to encourage authorized insurers to write insurance voluntarily to minimize the use of the Association in providing insurance coverage ("depopulation"). The Association is currently developing two depopulation initiatives. The first is the Voluntary Coastal Wind Insurance Portal, which is an online facility where

insurers can obtain detailed information about current Association policies. The clearinghouse is designed to allow insurers to identify those policies that meet their respective underwriting standards and could be written in the voluntary market. The Voluntary Wind Insurance Portal is expected to be operational by the end of 2014.

In addition, insurers in the voluntary market have approached the Association regarding the assumption of more than 40,000 Association policies. The Association is currently developing a depopulation process to detail the requirements and procedures for considering these types of proposals. The Association expects to have requirements and procedures in place by the end of 2014.

Given the current cost of premiums in the voluntary insurance market, the Association does not currently anticipate that the depopulation programs, which would require the insured to accept a transfer to a new insurer, will have a material adverse affect on the premium revenues of the Association. However, insurers in the voluntary market are likely to target policies within the Coverage Area that have the lowest risk profiles, which could result in the dilution of the Association's premium base without proportionately reducing the Association's exposure in the areas most likely to be impacted by Catastrophic Events. The dilution of the premium base without a corresponding reduction in risks of loss in areas most likely to be affected by a Catastrophic Event may negatively impact the ability of the Association to collect sufficient premiums to cover losses and meet its obligations on the Bonds. If the Texas legislature were to adopt legislation making depopulation mandatory, as has been the case in some other coastal states, the effect on the Association's premium revenues and exposure would likely be negative.

Texas Department of Insurance Administrative Oversight

The Association is currently under TDI's administrative oversight. Administrative oversight is a regulatory tool under which the Commissioner has enhanced regulatory oversight over the Association's operations. TDI's exercise of this authority has varied since the beginning of administrative oversight. As administrative oversight has evolved, TDI has reduced or eliminated some specific authority concerning Association operations, such as TDI's review of legal settlements on claims litigation. While TDI's administrative oversight has not adversely affected the operations of the Association or its ability to collect the Pledged Revenues, no assurance can be given that such will be the case in the future. See "**THE ASSOCIATION – Texas Department of Insurance Administrative Oversight**".

Legislative Oversight Board

The Association is subject to oversight by the Windstorm Insurance Legislative Oversight Board (the "Legislative Oversight Board"). The duties of the Legislative Oversight Board include receiving information about rules proposed by TDI relating to windstorm and hail insurance and commenting to the Commissioner on the proposed rules and monitoring issues related to windstorm insurance in the State. The Legislative Oversight Board is required to report annually to the Governor, the Lieutenant Governor, and the Speaker of the House of Representatives. The Legislative Oversight Board's report must include an analysis of any problems identified by it and recommendations for any legislative action necessary to address those problems and to foster stability, availability, and competition within the windstorm insurance industry. While legislative oversight has not resulted in the passage of legislation that adversely affects the operations of the Association or its ability to collect the Pledged Revenues, no assurance can be given that such will be the case in the future. See "**THE ASSOCIATION – Legislative Oversight Board**".

Future Legislative and Regulatory Changes

The Association was created by the Legislature in 1971 and is regulated by TDI. Changes in the political climate in the State, particularly following a major hurricane, a series of hurricanes or other Catastrophic Events, could adversely affect the Association. The Legislature statutorily establishes the process and sources of funds for paying claims following a Catastrophic Event. There can be no assurance that the Legislature would not attempt to grant relief to policyholders or insurance companies in the aftermath of a Catastrophic Event. Additionally, it is possible that the Legislature would consider significant changes to

the process and source of funds for paying claims as it did in the 2009 legislative session following Hurricane Ike. Further, there is no guarantee that the Legislature would establish a mechanism for funding claims in excess of current funding mechanisms in the aftermath of a Catastrophic Event. See "**TEXAS WINDSTORM INSURANCE PROGRAM – Potential Claim Funding for 2014**". If funds are unavailable to pay claims, it would likely have a substantial negative effect on the financial viability of the Association and the willingness of property owners to purchase insurance through the Association. Changes in the laws or regulations of the State could have a material adverse effect on the financial position and the operations of the Association. The Legislature regularly meets for 140 days beginning on the second Tuesday of every odd-numbered year, and can meet at the call of the Governor for periods of up to 30 days.

TDI recently adopted revisions to the TDI Rules to implement legislation to provide loss funding for the Association due to a Catastrophic Event. The revisions to the TDI Rules address a number of issues related to the issuance, use and payment of Class1 Public Securities, Class 2 Pubic Securities and Class 3 Public Securities, private financing arrangements and the Catastrophe Fund.

TDI's interpretation of, or a change in its interpretation of, any law or regulation binding upon the Association, could also have a material adverse effect on the financial position and the operations of the Association.

Receivership

Chapter 443 of the Texas Insurance Code provides for a variety of circumstances in which the Commissioner may institute proceedings against an insurer, such as the Association, to place the insurer into receivership for purposes of rehabilitation. The grounds for filing a petition for receivership under Chapter 443 include when an insurer is insolvent or about to become insolvent. At times during the last two years, the Association's liabilities exceeded its admitted assets, making it potentially eligible under Chapter 443 to be placed into receivership for rehabilitation. Further, Section 2210.452 of the Texas Insurance Code required that at the end of each calendar or policy year, the Association shall use the net gain from operations, in excess of incurred losses, operating expenses, public security obligations, and public security administrative expenses, to make payments to the Catastrophe Fund and/or procure reinsurance, creating a greater potential for the Association to be considered eligible for receivership in the first half of each calendar year. Additionally, because of the accounting required for bond proceeds, any time the proceeds of public securities issued under Chapter 2210 of the Texas Insurance Code are used following a Catastrophic Event, the Association will meet the technical definition for insolvency under Chapter 443. Chapter 443 has not previously been applied to the Association or public securities issued under Chapter 2210 of the Texas Insurance Code, such as the Series 2014 Bonds. As such, no assurance can be given on how the Series 2014 Bonds would be affected by an action under Chapter 443. However, TDI has indicated that it believes the Series 2014 Bonds would be treated as secured claims in connection with a petition in receivership under Chapter 443. Additionally, in connection with any receivership proceedings, the State would arguably have to comply with Section 2210.616 of the Insurance Code, pursuant to which the State has pledged not to take or permit any action that would "in any way impair the rights and remedies of the public security owners until the public securities are fully discharged".

Reinsurance

Reinsurance is insurance that is purchased by an insurance company from another insurance company as a means of risk management. As with any financial transaction there is a risk that a counterparty will develop solvency issues or will otherwise become nonperforming. The Association minimizes this risk by setting minimum security standards for a reinsurer to be eligible to participate on its reinsurance program on a non-collateralized basis. Participating reinsurers must obtain a rating of "A-" or better from A.M. Best or Standard & Poor's and must demonstrate a minimum surplus of $150 million USD.

The availability to the Association of reinsurance is subject to a number of factors outside the control of the Association. These factors include loss history, market conditions and solvency of the insurance industry.

To the extent reinsurance is not available to the Association, the ability of the Association to satisfy claims after a Catastrophic Event may be adversely affected.

In addition, reinsurance covers liability incurred in excess of $1.9 billion for the period June 1, 2014 through May 31, 2015 and is payable only to the extent that liability is demonstrated to exceed $1.9 billion up to the amount of reinsurance available.

Lack of Marketability for the Series 2014 Bonds

The Series 2014 Bonds are not rated. When any Owner attempts to resell Series 2014 Bonds, the absence of a rating could adversely affect the marketability and market price thereof. See "RATINGS".

Limitation and Enforceability of Remedies

The remedies available to Owners of the Series 2014 Bonds upon an event of default under the Resolutions or the Financing and Pledge Agreement are limited to the seeking of specific performance in a writ of mandamus or other suit, action or proceeding compelling and requiring the Authority and its officers to observe and perform any covenant, condition or obligation prescribed in the Resolutions or the Financing and Pledge Agreement. **In no event will Owners have the right to have the maturity of the Series 2014 Bonds accelerated as a remedy in the event of a default by the Authority**. The enforcement of the remedy of mandamus may be difficult and time consuming. No assurance can be given that a mandamus or other legal action to enforce a default under the Resolutions or the Financing and Pledge Agreement would be successful.

Under current State law, the Authority has sovereign immunity from suit or liability for the purpose of adjudicating a claim to enforce the obligations with respect to the Series 2014 Bonds, or for damages for breach of such obligations. However, State courts have held that mandamus proceedings such as those discussed in the preceding paragraph are not prohibited by sovereign immunity.

The remedies available under the Resolutions and the Financing and Pledge Agreement are in many respects dependent upon regulatory and judicial actions that are often subject to discretion and delay. Under existing law, such remedies may not be readily available. In addition, enforcement of such remedies (i) may be subject to general principles of equity which may permit the exercise of judicial discretion, (ii) are subject to the exercise in the future by the State and its agencies and political subdivisions of the police power inherent in the sovereignty of the State, (iii) are subject, in part, to the provisions of the Texas Insurance Code, including the receivership and liquidation provisions of Chapter 443, and the United States Bankruptcy Code and other applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, and (iv) are subject to the exercise by the United States of the powers delegated to it by the federal Constitution. However, pursuant to the Act, the Association may not be considered a debtor authorized to file a petition or seek relief in bankruptcy under Title 11, United States Code. The various legal opinions to be delivered concurrently with the delivery of the Series 2014 Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Series 2014 Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

Litigation

The Association currently has litigation exposure resulting from claims decisions made in response to Hurricanes Dolly and Ike in 2008. The Association is governed by a four-year statute of limitations on any contract or fraud claim resulting from claim decisions made by the Association on claims asserted from these events.

Approximately 9,200 lawsuits were filed against the Association resulting from Hurricanes Dolly and Ike. As of July 1, 2014, the Association had less than 50 lawsuits remaining from Hurricanes Dolly and Ike. The Association has reserves of approximately $100 million set aside for current and future lawsuits filed and believes it has made reasonable provision for these lawsuits, however additional lawsuit settlements or judgments that are substantially greater than anticipated may require the Association to post additional reserves. The Association's current strategy is to resolve all pending actions for nominal amounts but the resolution could affect the Association's finances.

It is possible that additional litigation will develop in the future based on normal claims activity or the inability of the Association to pay claims in excess of available sources and the Association cannot reasonably determine how many lawsuits may be filed or the potential outcomes of such lawsuits. At this time, the Association has less than 45 lawsuits unrelated to Hurricanes Dolly or Ike. See "**THE ASSOCIATION – Legislative Changes to the Claims Dispute Process and Effects on Litigation**" herein.

Investment Risk

Moneys credited to the accounts and subaccounts for the Series 2014 Bonds under the Resolutions will be invested in certain investments. See "**APPENDIX C – EXCERPTS OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – The Master Resolution - Section 4.08 Investment of Funds**". Earnings on moneys and investments in the 2014 Pre-Event Program Subaccount are expected to be used to pay a portion of interest on the Series 2014 Bonds. However, such investments are exposed to changes in market value as well as price and yield volatility, so the value of such investments could decline below their purchase price and the investment earnings thereon could be lower than anticipated. Such a decline may result in insufficient funds being available, when needed, to pay policy claims and other liabilities and expenses, including debt service on the Series 2014 Bonds.

DEBT SERVICE AND COVERAGE SCHEDULES

Debt Service Schedule for the Series 2014 Bonds

The following table sets forth the annual debt service schedule for the Series 2014 Bonds. Interest is payable on January 1 and July 1 of each year, commencing with January 1, 2015.

Debt Service Schedule

Year ending December 31	Principal[1]	Interest	Total Debt Service
2015	$ -	$29,123,467	$29,123,467
2016	41,600,000	38,688,000	80,288,000
2017	43,800,000	36,504,000	80,304,000
2018	46,100,000	34,204,500	80,304,500
2019	49,900,000	30,401,250	80,301,250
2020	54,000,000	26,284,500	80,284,500
2021	58,500,000	21,829,500	80,329,500
2022	63,300,000	17,003,250	80,303,250
2023	68,600,000	11,781,000	80,381,000
2024	74,200,000	6,121,500	80,321,500
Total	$500,000,000	$251,940,967	$751,940,967

(1) Reflects mandatory sinking fund redemption installments of the 2017 and 2024 Term Bonds.

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Debt Service Coverage

The following table sets forth, for the fiscal years ended December 31, 2012 and 2013, the extent to which Net Premium and Other Revenue would provide coverage for the maximum annual debt service on the Series 2014 Bonds. The Net Premium and Other Revenue shown in the following table is historical information. Neither the Association nor the Authority can predict the actual Net Premium and Other Revenue that will be available in future years.

Debt Service Coverage
($ in thousands)

	2012	2013
Net Premium and Other Revenue[1]	$430,000	$460,000
Maximum Annual Debt Service Requirements on the Series 2014 Bonds[2]	$ 80,381	$ 80,381
Coverage of Maximum Annual Debt Service Requirements on the Series 2014 Bonds	5.35x	5.72x

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(1) Derived from premiums earned and net investment income earned as set forth in the audited statutory financial statements of the Association. See "**APPENDIX A-2 – TEXAS WINDSTORM INSURANCE ASSOCIATION STATUTORY FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**".

(2) See "**– Debt Service Schedule for the Series 2014 Bonds**" above.

THE FUNDS MANAGEMENT AGREEMENT

The Authority and the Texas Treasury Safekeeping Trust Company will enter into a Funds Management Agreement with respect to the Series 2014 Bonds. *The following is a summary of certain provisions of the Funds Management Agreement providing for the administration of the proceeds of the Series 2014 Bonds and availability of funds for the payment thereof. This summary does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the Funds Management Agreement. Copies of the Funds Management Agreement are available for examination at the Authority's office.*

The Funds Management Agreement provides for the deposit and use of Series 2014 Bond proceeds into the Series 2014 Subaccount of the Program Fund in the same manner as directed by the Resolutions and the Financing and Pledge Agreement. The Trust Company has covenanted to deposit money or securities received before 2:00 p.m. New York City time (1:00 p.m. Austin, Texas time) into the appropriate account and subaccount immediately upon receipt. With respect to money or securities received after 2:00 p.m. New York City time (1:00 p.m. Austin, Texas time), the Trust Company has covenanted to use its best efforts to deposit such money and securities before the end of the business day. To transfer funds between the accounts or subaccounts to pay expenses or other items authorized by the Authority, or to remit money in any fund, the Authority must instruct the Trust Company to do so not later than 9:00 a.m. New York City time (8:00 a.m. Austin, Texas time) on the day such funds are to be transferred or remitted. If the Authority delivers such instructions to the Trust Company after 8:00 a.m. Austin, Texas time, the Trust Company has covenanted to use its best efforts to complete the transfer or remittance before the end of the business day.

If, on any date, the Authority determines that money in the Debt Service Account is required to be transmitted for the payment of Obligations and the Debt Service Account does not contain sufficient money for such purpose, the Authority will transfer from money available pursuant to the Act an amount of immediately available money sufficient (together with the money then on deposit in the Debt Service Account) to pay such Obligations, at such time as will permit such Obligations to be timely paid.

The money held in the funds created pursuant to the Resolutions is to be invested (and reinvested) by the Trust Company in Authorized Investments (defined below) subject to the Act and applicable law to be used by the Trust Company for such investment purposes and in a manner consistent with the requirements of the applicable law. The investments of each such fund must be made under conditions that will provide money sufficient to timely meet the Authority's obligations under the Resolutions. The proceeds received from the disposition of any investment acquired with money from any fund, and any income from such investment, will be deposited into such fund. The Trust Company is required to maintain (or cause to be maintained) detailed records accurately reflecting all investment transactions and all fund activity, which records are subject to State audit. Any profits or losses from investment of any fund will be credited or charged, respectively, on a pro rata basis among the funds from which such investment was made. The Trust Company will not be held liable for any losses resulting from investments made in accordance with the Funds Management Agreement.

Money held in the funds created pursuant to the Resolutions are required to be fully invested at all times and reinvested by the Trust Company in Authorized Investments, selected at its own discretion, using prudent investment standards.

"Authorized Investments" include, any investment described under Sections 404.024 and 404.106, Texas Government Code, as amended from time to time, as an authorized investment for state funds, which currently include: (1) direct security repurchase agreements; (2) reverse security repurchase agreements; (3) direct obligations of or obligations the principal and interest of which are guaranteed by the United States; (4) direct obligations of or obligations guaranteed by agencies or instrumentalities of the United States government; (5) bankers' acceptances that: (A) are eligible for purchase by the Federal Reserve System; (B) do not exceed 270 days to maturity; and (C) are issued by a bank whose other comparable short-term obligations are rated in the highest short-term rating category, within which there may be subcategories or gradations indicating relative standing including such subcategories or gradations as "rating category" or "rated" by a nationally recognized statistical rating organization, as defined by Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 by the Securities and Exchange Commission ("Rule 2a-7"); (6) commercial paper that: (A) does not exceed 270 days to maturity; and (B) is issued by an entity whose other comparable short-term obligations are rated in the highest short-term rating category by a nationally recognized statistical rating organization; provided that the Comptroller may also purchase commercial paper with lower ratings to provide liquidity for commercial paper issued by the Comptroller or a State agency; (7) contracts written by the State Treasury in which the State Treasury grants the purchaser the right to purchase securities in the State Treasury's marketable securities portfolio at a specified price over a specified period and for which the treasury is paid a fee and specifically prohibits naked-option or uncovered option trading; (8) direct obligations of or obligations guaranteed by the Inter-American Development Bank, the International Bank for Reconstruction and Development (the World Bank), the African Development Bank, the Asian Development Bank, and the International Finance Corporation that have received the highest long-term rating categories for debt obligations by a nationally recognized statistical rating organization; (9) bonds issued, assumed, or guaranteed by the State of Israel; (10) obligations of a state or an agency, county, city, or other political subdivision of a state; (11) mutual funds secured by obligations that are described by Subdivisions (1) through (6) or by obligations consistent with Rule 2(a)-7, including pooled funds: (A) established by the Trust Company; (B) operated like a mutual fund; (C) with portfolios consisting only of dollar-denominated securities; (12) foreign currency for the sole purpose of facilitating investment by state agencies that have the authority to invest in foreign securities; (13) asset-backed securities, as defined in Rule 2a-7, that are rated at least A or its equivalent by a nationally recognized statistical rating organization and that have a weighted-average maturity of five years or less; and (14) corporate debt obligations that are rated at least A or its equivalent by a nationally recognized statistical rating organization and mature in five years or less from the date on which the obligations were "acquired," as defined by Rule 2a-7. See "**RISK FACTORS – Investment Risk**".

THE AUTHORITY

General

Under the Texas Public Finance Authority Act, the Authority's power is limited to financing and refinancing project costs for State agencies and institutions and does not affect the power of the relevant State agency or institution to carry out its statutory authority, including the authority of such agency or institution to construct buildings. The Texas Public Finance Authority Act directs State agencies and institutions to carry out their authority regarding projects financed by the Authority as if the projects were financed by legislative appropriation.

Pursuant to the Texas Public Finance Authority Act and Chapters 1401 and 1403, as amended, the Authority issues general obligation bonds and revenue bonds for designated State agencies (including certain institutions of higher education). In addition, the Authority currently administers three commercial paper programs, namely: the Master Lease Purchase Program, which is primarily for financing equipment acquisitions; a general obligation commercial paper program for certain general State government construction projects; and a general obligation commercial paper program for the Cancer Prevention and Research Institute of Texas ("CPRIT"). In addition, in 2003, the Authority created a nonprofit corporation to finance projects for eligible charter schools pursuant to Chapter 53, Texas Education Code, as amended.

The Authority has issued revenue bonds on behalf of the Texas Parks & Wildlife Department, the Texas Facilities Commission, the Texas State Preservation Board, the Texas Department of Criminal Justice, the Texas Health & Human Services Commission (which includes the Texas Department of State Health Services and the Texas Department of Health), the Texas Department of Agriculture, the Texas Workforce Commission, the Texas State Technical College System, the Texas Military Department (formerly Adjutant General's Department and Texas Military Facilities Commission), the Texas Historical Commission, Midwestern State University, Texas Southern University, the Stephen F. Austin State University and the Texas Windstorm Insurance Association. It has also issued general obligation bonds for the Texas Parks & Wildlife Department, the Texas Facilities Commission, the Texas Department of State Health Services, the Texas Department of Criminal Justice, the Texas Department of Aging and Disability Services, the Texas Department of Public Safety, the Texas Juvenile Justice Department (formerly Texas Youth Commission and Texas Juvenile Probation Commission), the Texas National Research Laboratory Commission, the Texas Historical Commission, the Texas School for the Blind and Visually Impaired, the Texas School for the Deaf, the Texas Department of Agriculture, the Texas Military Department (formerly Adjutant General's Department), the Texas Department of Transportation, the Texas Military Preparedness Commission, and CPRIT.

Before the Authority may issue bonds for the acquisition or construction of a building, the Legislature must have authorized the specific project for which the bonds or other obligations are to be issued and the estimated cost of the project or the maximum amount of bonded indebtedness that may be incurred by the issuance of bonds. The Texas Supreme Court, in *Texas Public Building Authority v. Mattox*, 686 S. W. 2d 924 (1985), ruled that revenue bonds issued by the Authority do not constitute debt of the State within the meaning of the State Constitution. As set forth in the Texas Public Finance Authority Act, revenue obligations issued thereunder are not a debt of the State or any State agency, political corporation or political subdivision of the State and are not a pledge of the full faith and credit of any of them.

Relationship with the Association

The Authority's power is limited to facilitating the issuance of Public Securities on behalf of the Association for the purposes permitted under the Authorizing Law and the Resolutions, and such power does not affect the power of the Association to carry out its statutory authority regarding the on-going administration of the Association or the Association Program. Accordingly, the Authority is not currently and will not be responsible for supervising the on-going administration of the Association or the Association Program. The Authority has, however, agreed to take certain actions relating to the Bonds and the Transaction Documents, including the enforcement of certain of the Association's obligations under the Financing and Pledge

Agreement. See "**SECURITY FOR THE SERIES 2014 BONDS – Special Covenants of the Authority**".

The Authority is issuing the Series 2014 Bonds and taking other actions described herein at the request of the Association and is relying upon the indemnification provisions contained in a Letter of Representation delivered by the Association as an inducement to the Authority to execute the Purchase Contract for the Series 2014 Bonds. The Authority has hired consultants and attorneys, including its Municipal Advisor, Co-Bond Counsel, and Disclosure Counsel, to assist the Authority in the issuance of the Series 2014 Bonds, which consultants and attorneys are not consultants and attorneys of the Association. Except for the information concerning the Authority contained under this caption "**THE AUTHORITY**" and the caption "**LITIGATION – The Authority**", the Authority has not independently verified the information concerning or provided by the Association in this Official Statement, and the Authority and its consultants and attorneys make no representation or warranty as to the accuracy or completeness of such information. All findings and determinations by the Authority are and have been made by it for its own internal uses and purposes in performing its duties under the Authorizing Law. The Authority and its consultants and attorneys are not responsible for providing any purchaser or owner of Series 2014 Bonds with any other information relating to the Series 2014 Bonds or any of the parties or transactions referred to in this Official Statement or for the accuracy or completeness of any such information obtained by any purchaser or owner.

Payments on the Series 2014 Bonds are payable solely from the Pledged Revenues as described in this Official Statement and are not in any manner payable wholly or partially from any funds or properties otherwise belonging to the Authority. See "**SECURITY FOR THE SERIES 2014 BONDS**". Although the Authority is the issuer of the Series 2014 Bonds as required by the Act, the Authority and its consultants and attorneys have not performed an analysis of the Association's financial condition or its ability to repay the Obligations when due. See "**RISK FACTORS**". By its issuance of the Series 2014 Bonds, neither the Authority nor its consultants and attorneys in any manner, directly or indirectly, guarantee, warrant or endorse the creditworthiness of the Association or the investment quality or value of the Series 2014 Bonds.

Authority Executives

The Authority is currently governed by the Board, which is composed of seven members appointed by the Governor with the advice and consent of the State Senate. The Governor designates one member to serve as Chair at the will of the Governor. Board members whose terms have expired continue to serve on the Board until a successor therefor has qualified for office. The current members of the Board, the office held by each member and the date on which each member's term expires are as follows:

Name	Position	Term Expires (February 1)
Billy M. Atkinson, Jr.	Chair	2017
Ruth C. Schiermeyer	Vice-Chair	2019
Gerald Alley	Secretary	2019
Mark W. Eidman	Member	2015
Rodney K. Moore	Member	2015
Robert T. Roddy, Jr.	Member	2017
Walker N. Moody	Member	2019

The Authority generally employs approximately 14 employees, including an Executive Director, who is charged with managing the affairs of the Authority, subject to and under the direction of the Board.

Lee Deviney, Executive Director. The Board appointed Mr. Lee Deviney as the Executive Director of the Authority on June 5, 2014. Mr. Deviney previously served as the Chief Financial Officer of the Texas Economic Development and Tourism within the Office of the Governor since September 1, 2011. He has previously held CFO or similar positions at the Texas Lottery and the Texas Education Agency, and he previously served as Assistant Commissioner for the Texas Department of Agriculture (TDA). Prior to his

appointment as Assistant Commissioner at TDA, Mr. Deviney served as Interim Executive Director and Director of Operations for the Authority, and he was a Budget Examiner for the Texas Legislative Budget Board. Mr. Deviney has a Bachelor's degree in Economics from the University of Texas at Austin and a Master's degree in Business Administration from St. Edwards University.

John Hernandez, Deputy Director. Mr. Hernandez leads the Finance and Accounting Team, which is responsible for debt service budgeting, arbitrage rebate compliance, the State of Texas Master Lease Program, general ledgers, financial reporting, and information technology. Mr. Hernandez and his team also provide support for new debt issuance of fixed rate and variable rate debt. Mr. Hernandez holds a B.A. in finance from St. Edwards University in Austin.

Pamela Scivicque, Director of Business Administration. Ms. Scivicque currently leads the Business Administration Team, which is responsible for legislative reporting, procurement, accounting, budgeting, and risk and property management. Ms. Scivicque attended Texas State University, Texas Tech's Southwest School of Governmental Finance and the Texas Fiscal Officers' Academy.

Kevin Van Oort, General Counsel. Mr. Van Oort was hired as the Authority's General Counsel on September 2, 2014. Previously, Mr. Van Oort served as Senior Tax Counsel for the Office of the Texas Attorney General; Deputy General Counsel for the Texas Comptroller of Public Accounts; and General Counsel for the Texas Legislative Budget Board. Mr. Van Oort took his bachelor's degree in Economics at the University of Nebraska and his J.D. at The University of Texas.

Sunset Review

In 1977, the Legislature enacted the Texas Sunset Act (Chapter 325, Texas Government Code, as amended) (the "Sunset Act"), which provides that virtually all agencies of the State, including the Authority, are subject to periodic review of the Legislature and that each agency subject to sunset review will be abolished unless the Legislature specifically determines to continue its existence. The next scheduled review of the Authority is during the Texas legislative session in 2023. The Texas Public Finance Authority Act, as amended by the 82nd Legislature, provides that if the Authority is not continued in existence, the Authority will cease to exist as of September 1, 2023; however, the Texas Sunset Act also provides, unless otherwise provided by law, that the Authority will exist until September 1 of the following year in order to conclude its business.

Pursuant to the Sunset Act, the Legislature specifically recognizes the State's continuing obligation to pay bonded indebtedness and all other obligations incurred by various State agencies, including the Authority. Accordingly, in the event that a future sunset review were to result in the Authority being abolished, the Governor would be required by law to designate an appropriate State agency that would continue to carry out all covenants contained in the Bonds and in all other obligations, including lease, contract and other written obligations of the Authority. The designated State agency would provide payment from the sources of payment of the Bonds in accordance with the terms of the Bonds and would provide payment from the sources of payment of all other obligations in accordance with their terms, whether from a State general obligation pledge, revenues or otherwise, until the principal of and interest on the Bonds are paid in full and all other obligations, including lease, contract and other written obligations, are performed and paid in full.

Texas Bond Review Board

With certain exceptions, securities issued by State agencies, including those issued by the Authority, must be approved by the Texas Bond Review Board (the "Bond Review Board") prior to their issuance. The Bond Review Board is composed of the Governor, the Lieutenant Governor, the Speaker of the Texas House of Representatives, and the Comptroller. The Governor is the Chair of the Bond Review Board. Each member of the Bond Review Board may, and frequently does, act through a designee. The Series 2014 Bonds are exempt from the formal approval process pursuant to 34 Tex. Admin. Code §181.9(a)(5). However, pursuant to 34 Tex. Admin. Code §181.9(b), an issuer of exempted securities must still comply

with Bond Review Board rules for the submittal of a "Notice of Intention to Issue" (34 Tex. Admin. Code §181.2) and "Submission of Final Report" (34 Tex. Admin. Code §181.5). The Authority complied with the Bond Review Board rule for submittal of a Notice of Intention to Issue, and will comply with the requirement to file a Final Report following issuance. By letter dated September 4, 2014, the Bond Review Board approved the Series 2014 Bonds.

State General Revenues

The Pledged Revenues are not general revenue appropriations and the Obligation Revenue Fund in which Pledged Revenues are deposited is held in the custody of the Trust Company outside of the State Treasury as specified by the Authorizing Law. State general revenues are not available to pay debt service on the Series 2014 Bonds. Any potential State revenue shortfall would not directly affect the Series 2014 Bonds or the Authority's ability to make debt service payments thereon. The Authorizing Law prohibits the State from taking action that would limit or restrict the rights of the Association to fulfill its obligations to repay the Series 2014 Bonds or to impair the rights or remedies of the Owners of the Series 2014 Bonds.

THE ASSOCIATION

General

When Hurricane Celia struck the Texas coast on August 3, 1970, many insurance companies ceased to write policies along the Texas gulf coast. The following year, the Legislature created the Texas Catastrophe Property Insurance Association (now called the Texas Windstorm Insurance Association) as a means of providing property and casualty insurance to residents of the Gulf Coast who were unable to obtain insurance coverage.

The Association now operates under Chapter 2210. The primary purpose of the Association is to provide an adequate market for windstorm and hail insurance in the Coverage Area. The Association is intended to serve as the residual insurer of last resort and functions in a manner so as to not be a direct competitor in the private market.

The Association is a validly existing state association of all property and casualty insurance companies authorized to write coverage in the State, other than insurers prevented by law from writing coverages available through the Association on a statewide basis. As a condition of an insurer's authority to engage in the business of insurance in the State, such insurers must be a member of the Association. An insurer that ceases to be a member of the Association remains liable on insurance contracts entered into during the insurer's membership in the Association to the same extent and effect as if the insurer's membership in the Association had not been terminated. An insurer that becomes authorized to write and is engaged in writing insurance that requires the insurer to be a member of the Association becomes a member of the Association on the January 1 following the effective date of that authorization.

The top 20 insurers that were members of the Association (based on percentage of participation in the Association) in 2013 represented 84.7% of total participation in the Association. The top five insurers that were members of the Association in 2013 (Allstate Insurance Group, State Farm Group, Farmers Insurance group, USAA Group and Liberty Mutual Insurance Companies) represented 51.0% of total participation in the Association.

Each member of the Association must participate in insured losses and operating expenses of the Association, in excess of premium and other revenue of the Association, in the proportion that the net direct premiums of that member during the preceding calendar year bears to the aggregate net direct premiums by all members of the Association. For purposes of determining participation in the Association, two or more members that are subject to common ownership or that operate in the State under common management or control are treated as a single member (sometimes referred to herein as an "insurer group"). An insurer that becomes a member of the Association and that has not previously been a member of the Association is not subject to participation in any insured losses and operating expenses of the Association

in excess of premium and other revenue of the Association until the second anniversary of the date on which the insurer first becomes a member of the Association.

Funding Association Losses in Excess of Premium and Other Revenues

In 2009 and 2011 the Legislature passed legislation to address the funding for Association losses in excess of premium and other revenues by allowing for certain financing arrangements, the issuance of public securities and the payment of public security obligations. The sources for funding catastrophe losses in excess of premium and other revenue include: (i) payments from available reserves and the Catastrophe Fund; (ii) payments from the proceeds of Class 1 Public Securities issued in an amount not to exceed $1 billion per catastrophe year, which securities are repaid from net premium and other revenue; (iii) payments from the proceeds of Class 2 Public Securities issued in an amount not to exceed $1 billion per catastrophe year to be repaid from non-recoupable member insurer assessments (30% of the cost) and a surcharge collected by property and casualty insurers and assessed on certain policy holders whose property is located in the Coverage Area (70% of the cost); (iv) payments from the proceeds of Class 3 Public Securities issued in an amount not to exceed $500 million per catastrophe year to be repaid through non-recoupable member insurer assessments and (v) payments from reinsurance. On a finding by the Commissioner that all or a portion of the Class 1 Public Securities cannot be issued, the Commissioner may cause the issuance of Class 2 Public Securities. See "**TEXAS WINDSTORM INSURANCE ASSOCIATION PROGRAM**".

The proceeds of public securities issued by the Authority on behalf of the Association are held in trust for the exclusive use and benefit of the Association in funding the Association Program.

Association Board of Directors and Executives

The Association is governed by a ten member board of directors appointed by the Commissioner, of which nine members are voting members. Four members of the Association's board of directors must be representatives of the insurance industry and four members must, as of the date of the appointment, reside in the Coverage Area coastal counties. At least one of the coastal-resident members appointed by the Commissioner must be a property and casualty agent who is licensed under the Texas Insurance Code and is not a captive agent. The Commissioner must also appoint one member of the board who must be a representative of an area of the State that is not located in the seacoast territory and one nonvoting member of the board to advise the board regarding issues relating to the inspection process. All members must have demonstrated experience in insurance, general business, or actuarial principles sufficient to make the success of the Association probable. The board of directors of the Association is responsible and accountable to the Commissioner. The members of the board serve three year staggered terms, and an individual may serve on the board of directors for not more than three consecutive full terms. The current members of the board of directors, the office held by each member and the date each member's term expires are named on page x hereof.

The Association employs 210 employees as of May 31, 2014, including a General Manager appointed by the board of directors who manages the operations of the Association. Key executive personnel include:

John W. Polak, CPCU, General Manager. Mr. Polak was named General Manager of the Association on February 14, 2012, after serving as interim general manager since April 2011. Prior to coming to the Association, Mr. Polak served in a variety of executive and managerial roles at several insurance companies starting in 1974, including National Interstate Insurance Company, Argo Group and CNA. Mr. Polak has a BA in Psychology from Hamilton College and is a Chartered Property Casualty Underwriter.

James C. Murphy, FCAS, MAAA, Chief Actuary and Vice President, Enterprise Analytics. Mr. Murphy currently serves as Chief Actuary and Vice President, Enterprise Analytics for the Association and has served in an actuarial role since joining the Association in 2003. Mr. Murphy's responsibilities include all pricing and filing support, setting and opining on reserves for all lines, catastrophe planning and modeling,

and reinsurance and other catastrophe financing. He is a Fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries.

Peter H. Gise, Chief Financial Officer. Mr. Gise was named Controller of the Association in December 2011 and has been the Association's Chief Financial Officer since March 2014. Prior to that date, Mr. Gise served as a segment chief financial officer for Argo Group from 2002; as manager and financial business advisor for United States Automobile Association from 1990 and as a financial officer for various affiliates of Academy Insurance Group from 1983. Mr. Gise has a B.S. in Accounting from the University of Delaware and started his career at Coopers & Lybrand.

David Durden, Vice President – Legal. Mr. Durden has been employed by the Association as Vice President – Legal since June 2012. Prior to joining the Association, Mr. Durden served as Deputy Commissioner – Public Affairs, at TDI. Mr. Durden was responsible for coordinating all facets of public relations, communication and the tracking of emerging issues. Mr. Durden began his tenure at TDI in 1985 and served in various capacities. During the 81st Legislative Session, Mr. Durden served as Senior Insurance Policy Advisor to Speaker Joe Straus advising Speaker Straus on all bills involving the business of insurance, including worker's compensation and assisting House members with issues regarding insurance legislation. Mr. Durden received his BA in economics from Northwestern University and his JD from The University of Texas School of Law.

Texas Department of Insurance Administrative Oversight

On February 28, 2011, the Association was placed under administrative oversight by TDI pursuant to Chapter 441 (Supervision and Conservatorship), Texas Insurance Code, and in conjunction with Chapter 401, subchapter B (Examination of Carriers), Texas Insurance Code. The term "administrative oversight" is not defined in the statute, but it is a regulatory tool under which the Commissioner has enhanced regulatory oversight over the operations of the Association. TDI's overall role and involvement in the operations of the Association have varied since the beginning of administrative oversight. Specific authority and powers of TDI have been established in various letters the Association has received from TDI. As administrative oversight has evolved, TDI has reduced or eliminated some specific authority over the Association operations, such as review of legal settlements on claims litigation. Under the most recent letter describing the scope of TDI's administrative oversight, which is dated March 14, 2014, the Association must take certain actions, which include the following: submitting executive level personnel decisions to TDI for review, comment and objection or non-objection before finalization; submitting non-standard contracts, such as the documents associated with the Series 2014 Bonds, and reinsurance and reinstatement arrangements to TDI for review, comment and objection or non-objection before execution; developing and maintaining communications plans with the Association Board and the Legislature; providing financial, operating and litigation reports to TDI on a monthly basis; and participating in quarterly financial and operational update meetings between Association management and TDI personnel. TDI has not established any criteria or a timeline for releasing the Association from administrative oversight. See "**RISK FACTORS – Texas Department of Insurance Administrative Oversight**".

The Association must also submit to the Commissioner, the Legislative Oversight Board, the Governor, the Lieutenant Governor and the Speaker of the House of Representatives a report evaluating the extent to which the Board met primary objectives specified in Chapter 2210.

While the Association is the insurance mechanism by which Texas coastal residents may secure windstorm and hail coverage, TDI is the state agency charged with ensuring that building codes and standards are met for the property being insured. Additions and alterations to existing property, as well as all new construction, must secure state certification that the property meets applicable building codes to be eligible for windstorm and hail coverage through the Association.

Legislative Oversight Board

In 2009, the Legislature established the Legislative Oversight Board, which is composed of eight members, including four members of the State Senate appointed by the Lieutenant Governor, including the chairperson of the Senate Business and Commerce Committee, who serves as co-chairperson of the board and four members of the State House of Representatives appointed by the Speaker of the House of Representatives. The duties of the Legislative Oversight Board include receiving information about rules proposed by TDI relating to windstorm insurance and commenting to the Commissioner on the proposed rules and monitoring issues related to windstorm insurance in the State, including: (i) the adequacy of rates; (ii) the operation of the Association; (iii) the availability of coverage; and (iv) reviewing recommendations for legislation proposed by TDI or the Association. Not later than November 15 of each even-numbered year, the Legislative Oversight Board must report on its activities to the Governor, the Lieutenant Governor, the Speaker of the House of Representatives. The Legislative Oversight Board's report must include an analysis of any problems identified by the board and recommendations for any legislative action necessary to address those problems and to foster stability, availability, and competition within the windstorm insurance industry. See "**RISK FACTORS – Legislative Oversight Board**".

Sunset Review

The Association is subject to sunset review under the Sunset Act during the same period as state agencies scheduled to be abolished in 2019. However, the Association is not subject to abolishment under the Sunset Act.

In addition, on or before December 31 of each even-numbered year, the board of directors of the Association must submit to the Commissioner, the appropriate committees of each house of the legislature, and the Sunset Advisory Commission a written report relating to the operations of the Association during the preceding biennium. The report must include any proposed changes in the laws relating to regulation of the Association and a statement of the reasons for the changes; and any information regarding Association operations or procedures that is requested by TDI to be addressed in the report.

Association Rate Structure

The Association makes rate filings according to two different procedures but with common rating standards. The Association is required to make an annual rate filing, and it is authorized to make additional rate filings as appropriate. Chapter 2210 specifically requires the rate filings to include expenses for Class 1 Public Securities including debt service and debt service coverage requirements and for such amounts to be considered when setting rates.

General Rate Requirements

Required Standards. Under Section 2210.355, Texas Insurance Code, as amended, the following must be considered when setting TWIA's rates: (i) rates must be reasonable, adequate, not unfairly discriminatory, and nonconfiscatory as to any class of insurer; (ii) each provision regarding a rate, classification, standard, or premium must be made without prejudice to, or prohibition of, provision by the Association for consent rates on individual risks; (iii) commissions paid to agents for a windstorm and hail insurance policy issued by the Association must comply with the commission structure approved by the Commissioner under Chapter 2210 and must be reasonable, non-discriminatory, and nonconfiscatory; (iv) the past and prospective loss experience within and outside the State of hazards for which insurance is made available through the Plan of Operation, if any; (v) expenses of operation, including acquisition costs; (vi) a reasonable margin for profit and contingencies; (vii) payment of public security obligations for Class 1 Public Securities, including the additional amount of any debt service coverage determined by the Association to be required for the issuance of marketable public securities; and (viii) all other relevant factors, within and outside the State.

Permissible Procedures. The Association may consider the following when setting rates: (i) risks may be grouped by classification when establishing rates and minimum premiums; (ii) classification rates may be modified to produce rates for individual risks in accordance with rating plans that establish standards for measuring variations in those risks on the basis of any or all of subsections (iv) through (vii) in the Required Standards paragraph above; (iii) classification rates may include rules for classification of risks insured and rate modifications to those classifications; (iv) recognized catastrophe models; and (v) rating territories may be established with varying rates among the territories.

Experience Data. By June 1 of each year, TDI must provide to the Association and other interested parties the experience data to be used in establishing the rates in that year.

Limitation on Certain Rate Changes. An annual rate filing approved by TDI may not reflect an average rate change that is more than 10% higher or lower than the rate for commercial or noncommercial windstorm and hail insurance in effect on the filing date. The rate may not reflect a rate change for an individual rating class that is 15% higher or lower than the rate in effect on the filing date. TDI may remove these restrictions on a finding that a catastrophe loss or series of occurrences resulting in losses in the catastrophe area justify a need to ensure rate adequacy and availability of insurance.

The Association Recommendations. If accompanied by proposed rate credits, the Association may make recommendations to TDI that would result in a reduction of coverages or an increase in an applicable deductible.

Rate Filings While Class 1 Public Securities or Repayment Obligations Are Outstanding. While there are outstanding Class 1 Public Securities, or there are repayment obligations under 28 Texas Administrative Code §5.4127(b) of this division (relating to Payment of Class 2 Public Securities Issued Under §5.4126 and Repayment of Premium Surcharges and Member Assessments), the Association must consider its obligations for the payment of Class 1 Public Securities and the repayment of Class 2 Public Securities, including the additional amount of any debt service coverage that the association determines is required for the issuance of marketable public securities in developing its rates. The Association must also include in a rate filing submitted to TDI an analysis that demonstrates that the filed rates produce premium sufficient to provide for at least the expected operating costs of the association, including expected nonhurricane wind and hail losses and loss adjustment expenses and the expected payment of Class 1 Public Security obligations. The Association must also include in a rate filing to TDI a cost component in the rates sufficient to at least provide for the expected payment of Class 1 payment obligations and the expected repayment of premium surcharge and member assessment repayment obligations during the period in which the rates will be in effect, the expected repayment of Class 2 Public Securities, including any contractual coverage amount the association determines is required for the issuance of marketable public securities, during the period in which the rates will be in effect.

Annual Rate Filings

Required Annual Filing. By August 15 of each year, the Association must file with TDI a proposed manual rate for all types and classes of risks written by the Association. However, before approving or disapproving an annual filing, TDI must provide all interested parties a reasonable opportunity to review the filing, obtain copies of the filing, and submit written comments or information relating to the filing to TDI. All written comments or information related to the annual filing must be submitted to TDI by October 1 and TDI must approve or disapprove the filing by October 15 or it is considered approved. Other than the required annual filing date of a proposed manual rate by the Association, these requirements do not apply to a manual rate used by the Association that did not require prior approval from TDI.

Additional Supporting Information. TDI must submit to the Association all requests for additional supporting information relating to the annual filing within 21 days after receipt. The request must be made before the earlier of September 1 or 16 days after the day the filing is received by TDI. The Association must provide the additional information to TDI within five days after the request is delivered.

Amended Annual Filing. If an annual filing is disapproved by TDI, the Association may file an amended annual filing with TDI that conforms to all criteria stated in the written disapproval within 30 days. If the amended filing is not disapproved within 30 days after the date of receipt by TDI, the amended filing is considered approved. Before approving or disapproving an amended annual filing, TDI must provide all interested parties a reasonable opportunity to review the filing, obtain copies of the filing, and submit written comments or information relating to the filing to TDI.

File and Use Manual Rate Filings The Association may use a manual rate filed without prior approval from TDI once a year if: (i) the filing is made at least 30 days before any use or delivery for use; (ii) the filed rate does not exceed 105% of the rate in effect on the filing date; and (iii) the filed rate does not reflect a rate change for an individual rating class that is 10% higher than the rate in effect for that rating class on the filing date.

Other Association Rate Filings

The Association may make other rate filings as it deems appropriate. For those filings the following procedures apply:

Required Filings. The Association must file with TDI each manual of classifications, rules, rates, including condition charges, and each rating plan, and each modification of those items. The filing must indicate the character and the extent of the coverage contemplated and must be accompanied by the policy and endorsement forms proposed to be used. After the filing has been made, TDI must approve or disapprove the filing in writing within 30 days or it is considered approved.

File and Use Rate Filings. The Association may use a filed rate without prior approval from TDI if: (i) the filing is made at least 30 days before any use or delivery for use; (ii) the filed rate does not exceed 105% of the rate in effect on the filing date; (iii) the filed rate does not reflect a rate change for an individual rating class that is 10% higher than the rate in effect for that rating class on the filing date; and (iv) TDI has not disapproved the filing.

Expense Data. TDI must value the loss and loss adjustment expense data to be used for a filing not earlier than March 31 of the previous year.

Policy Forms

Policy forms, endorsements and manual rules are approved specifically for use by the Association. Title 28, Texas Administrative Code, Section 5.4911 was adopted to establish a procedure to approve the Association policy forms, endorsements, manual rules, and application forms and requires submissions to be posted for public comment and allows for a public hearing if requested.

Overview of Policy Coverage and Terms

The Association provides three types of policies: Dwelling (Residential), Commercial, and Mobile Home. The Association's policies provide coverage for direct physical loss caused only by wind and hail. Additional optional coverages are available including additional living expenses for residential policies and business income coverage for commercial policies. The Association does not write liability insurance.

Current maximum limits of liability are $1,773,000 for dwellings, $4,424,000 for commercial structures, and $84,000 for mobile homes. The Association files annual updates to the maximum limits applicable to dwellings and commercial structures with the Department. The maximum limits available on these Association's policies are set each year by the Commissioner. The updates are based on changes in construction costs indices.

As of June 30, 2014, 83.4% of all residential structures insured by the Association were at or below $250,000 in coverage. 55.3% of commercial structures were insured at or below $250,000 and 80.9% of all insured structures were at or below $250,000.

The average residential premium for an Association policy as of June 30, 2014 was $1,433. The average residential policy has approximately $170,000 in dwelling coverage.

Residential Policy Coverage

The following are general residential policy coverage descriptions, which are subject to change. The provisions and language of any specific policy would provide the exact coverage including conditions and exclusions, pertaining to an individual insured property.

An Association dwelling policy provides coverage for the replacement cost or the actual cash value of the insured property. The maximum combined limit for all coverages, including buildings, contents, other structures and additional living expenses under an Association dwelling policy is currently $1,773,000 per risk.

An Association mobile home policy covers the replacement cost of the insured property. The maximum limit for combined building and contents coverage under the Association mobile home policy is currently $84,000. Mobile homes must be certified as being blocked and tied to be eligible for coverage.

Residential policies may have either fixed-dollar or percentage deductibles, which are applied separately for each structure or contents item insured on the policy. Fixed dollar deductibles are available at either $100 or $250. Percentage deductibles, calculated as a percentage of the amount of insurance on each structure or contents item, are also available and range from 1% to 5%. The standard, or default, deductible is 1%. Deductibles in excess of 1% are subject to premium credits.

Commercial Policy Coverage

The following are general commercial policy coverage descriptions, which are subject to change. The provisions and language of any specific policy would provide the exact coverage including conditions and exclusions, pertaining to an individual insured property.

An Association commercial policy provides coverage for the replacement cost or the actual cash value of the insured property. The maximum combined limit for all coverages, including buildings, contents, other structures and business interruption under an Association commercial policy is currently $4,424,000 per risk.

Commercial policies may have percentage deductibles, applied separately for each structure or contents item insured on the policy, of either 1%, 2% or 5%. Deductibles are calculated as a percentage of the amount of insurance on each structure or contents item. The standard, or default, deductible is 1%.

Business income coverage is available via endorsement and may provide up to $100,000 of additional coverage. Coverage amounts are further limited to no more than $1,000 per day and no more than 365 days. Combinations where the daily limit and number of days exceed $100,000 are not permitted. Increased cost of construction coverage is also available to cover the increased cost of construction due to the enforcement of any ordinance or law. Amounts of coverage are available at either 5%, 10%, 15% or 25% of the amount of insurance on each structure item.

Flood Exclusion

Association policies do not cover loss or damage caused by floods, storm surge or other similar occurrences. Flood (and other peril) exclusion notices are included within all policies issued by the Association. An example of such policy exclusion language reads as follows:

> We do not cover under any and all circumstances loss or damage caused by or resulting from flood, surface water, waves, storm surge, tides, tidal water, tidal waves, tsunami, seiche, overflow of streams or other bodies of water, or spray from any of these, all whether driven by wind or not.

Applicant Requirements

An applicant for new or renewal coverage on a structure must comply with applicable inspection process regulations and eligibility requirements. Additionally, an applicant must comply with each of the following requirements to be eligible for coverage: (i) Declination—(A) the applicant must have at least one declination of coverage from a licensed insurer that is writing new or renewal property insurance policies that provide windstorm and hail insurance coverage in the Coverage Area coastal counties or (B) the applicant must have an offer of a policy from a licensed insurer that includes coverage for the perils of windstorm and hail that is not substantially equivalent to the coverage offered by the Association; (ii) Flood Insurance—if the structure was constructed, altered, remodeled or enlarged on or after September 1, 2009 and is located in certain designated zones, the applicant must provide evidence of a flood insurance policy, if flood insurance is available through the National Flood Insurance Program; however, this requirement does not apply to repairs; and (iii) Underwriting—the applicant must comply with all other underwriting requirements for the Association. As a residual market mechanism, the Association cannot decline coverage for eligible properties provided that they are in insurable condition.

Policy Issuance

The Association's policies are not issued on an automatic renewal basis. Insureds must resubmit an application at each policy expiration.

All of the Association's policies are for an annual term, with two exceptions. Builders risk policies (policies covering a building in the process of construction) are issued for a term coincident with the construction of the property, in 30 day increments. Short term policies (binders) may be written in special circumstances where there is a question regarding eligibility. These binders are converted to annual policies once eligibility is confirmed or may be cancelled on either a pro rata or flat basis if eligibility cannot be confirmed. Policies are only issued if the insured has paid the full year's premium.

Storm Coverage Restriction Rule

No new or increased coverage may be bound, or application for new or increased coverage accepted, by the Association after 12:01 a.m. on the day when a windstorm designated as a hurricane by the United States Weather Bureau is in the Gulf of Mexico or within the boundaries of 80 degrees west longitude and 20 degrees north latitude, until the General Manager determines that the storm no longer threatens property within the designated catastrophe area of the Association.

Assessment History

As a result of changes made by the Legislature in 2009 to the Act, the Association no longer has authority to assess member companies to pay losses incurred prospectively. However, under the Act, to the extent Class 2 Public Securities and Class 3 Public Securities are issued, the Act authorizes the Association to assess member companies to pay 30% of the debt service on such Class 2 Public Securities and 100% of the debt service on Class 3 Public Securities. See "**TEXAS WINDSTORM INSURANCE ASSOCIATION PROGRAM - Public Securities**". No assessments have been made since 2008.

The Association has made four assessments to its member insurers to pay for excess losses resulting from a major loss event. Member assessments were allocated based on net premium written and billed by the Association and could not be recouped from policyholders. An assessment of $157 million was made to member insurers to pay for excess losses resulting from Hurricane Alicia, which struck Galveston Island in

1983. $57 million of the assessment was subject to premium tax credits based on the statutory funding structure at the time.

An assessment of $100 million was made to member insurers to pay for excess losses resulting from Hurricane Rita, which struck the upper Texas coast in 2005 causing major damage in Jefferson, Chambers, and Galveston counties. Corresponding assessments for each insurer group for the $100 million assessed, ranged from $2,954 to $14,798,886.

An assessment of $100 million was made to member insurers to pay for excess losses resulting from Hurricane Dolly, which struck the lower Texas coast in July of 2008 causing major damage in Cameron and Willacy counties. Corresponding assessments for each insurer group for the $100 million assessed, ranged from $500 to $13,761,000.

An assessment of $430 million was made to member insurers to pay for excess losses resulting from Hurricane Ike, which struck the Texas coast in September of 2008 causing major damage in Brazoria, Chambers, Galveston, Harris, Jefferson, and Matagorda counties. $230 million of the assessment is subject to premium tax credits based on the statutory funding structure in place at the time. Corresponding assessments for each insurer group for $200 million of the assessed amount, ranged from $2,000 to $30,484,000. Corresponding assessments for each insurer group for the remaining $230 million of the assessed amount, ranged from $2,300 to $35,056,600.

Legislation Changes to the Claims Dispute Process and Effects on Litigation

House Bill 3 ("HB 3"), enacted by the Legislature in 2011 significantly changed the processes for Association claim disputes. Under the claims process established in HB3, a claim must be filed (except in rare circumstances) no later than one year from the date of the damage. If the Association accepts the claim in whole or in part, the claimant may dispute the amount paid by seeking appraisal under the policy. If the Association denies the claim in whole or in part, the claimant must provide notice to the Association of its intent to bring a lawsuit against the Association concerning the partial or full denial of the claim within two years of the notice of partial or full denial of the claim, and the Association may require the claimant to submit the dispute to alternative dispute resolution. The only issues a claimant may raise in a suit brought against the Association are whether the Association's denial of coverage was proper and what amounts of damages the claimant is entitled to, if any. There are no limits on the amount of consequential damages that a claimant may recover under common law in an action against the Association. In addition to consequential damages, a claimant may recover double damages if the claimant proves that the Association mishandled the claimants claim under certain specified circumstances. Claimants may no longer seek treble damages under Section 541.152 of the Texas Insurance Code or pursue claims under Chapter 542 of the Texas Insurance Code. As of July 1, 2014, 14 lawsuits have been filed on policies issued on or after November 27, 2011 (the effective date of HB 3). These 14 lawsuits represent less than 1% of the approximately 13,000 claims filed since that date. In contrast, the Association's litigation rate for claims arising out of Hurricane Ike was approximately 10%.

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Table 1: Direct Insurance in Force by County

The following table lists the amount of windstorm and hail insurance in force for each county in the Coverage Area, as of June 30, 2014.

Table 1: Direct Insurance in Force by County

County	Residential	Commercial	Governmental	Total
Aransas	$ 1,899,450,980	$ 372,853,452	$ 20,407,707	$ 2,292,712,139
Brazoria	13,526,422,977	1,087,174,051	174,443,142	14,788,040,170
Calhoun	837,514,971	151,698,288	11,029,443	1,000,242,702
Cameron	3,245,685,632	1,537,166,856	348,443,379	5,131,295,867
Chambers	1,754,110,372	105,409,273	5,416,523	1,864,936,168
Galveston	19,617,436,507	2,929,822,598	545,548,997	23,092,808,102
Harris[(1)]	984,731,237	118,172,410	431,931	1,103,335,578
Jefferson	8,046,222,255	1,093,950,556	59,950,068	9,200,122,879
Kenedy	6,282,500	796,900	654,441	7,733,841
Kleberg	230,435,040	40,928,270	30,094,834	301,458,144
Matagorda	1,072,670,559	156,930,836	10,531,289	1,240,132,684
Nueces	10,815,363,633	2,790,487,377	108,831,295	13,714,682,304
Refugio	74,478,898	22,430,602	1,123,406	98,032,906
San Patricio	2,018,897,835	248,350,394	66,428,292	2,333,676,521
Willacy	101,144,281	22,694,871	4,973,242	128,812,394
Total	$64,230,847,677	$10,678,866,733	$1,388,307,990	$76,298,022,399

(1) Includes only those portions of Harris County designated as a Coverage Area.
Source: Association.

Table 2: Residential Wind Insurance Market Share by County

The following table lists the residential wind insurance market share by county for calendar years 2009 through and including 2012. The amounts are measured by insured exposures for each county covered by the Association, for dwelling and contents.

Table 2: Residential Wind Insurance Market Share by County

County	2009	2010	2011	2012	2013
Aransas	81%	81%	82%	83%	84%
Brazoria	59	61	69	70	69
Calhoun	74	75	77	77	78
Cameron	30	32	32	33	33
Chambers	51	56	64	64	65
Galveston	78	79	81	84	84
Harris[(1)]	48	51	54	67	66
Jefferson	43	47	59	68	69
Kenedy	13	14	15	26	30
Kleberg	25	29	28	28	26
Matagorda	44	51	59	64	65
Nueces	65	66	67	68	69
Refugio	25	27	27	27	26
San Patricio	65	65	67	69	70
Willacy	24	29	29	28	31
Total Coverage Area	59%	61%	66%	68%	69%

(1) Includes only those portions of Harris County designated as a Coverage Area.
Source: TDI.

Table 3: Rate Change History

The following table shows the dates and percentages of rate changes for both residential and commercial policies of the Association for the years 2002 through and including January 1, 2014. See "**THE ASSOCIATION – Rate Structure**".

Table 3: Rate Change History

Effective Date of Rate Change	Residential	Commercial
2002	0.0%	5.0%
January 1, 2003	0.0	10.0
January 1, 2004	9.6	10.0
January 1, 2005	0.0	10.0
January 1, 2006	0.0	5.0
July 1, 2006	3.1	8.0
January 1, 2007	4.2	3.7
February 1, 2008	8.2	5.4
February 2, 2009[(1)]	12.3	15.6
2010	0.0	0.0
January 1, 2011	5.0	5.0
January 1, 2012	5.0	5.0
January 1, 2013	5.0	5.0
January 1, 2014	5.0	5.0
January 1, 2015[(2)]	5.0	5.0

(1) 2009 - 10% cap removed due to catastrophes.
(2) Rate increase adopted by the Association Board on August 2014, to become effective January 1, 2015.
Source: Association.

Table 4: Historical Insurance Data

The following table shows the liability in force at year end, gross written premiums and policy counts of the Association for the years ended December 31, 2002 through 2013 and for the six months ended June 30, 2014.

Table 4: Historical Insurance Data

($ in thousands)

Year	Liability In Force Year End[(1)(3)]	Gross Written Premiums	Policy Count[(3)]
2002	$16,003,045	$ 72,968	85,688
2003	18,824,457	87,987	96,420
2004	20,796,656	102,384	103,503
2005	23,263,934	113,928	109,693
2006	38,313,022	196,833	143,999
2007	58,641,546	315,139	216,008
2008	58,585,060	331,049	215,537
2009	61,700,891	382,342	230,545
2010	67,452,357	385,550	242,644
2011	71,083,333	403,748	255,945
2012	74,186,949	443,480	266,726
2013	76,921,369	472,739	270,814
2014[(2)]	76,298,022	239,387	266,137

(1) Includes buildings and contents.
(2) As of June 30, 2014. Information is reported quarterly.
(3) Policy counts and in-force liability grew sharply between 2005 and 2007 due to the withdrawal of private insurers from the Coverage Area following Hurricanes Katrina and Rita.
Source: Association.

Table 5A and 5B: Catastrophe Modeling Loss Estimates[1]

The following tables present hurricane occurrence loss estimates prepared by the Association based on two leading industry hurricane models: the AIR Touchstone and RMS RiskLink hurricane models. These models simulate thousands of hurricane scenarios and compare the simulated hurricanes to the Association's insured business to calculate the probability of losses of certain sizes, both for single occurrences and aggregate losses for the entire year. The results below were generated using Association exposures as of December 31, 2013. The models used to derive the loss estimates set forth in Tables 5A and 5B assume stochastic event rates (near-term), exclude storm surge and include demand surge (loss amplification). The assumptions and methodologies used in deriving the loss estimates may not constitute an exclusive set of reasonable assumptions. The loss estimates are used by the Association in the course of its business operations. All amounts are shown in millions of dollars. See also "**RISK FACTORS – Limitations of Loss Modeling Analysis**".

Table 5A: Hurricane Occurrence Loss Estimates–AIR[2]

Not to Exceed Probability	Return Period	Single Occurrence	Annual Aggregate
80.0%	5	$ 148 M	$ 169 M
90.0%	10	$ 513 M	$ 562 M
95.0%	20	$ 1,206 M	$ 1,313 M
98.0%	50	$ 2,847 M	$ 3,020 M
99.0%	100	$ 4,992 M	$ 5,125 M
99.6%	250	$ 7,593 M	$ 7,825 M
99.8%	500	$10,439 M	$10,669 M

Table 5B: Hurricane Occurrence Loss Estimates–RMS[2]

Not to Exceed Probability	Return Period	Single Occurrence	Annual Aggregate
80.0%	5	$ 141 M	$ 164 M
90.0%	10	$ 563 M	$ 616 M
95.0%	20	$ 1,256 M	$ 1,363 M
98.0%	50	$ 2,771 M	$ 2,954 M
99.0%	100	$ 4,336 M	$ 4,566 M
99.6%	250	$ 7,157 M	$ 7,480 M
99.8%	500	$10,172 M	$10,424 M

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(1) All models assume stochastic event rates, exclude storm surge, and include demand surge (loss amplification).

(2) The loss estimates were prepared by the Association based on certain accepted industry models of Air Worldwide Corporation and Risk Management Solutions. The modeled estimates were prepared by the Association from model output prepared by Guy Carpenter & Company LLC in connection with their provision of reinsurance brokerage services and not in connection with the preparation of this Official Statement. Tables 5A and 5B reflect the professional judgment and analysis of the Association in respect to certain hurricane occurrence loss estimates derived from industry models. Neither Air Worldwide Corporation, Risk Management Solutions, Inc., nor Guy Carpenter & Company LLC have reviewed, commented on, or approved this Official Statement or the information contained herein.

Source: Association.

Table 6: Historical Loss History

Accident Year	Earned Premium	Losses and LAE Incurred	Hurricane Ike	Losses & LAE Net of Ike	Other Hurricanes	Ordinary claims Net of Ike/Hurricanes	Loss/ LAE Ratio
2004	$ 94,972,000	$ 6,638,000	0	$ 6,638,000	0	$ 6,638,000	7.0%
2005	112,216,000	175,211,000	0	175,211,000	170,000,000	5,211,000	4.6%
2006	149,188,000	5,386,000	0	5,386,000	0	5,386,000	3.6%
2007	264,890,000	20,693,000	0	20,693,000	0	20,693,000	7.8%
2008	321,937,000	2,965,806,000	2,640,000,000	325,806,000	315,000,000	10,806,000	3.4%
2009	357,906,000	12,694,000	0	12,694,000	0	12,694,000	3.5%
2010	383,424,000	22,862,000	0	22,862,000	0	22,862,000	6.0%
2011	385,000,000	112,594,000	0	112,594,000	0	112,594,000	29.2%
2012	429,594,000	85,462,000	0	85,462,000	0	85,462,000	19.9%
2013	456,630,000	91,713,000	0	91,713,000	0	91,713,000	20.1%
TOTAL	$2,955,757,000	$3,499,059,000	$2,640,000,000	$859,059,000	$485,000,000	$374,059,000	12.7%

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Table 7: Association's Historical Named Storm Paid Loss Development Experience(1)(2)(3)

As of December 31, 2013

	12/31, Year of Occurrence	3/31, 1st Year Following	9/30, 1st Year Following	3/31, 2nd Year Following	9/30, 2nd Year Following	9/30, 3rd Year Following	Total Paid Loss
Ike, 2008, S.S. Category 2, Most Damaging Event							
Paid Loss	$627,102,351	$982,207,817	$1,172,829,750	$1,280,567,545	$1,546,870,705	$1,821,463,511	$2,247,861,399
% Total Paid	27.9%	43.7%	52.2%	57.0%	68.8%	81.0%	
Dolly, 2008, S.S. Category 1, 2nd Most Damaging Event							
Paid Loss	$189,914,334	$224,459,322	$241,524,949	$252,411,014	$258,289,894	$273,213,358	$290,767,599
% Total Paid	65.3%	77.2%	83.1%	86.8%	88.8%	94.0%	
Rita, 2005, S.S. Category 3, 3rd Most Damaging Event							
Paid Loss	$80,397,254	$114,590,657	$136,530,619	$142,054,155	$143,799,782	$145,515,617	$148,485,011
% Total Paid	54.1%	77.2%	91.9%	95.7%	96.8%	98.0%	
Claudette, 2003, S.S. Category 1, 4th Most Damaging Event							
Paid Loss	$13,849,419	$14,393,139	$14,833,177	$14,969,311	$14,977,472	$14,981,029	$14,990,774
% Total Paid	92.4%	96.0%	98.9%	99.9%	99.9%	99.9%	
Humberto, 2007, S.S. Category 1, 5th Most Damaging Event							
Paid Loss	$6,432,057	$7,586,381	$8,640,944	$8,798,954	$8,934,165	$10,134,796	$10,340,232
% Total Paid	62.2%	73.4%	83.6%	85.1%	86.4%	98.0%	
Frances, 1998, Tropical Storm, 6th Most Damaging Event							
Paid Loss	$6,535,207	$8,003,460	$8,722,154	$8,856,764	$8,889,201	$9,217,185	$9,238,769
% Total Paid	70.7%	86.6%	94.4%	95.9%	96.2%	99.8%	
Fay, 2002, Tropical Storm, 7th Most Damaging Event							
Paid Loss	$4,628,670	$5,177,254	$5,509,938	$5,542,428	$5,558,514	$5,559,676	$5,560,370
% Total Paid	83.2%	93.1%	99.1%	99.7%	100.0%	100.0%	
Bret, 1999, S.S. Category 3, 8th Most Damaging Event							
Paid Loss	$4,119,029	$4,690,307	$5,224,189	$5,252,343	$5,289,542	$5,421,810	$5,431,806
% Total Paid	75.8%	86.3%	96.2%	96.7%	97.4%	99.8%	
Hermine, 2010, Tropical Storm, 9th Most Damaging Event							
Paid Loss	$3,081,990	$3,303,020	$3,687,740	$4,453,481	$4,657,535	$4,785,642	$5,075,642
% Total Paid	60.7%	65.1%	72.7%	87.7%	91.8%	94.3%	
Alex, 2010, S.S. Category 2, 10th Most Damaging Event							
Paid Loss	$1,766,350	$2,015,792	$2,247,443	$2,401,240	$2,421,930	$2,780,930	$2,799,930
% Total Paid	63.1%	72.0%	80.3%	85.8%	86.5%	99.3%	

(1) Source: The Association. The historical paid loss development experience above is for the top 10 highest losses suffered by the Association from a Named Storm.

(2) Paid loss numbers exclude loss adjustment expenses.

(3) Loss development is not complete for Hurricanes Dolly and Ike. As of December 31, 2013, estimated ultimate losses (including IBNR but excluding loss adjustment expenses) for these two storms were $297,430,544 and $2,330,656,909, respectively.

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Table 8: Reinsurance Program

The Association has a reinsurance program in place, effective June 1, 2014 through May 31, 2015, that provides up to approximately $1.45 billion in coverage for losses above $1.9 billion. The reinsurance program consists of two layers, approximately $1.35 billion in excess of $1.9 billion and $100 million in excess of $3.25 billion. The first layer consists of approximately $950 million in traditional reinsurance and $400 million of collateralized reinsurance supported by the issuance of a catastrophe bond. See also "**RISK FACTORS – Reinsurance**" herein.

All reinsurers listed below participate on a pro rata basis within the first traditional layer. The second layer is traditional reinsurance, but is reinsured by a single reinsurer (Everest Reinsurance Company). The following table shows the individual reinsurers' participation in the program, including ratings and total line amounts signed.

Table 8: Participating Reinsurers

Reinsurer Name	AM Best Rating	S&P Rating	Total Line Amount Signed
North America			
Everest Reinsurance Company[1]	A+	A+	$ 140,000,500
Odyssey Reinsurance Company	A	A-	24,705,000
Paladin Catastrophe Management o/b/o Protective Insurance Company	A+		1,188,000
QBE Reinsurance Corporation	A	A+	2,848,500
Swiss Re Underwriter Agency, Inc. o/b/o Swiss Reinsurance America Corporation	A+	AA-	9,504,000
Transatlantic Reinsurance Company	A	A+	7,128,000
North America			**$ 185,374,000**
Bermuda			
Ace Tempest Reinsurance Ltd.	A++	AA	$ 29,646,000
Allianz Risk Transfer AG (Bermuda)	A	AA-	192,375,000
Arch Reinsurance Ltd	A+	A+	6,750,000
Ariel Re Bermuda Limited o/b/o Lloyd's Syndicate 1910			18,994,500
Aspen Bermuda Limited	A	A	7,600,500
AXIS Specialty Limited	A+	A+	34,195,500
Catlin Insurance Company Ltd.	A	A	9,504,000
DaVinci Reins thru Renaissance U/W Mgrs	A	AA-	40,999,500
Hamilton Re, Ltd. Formerly S.A.C. Re Ltd	A-		2,376,000
Hannover Rück SE (Pillar business)			9,504,000
Hiscox Insurance Company (Bermuda) Limited	A		8,775,000
Horseshoe Re Limited, o/b/o its Separate Account FC0006[2]			38,002,500
Kane (SAC) Limited o/b/o Series 2 - 2014 Segregated Account[2]			7,600,500
Markel Bermuda Limited	A	A	14,256,000
Partner Reinsurance Company Ltd.	A+	A+	18,994,500
Platinum Underwriter Bermuda Limited	A	A-	9,504,000
Poseidon Re Ltd[2]			77,625,000
Renaissance Reinsurance Ltd.	A+	AA-	61,006,500
Tokio Millennium Re AG, Bermuda (Credit Suisse business)			4,995,000
Validus Reinsurance, Ltd.	A	A	45,130,500
XL Re Ltd	A	A+	18,994,500
Bermuda			**$656,829,000**
Continental Europe			
Hannover Rück SE[3]	A+	AA-	$400,000,000
Tokio Millennium Re AG	A++	AA-	10,125,000

Reinsurer Name	AM Best Rating	S&P Rating	Total Line Amount Signed
Continental Europe			**$410,125,000**
Other Foreign			
Secquaero Re Vinyard IC Limited[(2)]			$ 1,903,500
Solidum Re Dom IC Limited[(2)]			$ 15,201,000
Other Foreign			**$ 17,104,500**
Asia			
Korean Reinsurance Company	A	A-	$ 2,376,000
Asia			**$ 2,376,000**
Lloyd's Markets			
Lloyd's Underwriter Syndicate No. 0623 AFB	A s		$ 810,000
Lloyd's Underwriter Syndicate No. 0958 CNP	NR		2,027,700
Lloyd's Underwriter Syndicate No. 1084 CSL	NR		4,050,000
Lloyd's Underwriter Syndicate No. 1274 AUL			3,375,000
Lloyd's Underwriter Syndicate No. 1414 ASC	NR		40,000,500
Lloyd's Underwriter Syndicate No. 1458 RNR			11,475,000
Lloyd's Underwriter Syndicate No. 1955 BAR			8,100,000
Lloyd's Underwriter Syndicate No. 2001 AML	A+ s		40,000,500
Lloyd's Underwriter Syndicate No. 2003 SJC	A s		10,125,000
Lloyd's Underwriter Syndicate No. 2007 NVA	NR		3,375,000
Lloyd's Underwriter Syndicate No. 2623 AFB	A s		3,874,500
Lloyd's Underwriter Syndicate No. 2791 MAP			15,462,495
Lloyd's Underwriter Syndicate No. 4020 ARK			12,420,000
Lloyd's Underwriter Syndicate No. 4444 CNP			8,110,800
Lloyd's Markets			**$ 163,206,495**
Guy Carpenter & Company Limited			
Amlin Bermuda, a branch of Amlin AG	A	A	$14,985,000
Guy Carpenter & Company Limited			**$ 14,985,000**
Total			**$1,449,999,995**

(1) Everest Reinsurance Company also is the sole reinsurer for the $100 million second layer of traditional reinsurance, which is included in the Total Line Amount Signed.

(2) These markets utilize collateralized capacity. Rather than relying on their surplus and ratings, these markets post collateral in the amount of the total line signed in a reinsurance trust for the duration of the contract.

(3) Hannover Rück SE is the reinsurer for the collateralized reinsurance supported by the catastrophe bond.

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Table 9: Summary of Financial Results

The following table presents summary statement of financial results of the Association for the fiscal years ended December 31, 2009 through 2013 and budgeted numbers for the fiscal year ending December 31, 2014. These summaries have been derived by the Association from its audited financial statements for such periods. The summaries for the fiscal years ended December 31, 2012 and 2013 should be read in conjunction with the audited financial statements and related notes set forth in **APPENDICES A-1** and **A-2** to this Official Statement. See also "**FINANCIAL STATEMENTS**" for a discussion of the accounting principles applicable to the Association's audited financial statements.

Table 9: Summary of Financial Results[(1)]

($ in thousands)

	2009	2010	2011	2012	2013	2014 Budget
Premiums Written	$382,342	$385,549	$403,748	$443,480	$472,739	$500,555
Premiums Earned	357,906	383,424	385,000	429,594	456,630	487,456
Reinsurance Ceded	31,694	(31,694)	(63,219)	(108,472)	(161,499)	(113,933)
Net Premiums Earned	389,600	351,730	321,781	321,122	295,130	373,523
Loss and Loss Adjustment Expense Incurred	(183,974)	252,685	202,539	401,873	3,975	82,926
Commissions	61,148	60,158	54,731	62,702	67,086	71,475
Premium/Maintenance Taxes	7,035	7,609	7,826	8,610	9,300	9,712
General Expenses	19,716	17,831	19,108	22,271	24,138	26,987
Total Deductions	(96,075)	338,283	284,204	495,456	104,499	191,099
Net Underwriting (Loss)/Gain	485,675	13,447	37,577	(174,334)	190,631	182,424
Investment Income/Other Income	700	759	500	874	3,254	1,536
Assessment Income	909	(1,681)	(37)	0	0	0
Catastrophe Fund Income	0	0	0	0	0	0
Interest and Issuance Expenses and Note Defeasance	0	0	0	(6,631)	(147)	(15,716)
Total Investment/Other Income	1,609	(922)	463	(5,757)	3,106	(14,180)
Net (Loss) Income Before Catastrophe Fund Expense and Federal Income Tax Expense (Benefit)	487,284	12,525	38,040	(180,091)	193,737	168,244
Catastrophe Fund Expense	120,414	16,808	20,587	(0)	22,830	169,639
Federal Income Tax Expense (Benefit)	57,000	(57,926)	25	0	0	0
Net (Loss) Income	$309,870	$ 53,643	$ 17,428	($180,091)	$170,907	($1,395)

Totals may not add due to rounding.
Source: Association.

(1)The financial results presented above were impacted by changes in the loss and loss adjustment expenses of Hurricane Ike as follows:

2009. There was a reduction in Hurricane Ike net loss estimate of approximately $198 million resulting in a decrease to Loss and Loss Adjustment and an increase to Net Underwriting (Loss) Gain.

2010. There was an increase in Hurricane Ike net loss estimate of approximately $198 million, resulting in an increase to Loss and Loss Adjustment and a decrease to Net Underwriting (Loss) Gain.

2011. There was an increase in Hurricane Ike net loss estimate of approximately $100 million, resulting in an increase to Loss and Loss Adjustment and a decrease to Net Underwriting (Loss) Gain.

2012. There was an increase in Hurricane Ike net loss estimate of approximately $320 million, resulting in an increase to Loss and Loss Adjustment and a decrease to Net Underwriting (Loss) Gain.

2013. There was a reduction in Hurricane Ike and net loss estimate of approximately $107 million, resulting in a decrease to Loss and Loss Adjustment and an increase to Net Underwriting (Loss) Gain.

Employee Benefits Plan

The Association has a defined benefits pension plan, which covers employees from their date of hire, if the employee is scheduled to work at least 1,000 hours in a twelve month period. Pension benefits are based on years of service and the employee's compensation during the five highest consecutive years' earnings from the last ten years of employment. An employee's benefits vest five years from the date of hire. The Association makes contributions to the plan that comply with the minimum funding provisions of the Employee Retirement Income Security Act, and such contributions are considered general expenses of the Association. For additional information on the Association's defined benefits plan, see "**APPENDIX A-1 – TEXAS WINDSTORM INSURANCE ASSOCIATION FINANCIAL STATEMENTS – Note 10**" and "**APPENDIX A-2 – TEXAS WINDSTORM INSURANCE ASSOCIATION STATUTORY FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION – Note 8**". The Association also provides a defined contribution 401(k) plan to eligible employees after six months of employment.

LEGAL MATTERS

General

The delivery of the Series 2014 Bonds is subject to the Authority furnishing the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Series 2014 Bonds and the approving opinions of the Attorney General of Texas to the effect that the Series 2014 Bonds are valid and legally binding obligations of the Authority, and the legal opinion of Winstead PC and Andrews Kurth LLP, Co-Bond Counsel, to the effect that the Series 2014 Bonds, issued in compliance with the provisions of the Resolutions, are valid and legally binding obligations of the Authority, subject to applicable provisions of bankruptcy, reorganization and other similar matters affecting the rights of creditors or by general principles of equity that permit the exercise of judicial discretion. The form of Co-Bond Counsel's opinion is attached hereto as APPENDIX D. Co-Bond Counsel was engaged by, and only represents, the Authority. In their capacity as Co-Bond Counsel, such firms have reviewed the statements and information appearing under the captions and subcaptions "**PLAN OF FINANCING – Authority for Issuance**," "**THE SERIES 2014 BONDS**" (other than under the subheading "**Book-Entry-Only System**"), "**SECURITY FOR THE SERIES 2014 BONDS**," "**THE FUNDS MANAGEMENT AGREEMENT**," "**CERTAIN TAX MATTERS RELATING TO THE SERIES 2014 BONDS**," "**LEGAL INVESTMENTS IN TEXAS**," "**REGISTRATION AND QUALIFICATION OF SERIES 2014 BONDS FOR SALE**," "**CONTINUING DISCLOSURE OF INFORMATION**" (other than under the subheading "Compliance with Prior Agreements") and in **APPENDIX B** and **APPENDIX C** hereto, and such firms are of the opinion that the statements and information contained under such captions and subcaptions provide an accurate and fair description of the Series 2014 Bonds, the Resolutions, the Financing and Pledge Agreement, Deposit Account Control Agreement and the Funds Management Agreement and are correct as to matters of law. In the absence of a General Counsel to the Authority, Co-Bond Counsel will provide certain supplemental opinions requested by the Underwriters. Certain legal matters will be passed upon for the Association by its Vice President – Legal and by Fulbright & Jaworski LLP, a member of Norton Rose Fulbright. Certain legal matters will be passed upon for the Authority by McCall, Parkhurst & Horton L.L.P., Disclosure Counsel to the Authority, whose legal fees are contingent on the sale and delivery of the Series 2014 Bonds. Winstead PC, Andrews Kurth LLP, Fulbright & Jaworski LLP and McCall, Parkhurst & Horton L.L.P. each represents the Underwriters from time to time on matters not related to the Series 2014 Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Bracewell & Giuliani LLP, whose legal fees are contingent on the sale and delivery of the Series 2014 Bonds. Bracewell & Giuliani LLP represents the Authority and the Association from time to time on matters not related to the Series 2014 Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Series 2014 Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Forward Looking Statements

The statements contained in this Official Statement, and in any other information provided to the reader by the Association or the Authority that are not purely historical, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the Association's or the Authority's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Association and/or the Authority on the date hereof, and the Association and the Authority assume no obligation to update any such forward-looking statements. It is important to note that the Association's and the Authority's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including students, customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Association and the Authority. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

CERTAIN TAX MATTERS RELATING TO THE SERIES 2014 BONDS

General

The following is a general summary of United States federal income tax consequences of the purchase and ownership of the Series 2014 Bonds. The discussion is based upon laws, Treasury Regulations, rulings and decisions now in effect, all of which are subject to change (possibly with retroactive effect) or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached herein. The discussion below does not purport to deal with United States federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a particular investor in the Series 2014 Bonds in light of the investor's particular personal investment circumstances or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax exempt organizations, financial institutions, broker-dealers, and persons who have hedged the risk of owning the Series 2014 Bonds). The summary is therefore limited to certain issues relating to initial investors who will hold the Series 2014 Bonds as "capital assets" within the meaning of section 1221 of the Code, and acquire such Series 2014 Bonds for investment and not as a dealer or for resale. This summary addresses certain federal income tax consequences applicable to beneficial owners of the Series 2014 Bonds who are United States persons within the meaning of section 7701(a)(30) of the Code ("United States persons") and, except as discussed below, does not address any consequences to persons other than United States persons. Prospective investors should note that no rulings have been or will be sought from

the IRS with respect to any of the U.S. federal income tax consequences discussed below, and the discussion below is not binding on the IRS.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE SERIES 2014 BONDS.

Stated Interest on the Series 2014 Bonds

The stated interest on the Series 2014 Bonds will be included in the gross income, as defined in section 61 of the Code, and in the net investment income, for purposes of the 3.8% Medicare tax imposed by section 1411 of the Code, of the beneficial owners thereof and be subject to U.S. federal income taxation when paid or accrued, depending on the tax accounting method applicable to the beneficial owners thereof.

Disposition of Series 2014 Bonds

A beneficial owner of Series 2014 Bonds will generally recognize gain or loss on the redemption, sale or exchange of a Series 2014 Bond equal to the difference between the redemption or sales price (exclusive of the amount paid for accrued interest) and the beneficial owner's adjusted tax basis in the Series 2014 Bond. Generally, the beneficial owner's adjusted tax basis in a Series 2014 Bond will be the beneficial owner's initial cost, increased by any original issue discount previously included in the beneficial owner's income to the date of disposition and reduced by any amortized bond premium. Any gain or loss generally will be capital gain or loss and will be long-term or short-term, depending on the beneficial owner's holding period for the Series 2014 Bond.

Backup Withholding

Under section 3406 of the Code, a beneficial owner of the Series 2014 Bonds who is a United States person, as defined in section 7701(a)(30) of the Code, may, under certain circumstances, be subject to "backup withholding" with respect to current or accrued interest on the Series 2014 Bonds or with respect to proceeds received from a disposition of Series 2014 Bonds. This withholding applies if such beneficial owner of Series 2014 Bonds: (i) fails to furnish to the payor such beneficial owner's social security number or other taxpayer identification number ("TIN"); (ii) furnishes the payor an incorrect TIN; (iii) fails to report properly interest, dividends, or other "reportable payments" as defined in the Code; or (iv) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such beneficial owner is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain beneficial owners of the Series 2014 Bonds. Beneficial owners of the Series 2014 Bonds should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations

Under sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the current rate of 30% (subject to change) on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business. Assuming the interest income of such beneficial owners of Series 2014 Bonds is not treated as effectively connected income within the meaning of section 864 of the Code, such interest will be subject to 30% withholding, or any lower rate specified in an income tax treaty, unless such income is treated as portfolio interest. Interest will be treated as portfolio interest if: (i) the beneficial owner provides a statement to the payor certifying, under penalties of perjury, that such beneficial owner is not a United States person and providing the name and address of such beneficial owner; (ii) such

interest is treated as not effectively connected with the beneficial owner's United States trade or business; (iii) interest payments are not made to a person within a foreign country which the IRS has included on a list of countries having provisions inadequate to prevent United States tax evasion; (iv) interest payable with respect to the Series 2014 Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; (v) such beneficial owner is not a controlled foreign corporation, within the meaning of section 957 of the Code; and (vi) such beneficial owner is not a bank receiving interest on the Series 2014 Bonds pursuant to a loan agreement entered into in the ordinary course of the bank's trade or business.

Assuming payments on the Series 2014 Bonds are treated as portfolio interest within the meaning of sections 871 and 881 of the Code, then no withholding under section 1441 and 1442 of the Code and no backup withholding under section 3406 of the Code is required with respect to beneficial owners or intermediaries who have furnished Form W-8 BEN, Form W-8 EXP or Form W-8 IMY, as applicable, provided the payor does not have actual knowledge or reason to know that such person is a United States person.

Reporting of Interest Payments

Subject to certain exceptions, interest payments made to beneficial owners with respect to Series 2014 Bonds will be reported to the IRS. Such information will be filed each year with the IRS on Form 1099 which will reflect the name, address, and TIN of the beneficial owner. A copy of Form 1099 will be sent to each beneficial owner of a Series 2014 Bond for U.S. federal income tax purposes.

LEGAL INVESTMENTS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Series 2014 Bonds are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended), the Series 2014 Bonds may have to be assigned a rating of at least "A" or its equivalent as to the investment quality by a national rating agency before the Series 2014 Bonds are eligible investments for sinking funds or other public funds of such political subdivisions. The Series 2014 Bonds are not rated and the Authority does not intend to seek a rating on the Series 2014 Bonds.

No representation is made that the Series 2014 Bonds will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The Association and the Authority have made no investigation of other laws, rules, regulations, or investment criteria that might apply to any such persons or entities or that might otherwise limit the suitability of the Series 2014 Bonds for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Series 2014 Bonds for such purposes. Neither the Authority nor the Association have made any review of laws in other states to determine whether the Series 2014 Bonds are legal investments for various institutions in those states.

REGISTRATION AND QUALIFICATION OF SERIES 2014 BONDS FOR SALE

No registration statement relating to the Series 2014 Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Series 2014 Bonds have not been approved or disapproved by the United States Securities and Exchange Commission, nor has the United States Securities and Exchange Commission passed upon the accuracy or adequacy of the Official Statement. The Series 2014 Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; and have not been registered or qualified under the securities acts of any other jurisdiction. The Authority does not assume any responsibility for registration or qualification of the Series

2014 Bonds under the securities laws of any jurisdiction in which the Series 2014 Bonds may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Series 2014 Bonds will not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

RATINGS

THE SERIES 2014 BONDS ARE NOT RATED AND THE AUTHORITY DOES NOT INTEND TO SEEK A RATING ON THE SERIES 2014 BONDS.

CONTINUING DISCLOSURE OF INFORMATION

In the Financing and Pledge Agreement, the Association, as the obligated party on the Series 2014 Bonds, has undertaken and agreed to provide, or to cause to be provided through a dissemination agreement with a nationally recognized dissemination agent, certain updated statistical information and operating data annually, and timely notice of specified events available as described herein (the "Undertaking"). The Association has made the following agreement for the benefit of the Owners. The Association is required to observe its agreement for so long as the Association remains obligated to advance funds to pay the Series 2014 Bonds. Under the agreement, the Association will be obligated to provide certain updated statistical information and operating data annually, and timely notice of specified events, to the MSRB through its EMMA system or such other location as may be designated by the MSRB or the SEC.

Dissemination Agreement

The Association and the Authority have entered into the Agreement for Continuing Disclosure Services with FSC Continuing Disclosure Services, a division of First Southwest Company (the "Dissemination Agent"), to assist the Association in fulfilling its obligations pursuant to the Rule and the Financing and Pledge Agreement.

Annual Reports

The Association undertakes and shall provide, or cause to be provided through the Dissemination Agent, to the MSRB through EMMA (in an electronic format as prescribed by the MSRB) and to the Authority, within six months after the end of its fiscal year (currently December 31), financial information and operating data with respect to the Association, including information with respect to the Association of the general type included in this Official Statement under "Debt Service and Coverage Schedules – Pro Forma Debt Service Coverage" and under Tables 1 through 9 under the caption "**THE ASSOCIATION**" and in **APPENDIX A-1** and **APPENDIX A-2**. Any financial statements and statistical information to be provided shall be:

(i) prepared in accordance with the accounting principles that the Association may be required to employ from time to time pursuant to state law or regulation; and

(ii) with respect to financial statements, audited if the Association has an audit of such financial statements and the audit is completed within the period during which they are to be provided.

The Association shall provide, or cause to be provided through the Dissemination Agent, the above information and information regarding any Credit Agreements entered into with respect to the Bonds in a timely manner (but no later than six months after the end of the fiscal year) to the MSRB through EMMA (in an electronic format as prescribed by the MSRB) and to the Authority, or alternatively, notice specifying a failure of the Association to provide the information it has undertaken to provide under this Section, including the reason for failure to file. If the Association's audit is not completed within the period during

which it must be provided (i.e. no later than six months after the end of the fiscal year), the Association shall provide, or cause to be provided through the Dissemination Agent, to the MSRB through EMMA (i) notice that the audited financial statements are not available, (ii) unaudited financial statements for the applicable fiscal year and (iii) audited financial statements when and if available. If the Association changes its fiscal year, the Association will notify the MSRB and the Authority of such change (and of the date of the new fiscal year end) prior to the next date by which the Association otherwise would be required to provide statistical information and operating data pursuant to this Section. The statistical information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, that, if it is available from the MSRB).

Quarterly Reports

The Association shall certify to the Authority and shall provide, or shall cause to be provided through the Dissemination Agent, to the MSRB through EMMA (in an electronic format as prescribed by the MSRB) and to the Authority, not later than 45 days after the end of each calendar quarter while the Series 2014 Bonds are Outstanding, the Actual Net Coverage Revenues for the immediately preceding four completed calendar quarters and Projected Net Coverage Revenues for the next succeeding four calendar quarters along with the explanatory information, if any required under the Financing and Pledge Agreement in connection with any failure to meet the required targets for Actual Net Coverage Revenues or Projected Net Coverage Revenues.

Event Notices

Notice of Occurrence of Certain Events, Whether or Not Material. The Association shall notify, or shall cause to be notified through the Dissemination Agent, the MSRB through EMMA (in an electronic format as prescribed by the MSRB) and the Authority, within ten business days following the occurrence of any of the following events with respect to the Bonds, without regard to whether such event is material within the meaning of the federal securities laws: (i) principal and interest payment delinquencies; (ii) unscheduled draws on debt service reserves reflecting financial difficulties; (iii) unscheduled draws on credit enhancements reflecting financial difficulties; (iv) substitution of credit or liquidity providers, or their failure to perform; (v) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Class 1 Public Securities (provided, however, that interest on the Bonds is taxable); (vi) tender offers; (vii) defeasances; (viii) rating changes; and (ix) bankruptcy, insolvency, receivership or similar event of an obligated person.

For these purposes, any event described in the immediately preceding item (ix) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Association in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Association, or if such possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Association.

Notice of Occurrence of Certain Events, If Material. The Association shall notify, or shall cause to be notified through the Dissemination Agent, the MSRB through EMMA (in an electronic format as prescribed by the MSRB) and the Authority, within ten business days following the occurrence of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (i) non-payment related defaults; (ii) modifications to rights of holders; (iii) redemption calls; (iv) release, substitution, or sale of property securing repayment of the Bonds; (v) the consummation of a merger,

consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and (vi) appointment of a successor or additional paying agent or the change of name of a paying agent (herein, the Paying Agent/Register).

Availability of Information

The Association has agreed to provide the foregoing financial and operating information only as described above. The Association and the Authority will be required to file their respective continuing disclosure information using the MSRB's EMMA system. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

Limitations and Amendments

The Association shall be obligated to observe and perform the covenants specified in the Undertaking for so long as, but only for so long as, the Association remains an "obligated person" with respect to the Bonds within the meaning of the Rule.

The provisions of the Undertaking are for the sole benefit of the Owners of the Bonds, and nothing in the Undertaking, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other Person. The Association undertakes to provide only the statistical information, operating data, and notices that it has expressly agreed to provide pursuant to the Undertaking and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the Association's condition or prospects, or hereby undertake to update any information provided in accordance with the Undertaking or otherwise, except as expressly provided herein. The Association does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE ASSOCIATION OR THE AUTHORITY BE LIABLE TO THE BOND OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE ASSOCIATION OR THE AUTHORITY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THE UNDERTAKING, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the Association or the Authority in observing or performing its obligations under the Undertaking shall constitute a breach of or default under the Finance and Pledge Agreement for purposes of any other provision of the Finance and Pledge Agreement.

Nothing in the Undertaking is intended or shall act to disclaim, waive, or otherwise limit the duties of the Association under federal and state securities laws.

The provisions of the Undertaking may be amended by the Association, with prior written notice to and approval by the Authority, from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Association, but only if (i) the provisions of the Undertaking, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (A) the Owners of a majority in aggregate principal amount of the Outstanding Bonds consent to such amendment or (B) a qualified Person that is unaffiliated with the

Association (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Owners and Beneficial Owners of the Bonds. The Association, with prior written notice to and approval by the Authority, may also amend or repeal the provisions of the Undertaking if the United States Securities and Exchange Commission amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid. The Association may also, with prior written notice to and approval by the Authority, amend the provisions of the Undertaking in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling the Bonds in the primary offering of Bonds, giving effect to (i) such provisions as so amended and (ii) any amendments or interpretations of the Rule. If the Association so amends the provisions of the Undertaking, the Association shall include with any amended statistical information or operating data next provided in accordance with the Undertaking an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

Compliance with Prior Agreements

During the last five years, the Association has not failed to comply, in any material respect, with any continuing disclosure agreement in accordance with the Rule.

During the last five years, the Authority has not failed to comply, in any material respect, with any continuing disclosure agreement in accordance with the Rule, except as follows: in connection with an August 11, 2009 upgrade of ratings assigned to the Authority's State of Texas general obligation bonds and lease revenue bonds, the notice filed by the Authority was not associated with all affected CUSIPs. In addition, a notice of Partial Redemption in connection with the Authority's Unemployment Compensation Obligation Assessment Revenue Refunding Bonds, Series 2010C, was filed on September 23, 2011, more than ten business days after the actual redemption date of July 1, 2011. Also, the Authority filed notice of a June 22, 2012 upgrade of the underlying rating assigned to the Authority's unemployment compensation obligation assessment revenue bonds on April 15, 2014 (more than ten days after the Authority was notified of the rating change). In addition, in certain limited instances, the Authority has agreed to file information provided by State agencies for which the Authority has issued bonds ("client agencies"). The Authority's ability to make such filings in a timely manner is dependent on the Authority's receipt of information from these client agencies. The Authority has determined that, during the past five years, information was not provided in a timely manner by two client agencies, the Texas Military Facilities Commission and the Texas Department of Health, which resulted in late filings by the Authority. The Authority has since filed the required information and developed procedures to reduce the likelihood of such late filings in the future.

FINANCIAL STATEMENTS

The financial statements of the Association as of December 31, 2012 and 2013, and for the years then ended, are attached hereto as **APPENDIX A-1** and have been prepared in accordance with generally accepted accounting principles ("GAAP"), as promulgated by the Governmental Accounting Standards Board. Beginning with the Association's fiscal year 2010, the Association began preparing financial statements in accordance with GAAP for inclusion in the State's Comprehensive Annual Financial Report as a discretely presented component unit in such report. Prior to 2010, the Association did not prepare financial statements in accordance with GAAP.

Additionally, the Association's statutory financial statements and supplemental information dated as of December 31, 2012 and 2013, and for the years then ended, are attached hereto as **APPENDIX A-2** and have been prepared in accordance with statutory accounting principles ("SAP"). SAP is a comprehensive basis of accounting other than GAAP that is codified by the National Association of Insurance Commissioners and applied to insurance companies with certain exceptions and modifications as determined by the applicable insurance regulator in each state. For a discussion of certain differences

between SAP and GAAP as they related to the Association see the "**Summary of Significant Accounting Policies – Basis of Accounting**" in **APPENDIX A-2**.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets, Inc., Goldman, Sachs & Co., J. P. Morgan Securities LLC, Raymond James, RBC Capital Markets, LLC and Siebert Brandford Shank & Co., LLC (collectively, the "Underwriters") have agreed, jointly and severally, to purchase for an underwriting fee of $6,060,575.63 the Series 2014 Bonds for which they received commitments to purchase, subject to certain conditions contained in a purchase contract. The Association has agreed to indemnify the Underwriters and the Authority against certain liabilities, including certain liabilities arising under federal and state securities laws.

The Underwriters may offer and sell Series 2014 Bonds to certain dealers (including dealers depositing Series 2014 Bonds into unit investment trusts) and others at prices lower than the public offering price stated on the inside cover page hereof. The initial offering price may be changed from time to time by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Authority or the Association for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments for the Authority or the Association.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of long and/or short positions in such assets, securities and instruments.

FINANCIAL ADVISOR

First Southwest Company is acting as Financial Advisor to the Authority in connection with the issuance of the Series 2014 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Series 2014 Bonds is not contingent upon the issuance and delivery of the Series 2014 Bonds. First Southwest Company, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Series 2014 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the Authority has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the Authority and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

LITIGATION

The Authority

There is no litigation, proceeding, inquiry, or investigation pending by or before any court or other governmental authority or entity (or, to the best knowledge of the Authority, threatened) that affects the obligation of the Authority to deliver the Series 2014 Bonds or the validity of the Series 2014 Bonds.

The Association

The Association is a party to numerous lawsuits and currently has litigation exposure resulting from claims decisions made in response to past Catastrophic Events. See "**RISK FACTORS – Litigation**" and "**THE ASSOCIATION – Legislative Changes to the Claims Dispute Process and Effects on Litigation**" herein. Aside from the potential exposure described above, there is no other litigation, proceeding, inquiry, or investigation pending by or before any court or other governmental authority or entity (or, to the best knowledge of the Association, threatened) that would materially adversely affect (1) the existence of the Association, or the right of the present members of the Board of Directors of the Association and officers of the Association to hold their offices or (2) the power of the Association: (i) to request issuance of the Series 2014 Bonds by the Authority, (ii) to collect the revenues to pay debt service due on the Series 2014 Bonds, or (iii) to meet its other obligations as described in the Financing and Pledge Agreement. Likewise, there are no orders, judgments, consent decrees or arbitration awards that would impact the financial status or operations of the Association.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from the Association's records and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents, and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

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APPENDIX A-1

TEXAS WINDSTORM INSURANCE ASSOCIATION FINANCIAL STATEMENTS

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Texas Windstorm Insurance Association

Financial Statements

For the Years Ended December 31, 2013 and 2012

Calhoun, Thomson+Matza, LLP
Certified Public Accountants

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Texas Windstorm Insurance Association

Financial Statements

For the Years Ended December 31, 2013 and 2012

Texas Windstorm Insurance Association

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ctm Calhoun, Thomson+Matza, LLP
Certified Public Accountants

9500 Arboretum Blvd., Suite 120
Austin, Texas 78759
Phone: 512.439.8400
Fax: 512.439.8401
www.ctmllp.com

Independent Auditors' Report

Governing Board
Texas Windstorm Insurance Association
Austin, Texas

Report on the Financial Statements

We have audited the accompanying statements of net position of Texas Windstorm Insurance Association (the "Association") as of December 31, 2013 and 2012 and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Accounting

As discussed in the Summary of Significant Accounting Policies, the financial statements present only the Association and do not purport to, and do not, fairly present the financial position of the State of Texas, the changes in its financial position, and cash flows for the years ended, in conformity with accounting principles generally accepted in the United States of America.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Windstorm Insurance Association as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in the Summary of Significant Accounting Policies to the financial statements, in 2013 the Association adopted new accounting principles of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to these matters.

As of December 31, 2013, the Association had approximately $85 billion of insurance exposure in certain designated counties located in the gulf coast region of the State of Texas. By state statute, the Association may not maintain a surplus greater than zero; any excess surplus has to be paid to the Catastrophe Reserve Trust Fund ("Trust Fund"). As of December 31, 2013, the balance in the Trust Fund is approximately $186 million. If a major claim event occurs in the future, it could have a severe impact on the financial condition of the Association. Our opinion is not modified with respect to these matters.

In accordance with House Bill 4409 passed by the Texas Legislature, the Association is authorized to place $2.5 billion in public securities. The Association does not have taxing authority. In addition, the public securities, if issued, will not be guaranteed by any state or federal agency. Consequently, the ability of the Association to place these public securities and the sufficiency of that amount to cover future losses is unknown. Our opinion is not modified with respect to these matters.

Ultimate loss projections for Hurricane Ike are estimated to be $2.64 billion by the Association's actuary as of December 31, 2013. If the ultimate loss projection changes in the future it could have a severe impact on the financial condition of the Association. Our opinion is not modified with respect to these matters.

On February 28, 2011, the Association was placed in Administrative Oversight by order of the Insurance Commissioner of the state of Texas. Administrative Oversight is one of the regulatory tools authorized by Chapter 441 of the Texas Insurance Code. It is a form of intervention through which the Texas Department of Insurance increases its involvement in the day to day operations of an insurer. The duration of Administrative Oversight is unknown. Our opinion is not modified with respect to these matters.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's discussion and analysis, on pages 6 to 12 and schedule of changes in net pension liability and related ratios, on page 36, be presented to supplement the basic financial statements.

Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Calhoun, Thomson & Matza, LLP

May 8, 2014

Our discussion and analysis of the financial performance of Texas Windstorm Insurance Association (the "Association") provides an overview of the Association's financial activities for the years ended December 31, 2013, and 2012. Please read this information in conjunction with the Association's financial statements.

Nature of Business

Based upon its statutory purpose under Chapter 2210, Tex. Ins. Code (the "Act"), the Texas Windstorm Insurance Association (the "Association") is an entity created by the Texas legislature with its primary statutory purpose being the provision of an adequate market for windstorm and hail insurance in the seacoast territory of Texas ("seacoast territory"). Chapter 2210 provides a method by which adequate windstorm and hail insurance may be obtained in certain designated portions of the seacoast territory.

The Association is intended to serve as a residual insurer of last resort for windstorm and hail insurance in the seacoast territory. The association shall function in such a manner as to not be a direct competitor in the private market and to provide windstorm and hail insurance coverage to those who are unable to obtain that coverage in the private market.

Financial Summary

A summary of the statements of net position for the Association is presented below:

December 31,		2013		2012
Capital assets	$	10,987	$	10,823
Other assets		483,147		465,621
	$	494,134	$	476,444
Liabilities	$	439,736	$	598,837
Deferred inflows of resources		614		-
Total liabilities and deferred inflows of resources		440,350		598,837
Net position:				
Investment in capital assets		10,987		10,823
Unrestricted		42,797		(133,216)
Total net position		53,784		(122,393)
	$	494,134	$	476,444

A summary of the statements of revenues, expenses, and changes in net position for the Association is presented below:

Years ended December 31,		2013		2012
Operating revenues	$	295,130	$	321,122
Nonoperating expenses		(19,724)		(5,757)
Total revenues		275,406		315,365
Losses and loss adjustment expenses		3,975		401,873
Underwriting expenses		92,185		91,764
Total expenses		96,160		493,637
Change in net position		179,246		(178,272)
Net position at beginning of year, as previously reported		(122,393)		55,879
Cumulative effect of the change in accounting principle		(3,069)		-
Net position at beginning of year, restated		(125,462)		55,879
Net position at end of year	$	53,784	$	(122,393)

ANALYSIS OF FINANCIAL CONDITION

Assets

The Association maintains cash and short-term investments at banks consisting of cash, certificates of deposit and Money Market accounts. Short-term investments are recorded at cost, which approximates market value. As of December 31, 2013 cash and short-term investments increased approximately $11.3 million from December 31, 2012. As of December 31, 2012 cash and short-term investments decreased approximately $47 million from December 31, 2011. The increase from 2012 to 2013 was primarily attributable to positive financial results that outpaced claim payments from accident year 2008 losses. The decrease from 2011 to 2012 was primarily attributable to the payment to the Catastrophe Reserve Trust Fund and payments from 2008 accident year incurred losses.

Liabilities

The statutory fund payable account was $22.8 million and approximately $0 on December 31, 2013 and 2012, respectively. These funds are payable to the Catastrophe Reserve Trust Fund, held by the Texas Department of Insurance.

Loss and loss adjustment expense ("LAE") reserves are based on past loss experience and consideration of current claim trends as well as prevailing social, economic and legal conditions. Loss and LAE reserves are not discounted. A review of the reserves is conducted quarterly by management to evaluate the accuracy of the determination of the loss and LAE reserves.

The reserve for losses and loss adjustment expenses is based upon claim estimates for (1) losses for cases reported prior to the close of the accounting period, (2) losses incurred but unreported prior to the close of the accounting period, and (3) expenses for investigating and adjusting claims.

The December 31, 2013 direct loss and LAE reserves decreased approximately $246 million from 2012. This decrease in reserves was attributable to favorable current accident year loss results while also continuing to close 2008 accident year claims. Hurricane Ike's net ultimate decreased by $80 million from 2012 to 2013. Net of current year payments, Hurricane Ike net reserves decreased $241 million from 2012 to 2013. The remainder of the $5 million decrease in reserve is attributable to normal activity occurring in 2013. The Association feels that the loss and LAE reserves as of December 31, 2013 and 2012 make a reasonable provision for the Association's claim liabilities.

Capital and Surplus

Net income of the Association is transferred to the Trust Fund at the close of each business year. Under the statutory agreement with TDI, monies in the Trust Fund are to be used for payment of net losses for catastrophe mitigation.

During 2013 and 2012, the Association paid $0 and approximately $24.7 million to the Trust Fund representing the 2013 and 2012 net capital and surplus. The Association accrued approximately $22.8 million and $0 of statutory fund costs in the statements of revenues, expenses and changes in net position for the years ended December 31, 2013 and 2012, respectively.

Reinsurance

During 2013 and 2012, the Association entered into reinsurance agreements. These agreements reduce the amount of losses that can arise from claims under a general reinsurance contract known as a catastrophe excess of loss reinsurance agreement ("excess of loss").

Effective June 1, 2013, the reinsurance contract is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under Policies classified by the Association as Property business, including, but not limited to Residential, Commercial and Inland Marine business, in force at the inception of this Contract, or written or renewed during the term of this Contract by or on behalf of the Association. The reinsurer shall be liable in respect of each Loss Occurrence for 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of $1.7 billion each Loss Occurrence, subject to limits of liability to the Reinsurer of $1 billion each Loss Occurrence, and $1 billion for all Loss Occurrences commencing during the term of the contract.

Effective June 1, 2012, the reinsurance contract is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under Policies classified by the Association as Property business, including, but not limited to Residential, Commercial and Inland Marine business, in force at the inception of this Contract, or written or renewed during the term of this Contract by or on behalf of the Association. The reinsurer shall be liable in respect of each Loss Occurrence for 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of $2.3 billion, subject to a limit of liability to the Reinsurer of $850 million for each Loss Occurrence. Furthermore, the Reinsurer's liability for all Loss Occurrences commencing during the term of this Contract shall not exceed $1.5 billion.

Ceded reinsurance is treated as the risk and liability of the assuming companies; however, the reinsurance contracts do not relieve the Association from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Association. The Association evaluates the financial conditions of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The effect on premiums written and earned for the years ended December 31, 2013 and 2012 is as follows:

	2013		2012	
	Written	**Earned**	Written	Earned
Direct	**$ 472,739**	**$ 456,630**	$ 443,480	$ 429,594
Ceded	**(116,331)**	**(161,500)**	(108,485)	(108,472)
Net	**$ 356,408**	**$ 295,130**	$ 334,995	$ 321,122

Unearned premiums are reported net of ceded unearned premiums as follows:

	2013	2012
Gross unearned premiums	**$ 234,739**	$ 218,630
Ceded unearned premiums	**-**	(45,169)
Net unearned premiums	**$ 234,739**	$ 173,461

Commitments and Contingencies

The Association leases office space under a non-cancelable operating lease agreement that expires in 2022. Future minimum lease payments, by year and in the aggregate, under a non-cancelable operating lease with initial or remaining terms of one year or more consisted of the following at December 31, 2013.

The minimum aggregate rental commitments are as follows:

Years Ending December 31,	Amount
2014	$ 750
2015	768
2016	786
2017	957
2018 and thereafter	5,178
	$ 8,439

Rental expense for 2013 and 2012 was approximately $1,281 and $999, respectively.

Line of Credit
The Association had a $200 million line of credit with a bank in 2012. There were no balances outstanding as of December 31, 2012 or drawn against the line of credit for the year ended December 31, 2012. This agreement was cancelled on May 18, 2012.

Related Parties

Pursuant to the Association's Plan of Operation, its Board of Directors consists of nine voting members and one non-voting member which are appointed by the commissioner of the Texas Department of Insurance. Four members must be representatives of the insurance industry. Four members must reside in the first tier coastal counties. At least one member appointed must be a property and casualty agent who is licensed.

During 2002, the Association entered into a service contract with The Texas Fair Plan Association (the "Plan") in which the Association is to be fully reimbursed for all expenditures, professional fees, consulting services, allocated employee time, lost investment income and other costs directly associated with the services provided by the Association on behalf of the Plan. During 2013 and 2012 the Association paid expenses for the Texas Fair Plan Association under its management contract and was reimbursed $8,060 and $6,262 respectively for each year. As of December 31, 2013 and 2012, the Association incurred or paid expenses for which it has not been reimbursed of $729 and $365 respectively, on behalf of the Plan. These amounts are recognized in the statements of net position as accounts receivable from the Plan.

RESULTS OF OPERATIONS

Revenues

Gross written premium was approximately $473 million and $443 million for the years ended December 31, 2013, and 2012 respectively. The 6% increase from 2012 to 2013 was primarily due to a 5% rate increase effective in the beginning of 2013 and 2% policy count. Gross written premiums was approximately $443 million and $404 million for the years ended December 31, 2012 and 2011, respectively. The 10% increase from 2011 to 2012 was primarily due to a 5% rate increase effective in the beginning of 2012 and 5% policy count.

Net earned premium was approximately $295 million and $321 million for the years ended December 31, 2013, and 2012 respectively. Net earned premium is down in 2013 due to the earning all the 2013 ceded treaty premium by the end of November 2013 due to contract provisions and the likelihood of drawing on reinsurance after November is remote. In 2012, there was a full year of ceded earned premium whereas in 2011, reinsurance was effective on June 1, 2011. The moderate increase in gross earned premium was offset by the large increase in ceded premium from 2011 to 2012.

Net investment income was approximately $1,072 and $632 for the years ended December 31, 2013 and 2012, respectively.

Net Loss and Loss Adjustment Expenses

Net loss and loss adjustment expenses was approximately $4 million and $402 million for the years ended December 31, 2013, and 2012 respectively. In 2013, 2008 accident year claims had significant favorable development including $80 million of favorable development for Hurricane Ike claims. Net loss and loss adjustment expenses was approximately $402 million and $203 million for the years ended December 31, 2012, and 2011 respectively. In 2012, the net loss and loss adjustment expenses included prior year unfavorable development for Hurricane Ike totaling $320 million. The remainder of the net loss and loss adjustment expense was attributable to smaller storm events.

Underwriting Expenses

Underwriting expenses was approximately $92 million for the years ended December 31, 2013, and 2012 respectively. No change in expenses from 2012 to 2013 was a result of management maintaining controllable costs year over year. Other note related expenses occurring in 2012 did not reoccur in 2013. Underwriting expenses was approximately $92 million and $81 million for the years ended December 31, 2012, and 2011 respectively. The increase from 2011 to 2012 was primarily correlated to the premium growth during the year.

Texas Windstorm Insurance Association

Statements of Net Position
(Amounts in Thousands)

December 31,		2013		2012
Assets				
Cash and cash equivalents	**$**	**439,193**	$	427,855
Amounts recoverable from reinsurers		**-**		291
Deferred acquisition costs		**42,171**		35,779
Capital assets		**10,987**		10,823
Other assets		**1,783**		1,696
	$	**494,134**	$	476,444
Liabilities, deferred inflows of resources and net position				
Liabilities				
Losses and loss adjustment expense reserves	**$**	**132,959**	$	378,717
Unearned premiums		**234,739**		173,461
Ceded reinsurance premiums payable, net of ceding commissions		**24,745**		25,449
Statutory fund payable		**22,830**		-
Other liabilities		**24,463**		21,210
Total liabilities		**439,736**		598,837
Deferred inflows of resources				
Net difference between projected and actual earnings on plan investments		**614**		-
Total deferred inflows of resources		**614**		-
Net position				
Investment in capital assets		**10,987**		10,823
Unrestricted		**42,797**		(133,216)
Total net position		**53,784**		(122,393)
	$	**494,134**	$	476,444

See accompanying summary of significant accounting policies and notes to financial statements.

Texas Windstorm Insurance Association

Statements of Revenues, Expenses and Changes in Net Position

(Amounts in Thousands)

Years ended December 31,		**2013**		2012
Operating revenues				
Premiums earned	**$**	**456,630**	$	429,594
Premiums ceded		**(161,500)**		(108,472)
Total operating revenues		**295,130**		321,122
Operating expenses				
Losses and loss adjustment expenses		**3,975**		401,873
Underwriting Expenses		**92,185**		91,764
Total operating expenses		**96,160**		493,637
Operating income (loss)		**198,970**		(172,515)
Nonoperating revenues and (expenses)				
Net investment income earned		**1,072**		632
Interest expense		**-**		(3,507)
Note issuance costs		**(143)**		(1,226)
Loss on note defeasance		**-**		(1,496)
Statutory fund expense		**(22,830)**		-
Other income (expense)		**2,177**		(160)
Total nonoperating expenses		**(19,724)**		(5,757)
Change in net position		**179,246**		(178,272)
Net position:				
Net position, beginning of year, as previously reported		**(122,393)**		55,879
Cumulative effect of the change in accounting principle		**(3,069)**		-
Net position, beginning of year		**(125,462)**		55,879
Change in net position	**$**	**179,246**	$	(178,272)
Net position, end of year	**$**	**53,784**	$	(122,393)

See accompanying summary of significant accounting policies and notes to financial statements.

Texas Windstorm Insurance Association

Statements of Cash Flows
(Amounts in Thousands)

Years ended December 31,		**2013**		2012
Cash flows from operating activities:				
Premiums collected, net of reinsurance	**$**	**357,060**	$	334,924
Losses and loss adjustment expense paid		**(249,442)**		(255,663)
Underwriting expenses paid		**(98,018)**		(88,083)
Receivable from affiliate		**(364)**		(363)
Net cash provided by (used in) operating activities		**9,236**		(9,185)
Cash flows from noncapital financing activities:				
Note issuance costs paid		**(147)**		(1,226)
Note interest paid		**-**		(3,507)
Loss on note defeasance		**-**		(1,496)
Statutory fund paid		**-**		(24,666)
Other		**2,177**		(160)
Net cash provided by (used in) noncapital financing activities		**2,030**		(31,055)
Cash flows from capital and related financing activities:				
Capital assets		**(1,001)**		(7,235)
Net cash used in capital and related financing activities		**(1,001)**		(7,235)
Cash flows from investing activities:				
Sales and maturities of investments		**-**		100,064
Net investment income		**1,073**		637
Net cash provided by investing activities		**1,073**		100,701
Net increase in cash and cash equivalents		**11,338**		53,226
Cash and cash equivalents, beginning of year		**427,855**		374,629
Cash and cash equivalents, end of year	**$**	**439,193**	$	427,855

See accompanying summary of significant accounting policies and notes to financial statements.

Texas Windstorm Insurance Association

Statements of Cash Flows
(Amounts in Thousands)
(Continued)

Years ended December 31,		**2013**		2012
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	**$**	**198,970**	$	(172,515)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation		**837**		1,027
Changes in assets and liabilities:				
Amounts recoverable from reinsurers		**291**		15,830
Deferred acquisition costs		**(6,392)**		(1,964)
Losses and loss adjustment expense reserves		**(245,758)**		130,381
Unearned premiums		**61,279**		13,873
Ceded reinsurance premiums payable		**(704)**		(1,434)
Other liabilities		**3,865**		6,049
Other assets		**(83)**		(432)
Cumulative effect of the change in accounting principle		**(3,069)**		-
Net cash provided by (used in) operating activities	**$**	**9,236**	$	(9,185)

See accompanying summary of significant accounting policies and notes to financial statements.

Nature of Business

Based upon its statutory purpose under Chapter 2210, Tex. Ins. Code (the "Act"), the Texas Windstorm Insurance Association (the "Association") is an entity created by the Texas legislature with its primary statutory purpose being the provision of an adequate market for windstorm and hail insurance in the seacoast territory of Texas ("seacoast territory"). Chapter 2210 provides a method by which adequate windstorm and hail insurance may be obtained in certain designated portions of the seacoast territory.

The Association is intended to serve as a residual insurer of last resort for windstorm and hail insurance in the seacoast territory. The association shall function in such a manner as to not be a direct competitor in the private market and to provide windstorm and hail insurance coverage to those who are unable to obtain that coverage in the private market.

Organization

The Association was created by the Texas legislature in 1971. The statutory authority of the Association is currently found in Chapter 2210, Texas Insurance Code. The primary purpose of the Association is to provide an adequate market for windstorm and hail insurance in the seacoast territory.

The Association is intended to serve as a residual insurer of last resort for windstorm and hail insurance in the seacoast territory. The Association shall not be a direct competitor in the private market but provide windstorm and hail insurance coverage to those who are unable to obtain that coverage from the private market. The membership of the Association includes every property insurer authorized to write property insurance in Texas, except companies that are excluded by law from writing coverage available through the Association on a statewide basis.

In 1993, the Texas legislature created the Association's Catastrophe Reserve Trust Fund ("CRTF") to be held by the Texas Comptroller of Public Accounts, outside the state treasury on behalf of, and with legal title in, the Texas Department of Insurance ("TDI"). In 1999, the Texas legislature enacted legislation to allow the Association to pay the net equity of the Association on an annual basis into the CRTF or purchase reinsurance as approved by the Commissioner.

In 2008, various amendments to the Association's plan of operation (governing rules) changed the participation formula, and the source, type, and adjustment of premium data used. These changes authorized the Association to prepare financial information on a calendar year basis only rather than on both a calendar year and syndicate year basis, to calculate assessments for members on a calendar year basis rather than a syndicate year basis, and to eliminate a minimum cap and a maximum cap on a member company's assessment percentage.

In 2009, House Bill 4409 was enacted to address the funding of Association losses and operating expenses in excess of premium and other revenue including allowing for certain financing arrangements, issuance of public securities, use of public security proceeds and payment of public security obligations.

Legislative changes and amendments to the plan of operation established the procedures and requirements for determining and collecting member assessments and premium surcharges for the payment of class 2 public security obligations and class 3 public security obligations under Insurance Code Sections 2210.613 and 2210.6135. The procedures for member assessments are established in Title 28 Texas Administrative Code, Sections 5.4161 to 5.4167, and the procedures for premium surcharges on insurance policies are established in Title 28 Texas Administrative Code, Sections 5.4171, 5.4172, 5.4173, and 5.4181 to 5.4192. Assessments may not include an insurer that became a member of the Association after September 1, 2009, and had not previously been a member of the Association, until after the second anniversary of the date on which the insurer first becomes a member of the Association.

The sequence for funding catastrophe losses in excess of premium and other revenue include funding:

From available reserves and the Catastrophe Reserve Trust Fund;

From proceeds of Class 1 public securities not to exceed $1 billion per year or other financing arrangements (including commercial paper). The Association must repay the proceeds from its premiums and other revenue;

From proceeds of Class 2 public securities not to exceed $1 billion per year to be repaid as follows: 30% of the cost shall be paid through non-recoupable assessments to member companies; 70% of the cost shall be paid by a nonrefundable surcharge collected by every insurer and assessed on all policyholders who reside or have operations in or whose property is located in the Association's catastrophe area. The surcharge shall be assessed on each Texas windstorm and hail insurance policy and each property and casualty insurance policy, including an automobile insurance policy, issued for automobiles and other property located in the catastrophe area. The surcharge applies to all policies written under the following lines of insurance: fire and allied lines; farm and ranch owners; residential property insurance; private passenger automobile liability and physical damage insurance; and commercial automobile liability and physical damage insurance. The surcharge also includes the property insurance portion of a commercial multiple peril insurance policy.

From proceeds of Class 3 public securities not to exceed $500 million per year to be repaid through non-recoupable assessments to the member companies.

House Bill 4409 also changed the member composition of the Board of Directors and increased the size of the Board of Directors to a ten-member board. These changes include the Commissioner of Insurance appointing all members of the Board, a reduction of the number of industry members from 5 to 4, changing two public and two agent members to four members being from the first tier coastal counties with at least one member who is an agent (other than a captive agent), adding a member from a county other than a seacoast county and adding a non-voting member that is an engineer from a first tier coastal county. All Board members serve staggered three-year terms.

In 2011, House Bill 3 was enacted, 82nd Legislature, 1st called Special Session. Key changes allow the Association to:

issue pre-event public securities under Class 1 public securities;

allow issuance of Class 2 public securities in the event the total of Class 1 public securities cannot be issued;

require a declination every three years to maintain coverage in the Association;

reduce the minimum retained premium from 180 to 90 days;

develop a new claims resolution process with different deadlines than industry standards;

require appraisal for certain claim payment amounts;

require alternative dispute resolution before allowing the Association to be sued on disputed claims;

establish an alternative certification program to maintain coverage with the Association for non-compliant structures;

allow increased oversight by the Texas Department of Insurance and State Auditor;

increase reporting requirements to the legislature, regulator, and board of directors; and

issue new policies consistent with the legislative changes.

In 2013, the 83rd Texas Legislature enacted Senate Bill 1702 which repealed the alternative certification program established in 2011. The bill permits certain structures that are not in compliance with the applicable building code standards to obtain insurance coverage if specific conditions are met. Lastly, the bill provides that on or after December 31, 2015, TWIA may not issue or renew insurance coverage for a structure unless the structure complies with the applicable building code.

The 83rd Texas Legislature also enacted House Bill 1675 which requires the Sunset Advisory Commission to review the Association in 2019.

Basis of Accounting

While the Association is an instrumentality of the State of Texas, the State of Texas General Fund is not liable for the Associations claims, losses, or other liabilities. However, the Association meets the definition of a governmental organization, as defined by accounting principles generally accepted in the United States of America.

The Association is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. The Association uses the economic resources measurement focus and the accrual basis of accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when earned and expenses are recorded when incurred.

In June of 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. Early application is encouraged. The Association has elected to early adopt GASB Statement No. 68 (See footnote 15).

In June 2011, GASB issued Statement No. 63, Financial Reporting of Deferred outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This statement also amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Association has modified its financial statements to comply with this statement. Application of this statement is effective for the Association's fiscal year ending December 31, 2012.

In December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The Association has determined that there is no impact on the financial statements. One paragraph in the notes to the financials has been deleted since it no longer applies. The requirements of this Statement are effective for the Association's fiscal year ending December 31, 2012.

Use of Significant Estimates
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The reserves for unpaid losses and loss adjustment expense are significant estimates made by management.

Cash Equivalents
For the purposes of the statement of cash flows, the Association considers all highly liquid investments with original maturities of three months or less as cash equivalents. Cash equivalents are recorded at cost, which approximates fair value.

Capital Assets
The Association has invested funds in electronic data processing equipment and software, in addition to furniture and equipment and is stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of 3-5 years.

Income Taxes
In 2010, the Association applied for and received a Private Letter Ruling ("PLR") from the Internal Revenue Service ("IRS"). The PLR requested acknowledgement that the Association's income is derived from an essential governmental function which accrues to a state or political subdivision and is therefore excluded from gross income under Section 115(1) of the Internal Revenue Code ("IRC"). On August 17, 2010, the IRS ruled that the Association performs an essential government function and that income from that function is excluded from gross income under IRC Section 115(1).

The Association had been filing form 1120-PC tax returns with the IRS as a property and casualty insurance company. Under the IRC the statute of limitations to be assessed additional taxes or to file amended tax returns is 3 years from the later of the due date of the return (including extensions) or the filing date of the return. For the Association, open years are 2009, 2010, 2011, 2012 and 2013.

For 2007 and 2008, the Association extended the statute of limitations until July 31, 2013 and for 2009 and 2010 the Association has extended the statute of limitations until September 15, 2014.

The Association has filed amended returns with the IRS for these open years based upon the PLR excluding from gross income the income derived from an essential governmental function. The amount of the tax recoverable for these open years as a result of excluding gross income resulting from performing an essential government function is approximately $60 million. This recoverable

has been reported as a federal income tax recoverable in the statement of net position and has a 100% valuation allowance.

Operating Revenues and Expenses
Operating revenues are those revenues that are generated directly from the primary activity of the Association. For the Association, these revenues are primarily the premiums charged to policyholders. Operating expenses include incurred losses and necessary costs incurred to provide and administer claims.

Premiums
All policies issued by the Association have a maximum term of one year from date of issuance. Premiums are generally recognized as revenue on a pro-rata basis over the policy term once the policy is effective. The liability for unearned premiums as of the end of the Association's year is computed on a pro-rata basis over the term of the policies. All premium rates charged by the Association must be approved by the Texas Department of Insurance Commissioner. The Association's policies are subject to assessment under the provisions of House Bill 4409 which provides for funding for catastrophe losses to the Association (see Organization pg. 17).

Those premiums received for policies issued but not effective as of year-end are included in advanced premiums within the Association's statements of net position.

Those premiums received for policies which are not effective and not issued as of year-end are included in remittances and items not allocated within the Association's statements of net position.

Deferred Policy Acquisition Costs
Acquisition costs (consisting of commissions and premium taxes), which both vary with and are primarily related to the production of new and renewal business, are deferred and amortized over the terms of the related policies. Deferred acquisition costs are limited to the estimated recoverable value of such costs. The determination of estimated recoverable value gives effect to the premium to be earned, losses and loss adjustment expenses incurred, investment income to be earned, and certain other costs expected to be incurred as the premium is earned. As of December 31, 2013 and 2012, unamortized deferred acquisition costs were approximately $42.2 million and $35.8 million, respectively.

Losses and Loss Adjustment Expenses
Loss and loss adjustment expense reserves are based upon claim estimates for (1) losses for cases reported prior to the close of the accounting period, (2) losses incurred but unreported prior to the close of the accounting period, and (3) expenses for investigating and adjusting claims. Such liabilities are necessarily based on assumptions and estimates and while management believes the amounts are adequate, the ultimate liability may be in excess of or less than the amount provided.

The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and any adjustments are reflected in the period determined.

Reinsurance
In the normal course of business, the Association seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers.

Long-Lived Assets – Impairment and Disposal
The Association reviews the carrying values of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Any long-lived assets held for disposal are reported at the lower of their carrying amounts or fair value less cost to sell.

1. **Capital assets**

Capital assets consist of the following:

December 31,		**2013**		2012
Furniture and fixtures	$	**1,169**	$	918
Electronic data processing equipment and software		**12,612**		11,862
Leasehold improvements		**1,858**		1,858
		15,639		14,638
Less: accumulated depreciation		**(4,652)**		(3,815)
	$	**10,987**	$	10,823

Depreciation expense was approximately $837 and $1,027 for the years ended December 31, 2013 and 2012, respectively.

2. **Reinsurance**

During 2013 and 2012, the Association entered into reinsurance agreements. These agreements reduce the amount of losses that can arise from claims under a general reinsurance contract known as a catastrophe excess of loss reinsurance agreement ("excess of loss").

Effective June 1, 2013, the reinsurance contract is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under Policies classified by the Association as Property business, including, but not limited to Residential, Commercial and Inland Marine business, in force at the inception of this Contract, or written or renewed during the term of this Contract by or on behalf of the Association. The reinsurer shall be liable in respect of each Loss Occurrence for 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of $1.7 billion each Loss Occurrence, subject to limits of liability to the Reinsurer of $1 billion each Loss Occurrence, and $1 billion for all Loss Occurrences commencing during the term of the contract.

Effective June 1, 2012, the reinsurance contract is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under Policies classified by the Association as Property business, including, but not limited to Residential, Commercial and Inland Marine business, in force at the inception of this Contract, or written or renewed during the term of this Contract by or on behalf of the Association. The reinsurer shall be liable in respect of each Loss Occurrence for 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of $2.3 billion, subject to a limit of liability to the Reinsurer of $850 million for each Loss Occurrence. Furthermore, the Reinsurer's liability for all Loss Occurrences commencing during the term of this Contract shall not exceed $1.5 billion.

Ceded reinsurance is treated as the risk and liability of the assuming companies; however, the reinsurance contracts do not relieve the Association from its obligations to policyholders. Failure of

reinsurers to honor their obligations could result in losses to the Association. The Association evaluates the financial conditions of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The effect of reinsurance on premiums written and earned for the years ended December 31, 2013 and 2012 is as follows:

	2013		2012	
	Written	**Earned**	Written	Earned
Direct	**$ 472,739**	**$ 456,630**	$ 443,480	$ 429,594
Ceded	**(116,331)**	**(161,500)**	(108,485)	(108,472)
Net	**$ 356,408**	**$ 295,130**	$ 334,995	$ 321,122

During 2013 and 2012, the Association recovered approximately $27 million and approximately $0 of paid losses and loss adjustment expenses relating to reinsurance contracts, respectively.

3. **Ceded Reinsurance Premiums Payable**

Ceded Reinsurance premiums payable are reported net of reinsurance ceding commissions receivable as follows:

December 31,	**2013**	2012
Ceded reinsurance premiums payable	**$ 26,761**	$ 27,366
Reinsurance ceding commissions receivable	**(2,016)**	(1,917)
	$ 24,745	$ 25,449

4. **Unearned Premiums**

Unearned premiums are reported net of ceded unearned premiums as follows:

December 31,	**2013**	2012
Gross unearned premiums	**$ 234,739**	$ 218,630
Ceded unearned premiums	**-**	(45,169)
	$ 234,739	$ 173,461

5. Losses and Loss Adjustment Expense Reserves

Activity in the liability for unpaid losses and loss adjustment expense is summarized as follows:

		2013		2012
Beginning balance	**$**	**378,717**	$	248,336
Incurred related to:				
Current loss year		**91,713**		77,021
Prior loss years		**(87,738)**		324,852
Losses and loss adjustment expense incurred		**3,975**		401,873
Paid related to:				
Current loss year		**(78,504)**		(58,249)
Prior loss years		**(171,229)**		(213,243)
Paid losses and loss adjustment expense		**(249,733)**		(271,492)
Ending balance	**$**	**132,959**	$	378,717

Current year changes in estimates of the cost of prior year losses and LAE affect the current year statutory statement of revenues, expenses and changes in net position. Current year losses and LAE reflected on the statutory statement of revenues, expenses and changes in net position was approximately $4.0 million. Approximately $91.7 million of the current year losses and LAE was related to current accident year losses. The estimated cost of loss and LAE expenses attributable to insured events of prior years' decreased by approximately $87.7 million in the current year. The favorable development is related to a net decrease in the ultimate losses and LAE from 2008 storms. Increases or decreases of this nature occur as the result of claim settlements and receipt and evaluation or additional information regarding unpaid claims. Recent development trends are also taken into account in evaluating the overall adequacy of reserves. The Association feels that the loss and LAE reserves as of December 31, 2013 make a reasonable provision for the Association's claim liabilities.

The December 31, 2012 direct loss and LAE reserves increased approximately $130.4 million from 2011. This increase in reserves was the result of continued settlement of prior year claims from 2008 storm activity offset by an increase in prior year ultimate losses and LAE of approximately $325 million with the concentration of the loss attributed to accident year 2008. During 2012, some claims were reopened or presented to the Association for the first time due to continued lawsuit activity. The Association feels that the loss and LAE reserves as of December 31, 2012 make a reasonable provision for the Association's claim liabilities considering the increased lawsuit activity during 2012.

6. **Related Parties**
Pursuant to the Association's Plan of Operation, its Board of Directors consists of nine voting members and one non-voting member which are appointed by the commissioner of the Texas Department of Insurance. Four members must be representatives of the insurance industry. Four members must reside in the first tier coastal counties. At least one member appointed must be a property and casualty agent who is licensed.

7. **Service Contract with Texas FAIR Plan Association**
During 2002, the Association entered into a service contract with The Texas Fair Plan Association (the "Plan") in which the Association is to be fully reimbursed for all expenditures, professional fees, consulting services, allocated employee time, lost investment income and other costs directly associated with the services provided by the Association on behalf of the Plan. During 2013 and 2012 the Association paid expenses for the Texas Fair Plan Association under its management contract and was reimbursed $8,060 and $6,262 respectively for each year. As of December 31, 2013 and 2012, the Association incurred or paid expenses for which it has not been reimbursed of $729 and $365, respectively, on behalf of the Plan. These amounts are recognized in the statements of net position as a receivable from TFPA.

8. **Debt**
In 2012, the Texas Public Finance Authority (the "Authority" or the "Issuer") issued the Texas Public Finance Authority Class 1 Revenue Notes (Texas Windstorm Insurance Association Program), Taxable Series 2012 (the "Notes") on behalf of the Association for the purpose of financing future costs in the amount of $500 million. The Notes were issued pursuant to a master resolution adopted by the Board of Directors of the Authority (the "Board") on July 9, 2012 (the "Master Resolution"), and a first supplemental resolution adopted by the Board on July 9, 2012 (the "First Supplemental Resolution", and together with the Master Resolution, the "Resolutions"). The Notes constitute the initial series of Class 1 Public Securities of the Authority secured and payable from Class 1 Pledged Revenues irrevocably pledged under the Resolutions. The Association pledged the Class 1 Pledged Revenues to the Authority pursuant to a Financing and Pledge Agreement dated as of July 1, 2012 between the Authority and the Association.

The Notes bore interest initially at the per annum rate of 1.00% from the Delivery Date through and including the 60th day following the Delivery Date. On the 61st day after the Delivery Date the Notes bore interest at the per annum rate of 2.5% as the Notes did not (i) receive long-term ratings equivalent to the "A" category or better by two nationally recognized rating agencies (each, a "Rating Agency") and did not (ii) receive the highest short-term ratings by two Rating Agencies. The effective interest rate from the Delivery Date to the Tender Date is 2.01%.

The Notes were subject to mandatory tender on the Tender Date. The Notes were also subject to defeasance in December if a catastrophe did not occur by December 15, 2012. No catastrophe occurred and as such, the Notes were terminated by in-substance defeasance on December 17, 2012.

The Notes had an original maturity of February 1, 2013, but were defeased on December 17, 2012.

There are no future maturities remaining on the Notes and no future payments.

Note issuance costs amounted to $143 and $1,226 for the years ending December 31, 2013 and 2012, respectively. Note issuance costs are expensed as incurred.

Interest expense for the years ending December 31, 2012 totaled $3,507 and calculated through December 17, 2012. A loss on defeasance totaled $1,496.

9. Statutory Fund

In 1993, the Texas legislature created the Catastrophe Reserve Trust Fund ("Trust Fund"). At the end of each year and pursuant to administrative rules, the Association shall deposit the statutory net gain from operations of the Association in excess of incurred losses, operating expenses, public security obligations, and public security administrative expenses into the Trust Fund and/or purchase reinsurance. Pursuant to Tex. Ins. Code §2210.259, a surcharge is charged on non-compliant structures insured by the Association, and these surcharges are deposited monthly into the Trust Fund.

When an occurrence or series of occurrences in a catastrophe area, the association shall pay losses in excess of premium and other revenue of the association from available reserves of the association and available amounts in the Trust Fund. Administrative rules adopted by the commissioner of insurance establish the procedures relating to the disbursement of money from the Trust Fund.

The Texas Comptroller of Public Accounts ("comptroller") administers the catastrophe reserve trust fund in accordance with Tex. Ins. Code, Chapter 2210. All money, including investment income, deposited in the catastrophe reserve trust fund, are state funds to be held by the comptroller outside the state treasury on behalf of, and with legal title in, the Texas Department of Insurance ("TDI") until disbursed as provided by the Tex. Ins. Code, Chapter 2210 and administrative rules adopted by the TDI under the Association's Plan of Operation.

The trust fund may be terminated only by law. On termination of the trust fund, all assets of the trust fund revert to the state of Texas to provide funding for the mitigation and preparedness plan established under Tex. Ins. Code, §2210.454.

For the years ending December 31, 2013 and 2012, statutory fund costs were approximately $22.8 million and $0, respectively. There was no statutory fund cost for December 31, 2012 due to heavy adverse development to loss and LAE related to the 2008 hurricane event.

10. Employee Benefit Plans

Defined Benefit Plan

Plan Description. The Association is a participating employer in The Pension Plan for Insurance Organizations (PPIO) which provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The PPIO is an agent multi-employer defined benefit pension plan administered by The Named Fiduciaries of The Pension Plan for Insurance Organizations (c/o Greenberg Traurig, LLP). The authority to establish and amend the benefit provisions of the plans that participate in the multiple-employer pension plan administered by The Named Fiduciaries of The Pension Plan for Insurance Organizations is assigned to the respective employer entities. For Texas Windstorm Insurance Association, that authority rests with the Association's Board of Directors. The Named Fiduciaries of The Pension Plan for Insurance Organizations issue publicly available information about The Plan that is prepared to comply with the Employee Retirement Income Security Act of 1974 (ERISA). That information may be obtained from the plan administrator, The Named Fiduciaries of The Pension Plan for Insurance Organizations, c/o Greenberg Traurig, LLP, 200 Park Avenue, 20th Floor, New York, NY 10166.

Employees covered by benefit terms: At December 31, 2013, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	18
Inactive employees entitled to but not yet receiving benefits	33
Active employees	182
	233

Contributions. PPIO members are not required to contribute to the plan. The Association is required to contribute at an actuarially determined rate: the current rate is 8.4 percent of annual covered payroll. The contribution requirements of plan members and the Association are established and may be amended by The Named Fiduciaries of the PPIO.

Net Pension Liability

The Association's net pension liability was measured as of December 31, 2013, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability in the December 31, 2013 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	2.50%
Investment rate of return	6.25%

Long-term expected rate of return: The long-term expected rate of return on pension plan investments was determined using an expected geometric mean return and portfolio weighting method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The overall 20-year geometric mean portfolio real return is 3.3%. The overall 20-year geometric median portfolio real return is 3.3%. The overall 20-year geometric 75th percentile portfolio real return is 4.3%. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The pension valuation assumes an annual inflation rate of 3.0%. The expected returns below assume passive investing and do not include any premium for active management. The target allocation and best estimates of expected geometric mean returns for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Expected geometric mean returns
Large cap U.S equity	23.4%	4.63%
Small cap U.S equity	18.8%	4.26%
International equity	9.3%	4.63%
Fixed income	45.3%	1.10%
Cash	3.2%	0.35%
Total	100.0%	

Discount Rate: The discount rate used to measure the total pension liability was 6.25 percent. Towers Watson uses their firm's proprietary capital market assumptions as of January 2013 for the various asset classes, and applied those to the asset allocation of the PPIO as of January 1, 2013 to develop an overall average rate. As the Plan is a Qualified Plan under ERISA, the assumption has been made that the Plan will be sufficiently funded to pay benefits at all times. Therefore, the long-term expected rate of return on pension plan investments was applied to all

periods of projected benefit payments to determine the total pension liability. There are non non-employer contributing entities and there are no employee contributions.

Changes in Net Pension Liability. The Association's changes in net pension liability for the current year were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Total pension liability at beginning of year	$ 10,037	$ 7,925	$ 2,112
Changes for the year:			
Service cost	867	-	867
Interest	673	-	673
Differences between expected and actual experience	1	-	1
Contributions - employer	-	1,034	(1,034)
Net investment income	-	1,076	(1,076)
Benefit payments	(276)	(276)	-
Administrative expense	-	(49)	49
Total pension liability at end of year	$ 11,302	$ 9,710	$ 1,592

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the Association as of December 31, 2013, calculated using the discount rate of 6.25 percent, as well as what the Association's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Increase (7.25%)	Current Discount Rate (6.25%)	1% Decrease (5.25%)
Net pension liability	$ 133	$ 1,592	$ 3,403

Pension Plan Fiduciary Net Position: The pension plan's basic financial statements can be obtained from the Plan Administrator located at: The Managing Fiduciary of The Pension Plan for Insurance Organizations, c/o Greenberg Traurig, LLP; 200 Park Avenue, 20th Floor; New York, NY 10166.

Pension Expense and Deferred Inflows of Resources Related to Pension: For the year ended December 31, 2013, the Association recognized pension expense of $774. At December 31, 2013, the Association reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

December 31,	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1	$ -
Net difference between projected and actual earnings on plans investments	-	615
Total	$ 1	$ 615

Amounts reported as deferred outflows of resources and deferred (inflows) of resources related to pensions will be recognized in pension expense as follows:

Years ending December 31,	Amount
2014	$ (187)
2015	(136)
2016	(191)
2017	(101)
2018 and thereafter	1
	$ (614)

Defined Contribution Plan:
The Association has a defined contribution 401(k) plan available to eligible employees after six months of employment. The Association contributed approximately $525 and $447 for the years ended December 31, 2013 and 2012 respectively.

11. Line of Credit
The Association had a $200 million line of credit with a bank in 2012. There were no balances outstanding as of December 31, 2012 or drawn against the line of credit for the year ended December 31, 2012. This agreement was cancelled on May 18, 2012.

12. Lease Commitments

The Association leases office space under a non-cancellable operating lease agreement which expires in 2022. Future minimum lease payments, by year and in the aggregate, under a non-cancellable operating lease with initial or remaining terms of one year or more consisted of the following at December 31, 2013:

Years ending December 31,		Amount
2014	$	750
2015		768
2016		786
2017		957
2018 and thereafter		5,178
	$	8,439

Rental expense under the non-cancelable operating lease was approximately $1,281 and $999 for the years ended December 31, 2013 and 2012, respectively.

13. Commitments and Contingencies

The Association is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters in excess of the amounts provided will not have a material adverse effect on the financial position of the Association. These matters are subject to various uncertainties, and some of these matters may be resolved unfavorably to the Association.

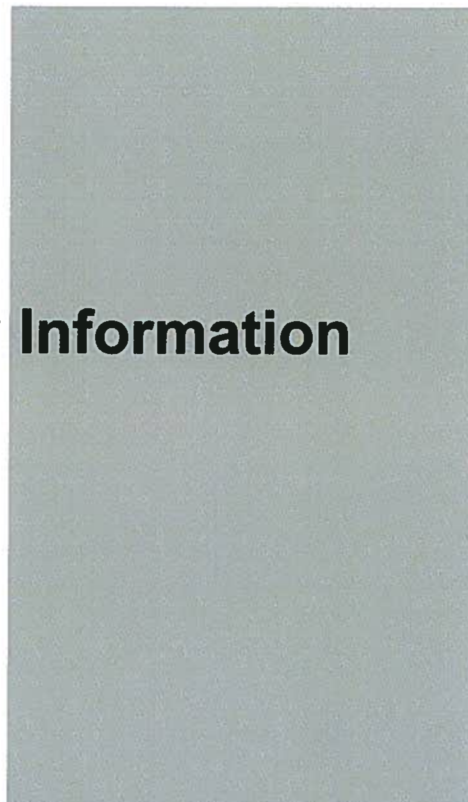
14. Concentration of Credit Risk

The Association maintains deposits of cash in excess of federally insured limits with certain financial institutions. The Association has not experienced any losses in such accounts and believes they are not exposed to any significant credit risk on cash.

The Association writes windstorm and hail coverage primarily in the 14 counties along the Texas coast in which it has approximately $85 billion and $82 billion of insurance exposure as of December 31, 2013 and 2012, respectively.

15. Change in Accounting Principle

In June of 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. The Association has elected to early adopt GASB Statement No. 68. The cumulative effect of the change in net position as of December 31, 2012 was approximately $(3.1) million. The cumulative effect of the change in accounting principle is comprised of the elimination of net pension asset in the amount of approximately $602, the deferred resources from inflows in the amount of approximately $380, and the net pension liability in the amount of approximately $2.1 million, as of December 31, 2012. As of December 31, 2013, the net pension liability in the amount of approximately $1.6 million is included in other liabilities in the statements of net position.



Required Supplementary Information

Texas Windstorm Insurance Association

Schedule of Changes in Net Pension Liability and Related Ratio's

(Amounts in Thousands)

December 31,		**2013**		2012
Total pension liability:				
Service cost	$	**867**	$	*
Interest		**673**		*
Differences between expected and actual experience		**1**		*
Benefit payments, including refunds of employee contributions		**(276)**		*
Net change in total pension liability		**1,265**		*
Total pension liability – beginning		**10,037**		*
Total pension liability – ending	$	**11,302**	$	*
Plan fiduciary net position:				
Contributions – employer	$	**1,034**	$	1,152
Net investment income		**1,076**		873
Benefit payments, including refunds of employee contributions		**(276)**		(148)
Administrative expenses		**(49)**		-
Net change in plan fiduciary net position		**1,785**		1,877
Plan fiduciary net position – beginning		**7,925**		6,048
Plan fiduciary net position – ending	$	**9,710**	$	7,925
Net pension liability - ending	$	**1,592**	$	*
Plan fiduciary net position as a percentage of the total pension liability		**85.91%**		*
Covered-employee payroll	$	**12,359**	$	*
Net pension liability as a percentage of covered-employee payroll		**12.88%**		*
Actuarial determined contribution		**1,034**		*
Contributions in relation to the actuarially determined contribution		**1,034**		*
Contribution deficiency (excess)		**-**		*
Covered-employee payroll		**12,359**		*
Contributions as a percentage of covered-employee payroll		**8.37%**		*

* *information not available*

See accompanying independent auditors' report.

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APPENDIX A-2

TEXAS WINDSTORM INSURANCE ASSOCIATION STATUTORY FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

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Texas Windstorm Insurance Association

Statutory Financial Statements and Supplemental Information

Years Ended December 31, 2013 and 2012

ctm Calhoun, Thomson+Matza, LLP
Certified Public Accountants

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Texas Windstorm Insurance Association

Statutory Financial Statements and Supplemental Information

Years Ended December 31, 2013 and 2012

Texas Windstorm Insurance Association

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ctm Calhoun, Thomson+Matza, LLP
Certified Public Accountants

9500 Arboretum Blvd., Suite 120
Austin, Texas 78759
Phone: 512.439.8400
Fax: 512.439.8401
www.ctmllp.com

Accountants' Letter of Qualifications

Board of Directors
Texas Windstorm Insurance Association

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statutory financial statements of Texas Windstorm Insurance Association (the "Association") for the years ended December 31, 2013 and 2012, and have issued our report thereon dated May 8, 2014. In connection therewith, we advise you as follows:

a. We are independent certified public accountants with respect to the Association and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants, and the Rules of Professional Conduct of the Texas State Board of Public Accountancy.

b. The engagement director, who is a certified public accountant, has 9 years of experience in public accounting and is experienced in auditing insurance enterprises. Members of the engagement team, most of whom have had experience in auditing insurance enterprises and most of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.

c. We understand that the Association intends to file its audited statutory financial statements and our report thereon with the Texas Department of Insurance and that the Insurance Commissioner of that state will be relying on that information in monitoring and regulating the statutory financial condition of the Association.

   While we understand that an objective of issuing a report on the statutory financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, the Association and Insurance Commissioner should understand that the objective of an audit of statutory financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the statutory financial statements present fairly, in all material respects, the admitted assets, liabilities, surplus and other funds, results of operations and cash flows in conformity with accounting practices prescribed or permitted by the Texas Department of Insurance. Consequently, under auditing standards generally accepted in the United States of America, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the statutory financial statements are free of material misstatement, whether caused by error or fraud, and to exercise due professional care in the conduct of the audit. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatements resulting from fraud. Because of the characteristics of fraud, particularly those involving concealment and falsified documentation (including forgery), a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility

that material misstatements resulting from fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by the Insurance Commissioner.

It is the responsibility of the management of the Association to adopt sound accounting policies, to maintain an adequate and effective system of accounts, and to establish and maintain an internal control structure that will, among other things, provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting practices prescribed or permitted by the Texas Department of Insurance.

The Insurance Commissioner should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the statutory financial position of insurers and should not rely solely upon the independent auditor's report.

d. We will retain the workpapers prepared in the conduct of our audit until the Texas Department of Insurance has filed a Report of Examination covering 2013, but not longer than seven years. After notification to the Association, we will make the workpapers available for review by the Texas Department of Insurance at the offices of the insurer, at our offices, at the Insurance Department or at any other reasonable place designated by the Insurance Commissioner. Furthermore, in the conduct of the aforementioned periodic review by the Texas Department of Insurance, photocopies of pertinent audit working papers may be made (under the control of the accountant) and such copies may be retained by the Texas Department of Insurance.

e. The engagement director has served in that capacity with respect to the Association since 2013, is licensed by the Texas State Board of Public Accountancy, and is a member in good standing of the American Institute of Certified Public Accountants.

f. To the best of our knowledge and belief, we are in compliance with the requirements of section 7 of the NAIC's Model Rule (Regulation) Requiring Annual Audited Financial Reports regarding qualifications of independent certified public accountants.

This letter is intended solely for the information and use of the Texas Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

Calhoun, Thomson & Matza, LLP

May 8, 2014

ctm Calhoun, Thomson+Matza, LLP
Certified Public Accountants

9500 Arboretum Blvd., Suite 120
Austin, Texas 78759
Phone: 512.439.8400
Fax: 512.439.8401
www.ctmllp.com

Independent Auditors' Report

Board of Directors
Texas Windstorm Insurance Association
Austin, Texas

We have audited the accompanying statutory statements of admitted assets, liabilities, surplus and other funds of Texas Windstorm Insurance Association (the "Association") as of December 31, 2013 and 2012 and the related statutory statements of income and changes in surplus and other funds, and cash flows for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with accounting practices prescribed or permitted by the Texas Department of Insurance; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statutory financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these statutory financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statutory financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statutory financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Accounting

As described more fully in the Summary of Significant Accounting Policies, these financial statements were prepared in conformity with accounting practices prescribed or permitted by the Texas Department of Insurance, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Because of the departures from accounting principles generally accepted in the United States of America identified above, as of December 31, 2013 and 2012 deferred acquisition costs was understated by

approximately $42.2 million and $35.8 million, the provision for reinsurance was overstated by $0 and approximately $11 million, and other assets were understated by approximately $11.7 million and $13.8 million, respectively. The departures identified above reduced total net position as of December 31, 2013 and 2012 by approximately $53.9 million and $60.6 million, respectively. The effects on change in net position for the years ended December 31, 2013 and 2012 were immaterial.

Opinion

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Texas Windstorm Insurance Association as of December 31, 2013 and 2012, or the results of its operations or its cash flows for the years then ended.

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, surplus and other funds of the Texas Windstorm Insurance Association at December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in the Summary of Significant Accounting Policies – "Basis of Accounting".

Emphasis of Matters

As of December 31, 2013, the Association had approximately $85 billion of insurance exposure in certain designated counties located in the gulf coast region of the State of Texas. By state statute, the Association may not maintain a surplus greater than zero; any excess surplus must be paid to the Catastrophe Reserve Trust Fund ("Trust Fund"). As of the December 31, 2013, the balance in the Trust Fund was approximately $186 million. If a major claim event occurs in the future, it could have a severe impact on the financial condition of the Association.

In accordance with House Bill 4409 passed by the Texas Legislature, the Association is authorized to place $2.5 billion in public securities. The Association does not have taxing authority. In addition, the public securities, if issued, will not be guaranteed by any state or federal agency. Consequently, the ability of the Association to place these public securities and the sufficiency of that amount to cover future losses is unknown.

Ultimate loss projections for Hurricane Ike were estimated to be $2.64 billion by the Association's actuary as of December 31, 2013. If the ultimate loss projection changes in the future it could have a severe impact on the financial condition of the Association.

On February 28, 2011, the Association was placed in Administrative Oversight by order of the Insurance Commissioner of the state of Texas. Administrative Oversight is one of the regulatory tools authorized by Chapter 441 of the Texas Insurance Code. It is a form of intervention through which the Texas Department of Insurance increases its involvement in the day to day operations of an insurer. The duration of Administrative Oversight is unknown.

Supplemental Information

Our audits of the statutory financial statements were conducted for the purpose of forming an opinion on those statements as a whole. The accompanying supplementary information is presented to comply with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and Texas state law. Such information is the responsibility of management and was derived from and relates

directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audit of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory financial statements as a whole.

Calhoun, Thomson & Matza, LLP

May 8, 2014

Texas Windstorm Insurance Association

Statutory Statements of Admitted Assets, Liabilities, Surplus and Other Funds

(Amounts in Thousands)

December 31,		**2013**		2012
Admitted Assets				
Cash and short-term investments	**$**	**439,193**	$	427,855
Amounts recoverable from reinsurers		**-**		291
Other		**1,038**		491
	$	**440,231**	$	428,637
Liabilities, Surplus and Other Funds				
Liabilities:				
Loss and loss adjustment expenses	**$**	**132,959**	$	378,717
Underwriting expenses payable		**5,119**		4,732
Commissions payable		**5,247**		4,595
Unearned premiums		**234,739**		173,461
Ceded reinsurance premiums payable, net of ceding commissions		**24,745**		25,449
Provision for reinsurance		**-**		11,018
Statutory fund payable		**22,830**		-
Other liabilities		**14,592**		13,644
Total liabilities		**440,231**		611,616
Commitments and contingencies (Notes 7, 8, 9, 13, 14, 15 and 16)				
Surplus and other funds:				
Unassigned surplus (deficit)		**-**		(182,979)
	$	**440,231**	$	428,637

See accompanying summary of significant accounting policies and notes to statutory financial statements.

Texas Windstorm Insurance Association

Statutory Statements of Income

(Amounts in Thousands)

Years ended December 31,		**2013**		2012
Underwriting income:				
Premiums earned	**$**	**456,630**	$	429,594
Premiums ceded		**(161,500)**		(108,472)
Net premiums earned		**295,130**		321,122
Deductions:				
Losses and loss expenses incurred		**3,975**		401,873
Underwriting expenses incurred		**100,524**		93,583
Total underwriting deductions		**104,499**		495,456
Net underwriting gain (loss)		**190,631**		(174,334)
Investment income:				
Net investment income (loss) income earned		**929**		(4,101)
Net realized capital loss on bond anticipation note defeasance		**-**		(1,496)
Net investment gain (loss)		**929**		(5,597)
Other income (loss):				
Other income (loss)		**2,177**		(160)
Net income (loss) before statutory fund cost and federal income tax expense		**193,737**		(180,091)
Statutory fund cost		**22,830**		-
Net income (loss) before federal income tax expense		**170,907**		(180,091)
Federal income tax expense		**-**		-
Net income (loss)	**$**	**170,907**	$	(180,091)

See accompanying summary of significant accounting policies and notes to statutory financial statements.

Texas Windstorm Insurance Association

Statutory Statements of Changes In Surplus and Other Funds

(Amounts in Thousands)

		Unassigned Surplus (Deficit)
Balance at January 1, 2012	$	-
Net loss		(180,091)
Change in deferred income taxes		(266,040)
Change in nonadmitted assets		259,436
Change in provision for reinsurance		4,037
Other		(321)
Balance at December 31, 2012		(182,979)
Net income		170,907
Change in nonadmitted assets		71
Change in provision for reinsurance		11,018
Other		983
Balance at December 31, 2013	$	-

See accompanying summary of significant accounting policies and notes to statutory financial statements.

Texas Windstorm Insurance Association

Statutory Statements of Cash Flows
(Amounts in Thousands)

Years ended December 31,		**2013**		2012
Cash from operations:				
Premiums collected, net of reinsurance	**$**	**355,147**	$	336,929
Net investment income (loss)		**926**		(5,593)
Miscellaneous income (loss)		**2,177**		(159)
Benefit and loss related payments		**(223,697)**		(228,417)
Commissions, expenses paid and aggregate write-ins for deductions		**(125,231)**		(140,383)
Net cash from operations		**9,322**		(37,623)
Cash from financing and miscellaneous sources:				
Other cash provided (applied)		**2,016**		(9,215)
Net cash from financing and miscellaneous sources		**2,016**		(9,215)
Net change in cash and short-term investments		**11,338**		(46,838)
Cash and short-term investments, beginning of year		**427,855**		474,693
Cash and short-term investments, end of year	**$**	**439,193**	$	427,855

See accompanying summary of significant accounting policies and notes to statutory financial statements.

Nature of Business

Based upon its statutory purpose under Chapter 2210, Tex. Ins. Code (the "Act"), the Texas Windstorm Insurance Association (the "Association") is an entity created by the Texas legislature with its primary statutory purpose being the provision of an adequate market for windstorm and hail insurance in the seacoast territory of Texas ("seacoast territory"). Chapter 2210 provides a method by which adequate windstorm and hail insurance may be obtained in certain designated portions of the seacoast territory.

The Association is intended to serve as a residual insurer of last resort for windstorm and hail insurance in the seacoast territory. The Association shall function in such a manner as to not be a direct competitor in the private market and to provide windstorm and hail insurance coverage to those who are unable to obtain that coverage in the private market.

Organization

The Association was created by the Texas legislature in 1971. The statutory authority of the Association is currently found in Chapter 2210, Texas Insurance Code. The primary purpose of the Association is to provide an adequate market for windstorm and hail insurance in the seacoast territory.

The Association is intended to serve as a residual insurer of last resort for windstorm and hail insurance in the seacoast territory. The Association shall not be a direct competitor in the private market but provide windstorm and hail insurance coverage to those who are unable to obtain that coverage from the private market. The membership of the Association includes every property insurer authorized to write property insurance in Texas, except companies that are excluded by law from writing coverage available through the Association on a statewide basis.

In 1993, the Texas legislature created the Association's Catastrophe Reserve Trust Fund ("CRTF") to be held by the Texas Comptroller of Public Accounts, outside the state treasury on behalf of, and with legal title in, the Texas Department of Insurance ("TDI"). In 1999, the Texas legislature enacted legislation to allow the Association to pay the net equity of the Association on an annual basis into the CRTF or purchase reinsurance as approved by the Commissioner.

In 2008, various amendments to the Association's plan of operation (governing rules) changed the participation formula, and the source, type, and adjustment of premium data used. These changes authorized the Association to prepare financial information on a calendar year basis only rather than on both a calendar year and syndicate year basis, to calculate assessments for members on a calendar year basis rather than a syndicate year basis, and to eliminate a minimum cap and a maximum cap on a member company's assessment percentage.

In 2009, House Bill 4409 was enacted to address the funding of Association losses and operating expenses in excess of premium and other revenue including allowing for certain financing arrangements, issuance of public securities, use of public security proceeds and payment of public security obligations.

Legislative changes and amendments to the plan of operation established the procedures and requirements for determining and collecting member assessments and premium surcharges for the payment of class 2 public security obligations and class 3 public security obligations under Insurance Code Sections 2210.613 and 2210.6135. The procedures for member assessments are established in Title 28 Texas Administrative Code, Sections 5.4161 to 5.4167, and the procedures for premium surcharges on insurance policies are established in Title 28 Texas Administrative Code, Sections 5.4171, 5.4172, 5.4173, and 5.4181 to 5.4192. Assessments may not include an insurer that became a member of the Association after September 1, 2009, and had not previously been a member of the Association, until after the second anniversary of the date on which the insurer first becomes a member of the Association.

The sequence for funding catastrophe losses in excess of premium and other revenue include funding:

From available reserves and the Catastrophe Reserve Trust Fund;

From proceeds of Class 1 public securities not to exceed $1 billion per year or other financing arrangements (including commercial paper). The Association must repay the proceeds from its premiums and other revenue;

From proceeds of Class 2 public securities not to exceed $1 billion per year to be repaid as follows: 30% of the cost shall be paid through non-recoupable assessments to member companies; 70% of the cost shall be paid by a nonrefundable surcharge collected by every insurer and assessed on all policyholders who reside or have operations in or whose property is located in the Association's catastrophe area. The surcharge shall be assessed on each Texas windstorm and hail insurance policy and each property and casualty insurance policy, including an automobile insurance policy, issued for automobiles and other property located in the catastrophe area. The surcharge applies to all policies written under the following lines of insurance: fire and allied lines; farm and ranch owners; residential property insurance; private passenger automobile liability and physical damage insurance; and commercial automobile liability and physical damage insurance. The surcharge also includes the property insurance portion of a commercial multiple peril insurance policy.

From proceeds of Class 3 public securities not to exceed $500 million per year to be repaid through non-recoupable assessments to the member companies.

House Bill 4409 also changed the member composition of the Board of Directors and increased the size of the Board of Directors to a ten-member board. These changes include the Commissioner of Insurance appointing all members of the Board, a reduction of the number of industry members from 5 to 4, changing two public and two agent members to four members being from the first tier coastal counties with at least

one member who is an agent (other than a captive agent), adding a member from a county other than a seacoast county and adding a non-voting member that is an engineer from a first tier coastal county. All Board members serve staggered three-year terms.

In 2011, House Bill 3 was enacted, 82nd Legislature, 1st called Special Session. Key changes allow the Association to:

issue pre-event public securities under Class 1 public securities;

allow issuance of Class 2 public securities in the event the total of Class 1 public securities cannot be issued;

require a declination every three years to maintain coverage in the Association;

reduce the minimum retained premium from 180 to 90 days;

develop a new claims resolution process with different deadlines than industry standards;

require appraisal for certain claim payment amounts;

require alternative dispute resolution before allowing the Association to be sued on disputed claims;

establish an alternative certification program to maintain coverage with the Association for non-compliant structures;

allow increased oversight by the Texas Department of Insurance and State Auditor;

increase reporting requirements to the legislature, regulator, and board of directors; and

issue new policies consistent with the legislative changes.

In 2013, the 83rd Texas Legislature enacted Senate Bill 1702 which repealed the alternative certification program established in 2011. The bill permits certain structures that are not in compliance with the applicable building code standards to obtain insurance coverage if specific conditions are met. Lastly, the bill provides that on or after December 31, 2015, TWIA may not issue or renew insurance coverage for a structure unless the structure complies with the applicable building code.

The 83rd Texas Legislature also enacted House Bill 1675 which requires the Sunset Advisory Commission to review the Association in 2019.

Basis of Accounting
The accompanying financial statements have been prepared on a statutory basis in accordance with accounting practices prescribed or permitted by the Texas Department of Insurance. Prescribed statutory accounting practices include state laws, regulations and general administrative rules applicable to all insurance companies domiciled in the State of Texas and the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual. Permitted statutory practices include practices not prescribed but allowed by the Texas Department of Insurance.

Reconciliations of net income and policyholders' surplus between the amounts reported in the accompanying financial statements (Texas basis) and NAIC statutory accounting practices ("SAP") follow:

Years ended December 31,		**2013**		2012
Net income (loss), Texas basis	**$**	**170,907**	$	(180,091)
Effect of Texas prescribed practices		**-**		-
Effect of Texas permitted practices		**45,169**		(24,679)
Net income (loss), NAIC SAP basis	**$**	**216,076**	$	(204,770)

December 31,		**2013**		2012
Statutory surplus (deficit), Texas basis	**$**	**-**	$	(182,979)
Effect of Texas prescribed practices		**-**		-
Effect of Texas permitted practices		**-**		(34,209)
Policyholders' surplus (deficit), NAIC SAP basis	**$**	**-**	$	(217,188)

TDI had approved the permitted practice to allow the Association to recognize the reinsurance premium associated with its catastrophe reinsurance agreement June 1, 2012 and June 1, 2011 over a 12-month period. The duration of the June 1, 2012 permitted practice was for one year only, ending May 31, 2013 and was not extended to any future reinsurance agreements.

Significant differences between statutory accounting practices and accounting principles generally accepted in the United States of America ("GAAP"), as they relate to the Association include the following:

a) Certain assets designated as "non-admitted assets" are charged directly against surplus rather than capitalized and charged to income as used. These include certain fixed assets, prepaid expenses and other assets.

b) Loss and loss adjustment expense reserves are presented net of related reinsurance rather than on a gross basis.

c) Commissions and other acquisition costs relating to issuance of new policies are expensed as incurred rather than deferred and amortized over the period covered by the policies.

d) The statement of cash flows represent cash balances, cash equivalents and short-term investments with initial maturities of one year or less rather than cash and cash equivalents with initial maturities of three months or less.

e) Deferred income taxes are limited by an admissibility formula as opposed to using the "more likely than not" standard. Also, changes in the net deferred income taxes are reflected in the statutory statements of changes in surplus and other funds rather than reflected in the statement of income.

Use of Significant Estimates
The preparation of financial statements in accordance with statutory accounting practices 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 date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Short-Term Investments
Short-term investments are recorded at cost which approximates market value. These short-term investments are comprised solely of Governmental Money Market Mutual funds.

Furniture, Equipment and Depreciation
Furniture and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of 3-5 years. Amounts have been non-admitted.

Income Taxes
In 2010, the Association applied for and received a Private Letter Ruling ("PLR") from the Internal Revenue Service ("IRS"). The PLR requested acknowledgement that the Association's income is derived from an essential governmental function which accrues to a state or political subdivision and is therefore excluded from gross income under Section 115(1) of the Internal Revenue Code ("IRC"). On August 17, 2010, the IRS ruled that the Association performs an essential government function and that income from that function is excluded from gross income under IRC Section 115(1).

The Association has been filing form 1120-PC tax returns with the IRS as a property and casualty insurance company. Under the IRC the statute of limitations to be assessed additional taxes or to file amended tax returns is 3 years from the later of the due date of the return (including extensions) or the filing date of the return. For the Association, open years are 2009, 2010, 2011, 2012 and 2013.

For 2007 and 2008, the Association extended the statute of limitations until July 31, 2013 and for 2009 and 2010, the Association has extended the statute of limitations until September 15, 2014.

The Association filed amended returns with the IRS for these open years based upon the PLR excluding from gross income the income derived from an essential governmental function. The amount of the tax recoverable for these open years as a result of excluding gross income resulting from performing an essential government function is approximately $60 million. This recoverable has been reported as a federal income tax recoverable in the statutory statements of admitted assets, liabilities and surplus and has been non-admitted.

Premiums

All policies issued by the Association have a maximum term of one year from date of issuance. Premiums earned are taken into income over the periods covered by the policies whereas the related acquisition costs are expensed when incurred. Premiums are generally recognized as revenue on a pro-rata basis over the policy term once the policy is effective. Unearned premiums, net of deductions for reinsurance, are computed on a pro-rata basis over the term of the policies.

Those premiums received for policies issued but not effective as of year-end are included in advanced premiums within the Association's statutory statement of admitted assets, liabilities, surplus and other funds.

Those premiums received for policies which are not effective and not issued as of year-end are included in remittances and items not allocated within the Association’s statutory statement of admitted assets, liabilities, surplus and other funds.

Loss and Loss Adjustment Expense Reserves

Loss and loss adjustment expense reserves are based upon claim estimates for (1) losses for cases reported prior to the close of the accounting period, (2) losses incurred but unreported prior to the close of the accounting period, and (3) expenses for investigating and adjusting claims. Such liabilities are necessarily based on assumptions and estimates and while management believes the amounts are adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and any adjustments are reflected in the period determined.

Reinsurance

In the normal course of business, the Association seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers.

Fair Value Measurements
Statement of Statutory Accounting Principles ("SSAP") No. 100, Fair Value Measurements, requires disclosures of the aggregate fair value of all financial instruments, summarized by type of financial instrument, for which it is practicable to estimate fair value. SSAP No. 100 excludes obligations for pension benefits, substantively extinguished debt, insurance contracts, lease contracts, warranty obligations and rights, investments accounted for under the equity method and equity instruments issued by the entity. Accordingly, the aggregate fair value amounts presented herein do not necessarily represent the underlying value of the Association; similarly, care should be exercised in deriving conclusions about the Association's business or financial condition based on the fair value information presented herein.

The following methods and assumptions were used by the Association to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and short-term investments: The carrying values approximate fair value.

The Association is required to categorize its assets and liabilities that are measured at fair value into the three-level fair value hierarchy. The three-level fair value hierarchy is based on the degree of subjectivity inherent in the valuation method by which fair value was determined. The three levels are defined as follows:

- Level 1 – Fair values are based on quoted prices in active markets for identical assets or liabilities that the Association has the ability to access as of the measurement date.
- Level 2 – Fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that can otherwise be corroborated by observable market data.
- Level 3 – Fair values are based on inputs that are considered unobservable where there is little, if any, market activity for the asset or liability as of the measurement date. In this circumstance, the Association has to rely on values derived by independent brokers or internally-developed assumptions. Unobservable inputs are developed based on the best information available to the Association which may include the Association's own data.

The Association has no assets or liabilities that are measured and reported at fair value in the statutory statement of admitted assets, liabilities, surplus and other funds.

1. Cash and Short-Term Investments

Cash and short-term investments are as follows:

December 31,		2013		2012
Cash	$	**439,193**	$	427,855
Short-term investments		**-**		-
	$	**439,193**	$	427,855

2. Furniture and Equipment

Furniture and equipment consist of the following:

December 31,		2013		2012
Furniture and equipment	$	**1,168**	$	918
Electronic data processing equipment and software		**12,612**		11,862
Leasehold improvements		**1,858**		1,858
		15,638		14,638
Less: accumulated depreciation		**(5,116)**		(4,041)
		10,522		10,597
Less: non-admitted furniture and equipment		**(10,522)**		(10,597)
	$	**-**	$	-

Depreciation expense was approximately $1,091 and $1,027 for the years ended December 31, 2013 and 2012, respectively.

3. Reinsurance

During 2013 and 2012, the Association entered into reinsurance agreements. These agreements reduce the amount of losses that can arise from claims under a general reinsurance contract known as a catastrophe excess of loss reinsurance agreement ("excess of loss").

Effective June 1, 2013, the reinsurance contract is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under Policies classified by the Association as Property business, including, but not limited to Residential, Commercial and Inland Marine business, in force at the inception of this Contract, or written or renewed during the term of this Contract by or on behalf of the Association. The reinsurer shall be liable in respect of each Loss Occurrence for 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of $1.7 billion each Loss Occurrence, subject to limits of liability to the Reinsurer of $1 billion each Loss Occurrence, and $1 billion for all Loss Occurrences commencing during the term of the contract.

Effective June 1, 2012, the reinsurance contract is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under Policies classified by the Association as Property business, including, but not limited to Residential, Commercial and Inland Marine business, in force at the inception of this Contract, or written or renewed during the term of this Contract by or on behalf of the Association. The reinsurer shall be liable in respect of each Loss Occurrence for 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of $2.3 billion, subject to a limit of liability to the Reinsurer of $850 million for each Loss Occurrence. Furthermore, the Reinsurer's liability for all Loss Occurrences commencing during the term of this Contract shall not exceed $1.5 billion.

Ceded reinsurance is treated as the risk and liability of the assuming companies; however, the reinsurance contracts do not relieve the Association from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Association. The Association evaluates the financial conditions of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The Association has unsecured reinsurance recoverables which exceed 3% of the Association's surplus with the following reinsurers as of December 31, 2013 and 2012:

	Name of reinsurer	**2013**	2012
AA-3190339	Renaissance Reinsurance Ltd	$ -	$ 1,567
AA-3194139	Axis Capital Holdings Limited	-	1,155
AA-3194122	DaVinci Reins. thru Underwriters Managers	-	1,054
AA-3190829	Alterra Bermuda Ltd	-	898
AA-1128001	Lloyd's Underwriter Syndicate No. 2001	-	814
22-2005057	Everest Reinsurance Company	-	800
AA-1464104	Allianz Risk Transfer AG	-	772
AA-3190686	Partner Reinsurance Company Ltd	-	772
AA-3190770	Ace Tempest Reinsurance Limited	-	745
AA-3190875	Hiscox Insurance Company	-	745
AA-1126033	Lloyd's Underwriter Syndicate No. 0033	-	714
AA-1127414	Lloyd's Underwriter Syndicate No. 1414	-	714
AA-1120083	Lloyd's Underwriter Syndicate No. 1910	-	576
47-0698507	Odyssey America Reinsurance Corporation	-	565
AA-3194129	Montpellier Reinsurance Ltd.	-	488
AA-1460006	Flagstone Reassurance Suisse SA	-	385
AA-3190757	XL Re Ltd	-	385
AA-1460019	Amlin AG	-	381
AA-3194161	Catlin Insurance Company Ltd	-	282
AA-3190870	Validus Holdings Limited	-	282
AA-1128003	Lloyd's Underwriter Syndicate No. 2003	-	257

AA-1128791	Lloyd's Underwriter Syndicate No. 2791	-	257
AA-3190838	Tokio Millennium Reinsurance Ltd	-	257
13-1675535	Swiss Re Underwriters Agency, Inc.	-	250
AA-3194168	Aspen Bermuda Limited	-	230
AA-1320031	SCOR Global P&C S.E.	-	213
13-5616275	Transatlantic Reinsurance Company	-	192
AA-1440076	Sirius International Insurance Company	-	129
AA-3194126	Arch Reinsurance Ltd	-	104
AA-1120102	Lloyd's Underwriter Syndicate No. 1458	-	77
23-1641984	QBE Reinsurance Company	-	76
AA-1120084	Lloyd's Underwriter Syndicate No. 1955	-	69
AA-1340125	Hannover Ruckversicherung AG	-	64
AA-1126626	Lloyd's Underwriter Syndicate No. 0626	-	64
AA-1127084	Lloyd's Underwriter Syndicate No. 1084	-	64
AA-1120116	Lloyd's Underwriter Syndicate No. 3902	-	64
AA-1120075	Lloyd's Underwriter Syndicate No. 4020	-	64
AA-5420050	Korean Reinsurance Company	-	64
AA-1120085	Lloyd's Underwriter Syndicate No. 1274	-	52
AA-1120071	Lloyd's Underwriter Syndicate No. 2007	-	52
AA-1128623	Lloyd's Underwriter Syndicate No. 2623	-	52
AA-3194174	Platinum Underwriters Bermuda Ltd	-	52
AA-1128987	Lloyd's Underwriter Syndicate No. 2987	-	40
AA-1126566	Lloyd's Underwriter Syndicate No. 0566	-	39
35-6021485	Paladin Catastrophe Management	-	20
AA-1126609	Lloyd's Underwriter Syndicate No. 0609	-	13
AA-1127225	Lloyd's Underwriter Syndicate No. 1225	-	13
AA-1126623	Lloyd's Underwriter Syndicate No. 0623	-	12
Total		$ -	$ 16,934

The effect of reinsurance on premiums written and earned for the years ended December 31, 2013 and 2012 is as follows:

	2013		2012	
	Written	**Earned**	Written	Earned
Direct	**$ 472,739**	**$ 456,630**	$ 443,480	$ 429,594
Ceded	**(116,331)**	**(161,500)**	(108,485)	(108,472)
Net	**$ 356,408**	**$ 295,130**	$ 334,995	$ 321,122

During 2013 and 2012, the Association recovered approximately $27 million and $0 of paid losses and loss adjustment expenses relating to reinsurance contracts, respectively.

4. Ceded Reinsurance Premiums Payable

Ceded reinsurance premiums payable are reported net of reinsurance ceding commissions receivable as follows:

December 31,	**2013**	2012
Ceded reinsurance premiums payable	**$ 26,761**	$ 27,366
Reinsurance ceding commissions receivable	**(2,016)**	(1,917)
	$ 24,745	$ 25,449

5. Unearned Premiums

Unearned premiums are reported net of ceded unearned premiums as follows:

December 31,	**2013**	2012
Gross unearned premiums	**$ 234,739**	$ 218,630
Ceded unearned premiums	**-**	(45,169)
	$ 234,739	$ 173,461

The amount of return commission that would have been due the reinsurers if they or the Association had cancelled the Association's excess of loss reinsurance agreement would have been approximately $0 and $4,517 as of December 31, 2013 and 2012, respectively.

6. Loss and Loss Adjustment Expenses

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

December 31,	**2013**	2012
Beginning balance	**$ 378,717**	$ 248,336
Incurred related to:		
Current loss year	**91,713**	77,021
Prior loss years	**(87,738)**	324,852
Losses and loss adjustment expense incurred	**3,975**	401,873
Paid related to:		
Current loss year	**(78,504)**	(58,249)
Prior loss years	**(171,229)**	(213,243)
Paid losses and loss adjustment expense	**(249,733)**	(271,492)
Ending balance	**$ 132,959**	$ 378,717

Current year changes in estimates of the cost of prior year losses and LAE affect the current year statutory statement of income. Current year losses and LAE reflected on the statutory statement of income was approximately $4.0 million. Approximately $91.7 million of the current year losses and LAE was related to current accident year losses. The estimated cost of loss and LAE expenses attributable to insured events of prior years decreased by approximately $87.7 million in the current year. The favorable development is related to a net decrease in the ultimate losses and LAE from 2008 storms. Increases or decreases of this nature occur as the result of claim settlements and receipt and evaluation or additional information regarding unpaid claims. Recent development trends are also taken into account in evaluating the overall adequacy of reserves. The Association feels that the loss and LAE reserves as of December 31, 2013 make a reasonable provision for the Association's claim liabilities.

The December 31, 2012 direct loss and LAE reserves increased approximately $130.4 million from 2011. This increase in reserves was the result of continued settlement of prior year claims from 2008 storm activity offset by an increase in prior year ultimate losses and LAE of approximately $325 million with the concentration of the loss attributed to accident year 2008. During 2012, some claims were reopened or presented to the Association for the first time due to continued lawsuit activity. The Association feels that the loss and LAE reserves as of December 31, 2012 make a reasonable provision for the Association's claim liabilities considering the increased lawsuit activity during 2012.

7. Statutory Fund

In 1993, the Texas legislature created the Catastrophe Reserve Trust Fund ("Trust Fund"). At the end of each year and pursuant to administrative rules, the Association shall deposit the net gain from operations of the Association in excess of incurred losses, operating expenses, public security obligations, and public security administrative expenses into the Trust Fund and/or purchase reinsurance. Pursuant to Tex. Ins. Code §2210.259, a surcharge is charged on non-compliant structures insured by the Association, and these surcharges are deposited monthly into the Trust Fund.

When an occurrence or series of occurrences in a catastrophe area, the association shall pay losses in excess of premium and other revenue of the association from available reserves of the association and available amounts in the Trust Fund. Administrative rules adopted by the commissioner of insurance establish the procedures relating to the disbursement of money from the Trust Fund.

The Texas Comptroller of Public Accounts ("comptroller") administers the catastrophe reserve trust fund in accordance with Tex. Ins. Code, Chapter 2210. All money, including investment income, deposited in the catastrophe reserve trust fund, are state funds to be held by the comptroller outside the state treasury on behalf of, and with legal title in, the Texas Department

of Insurance ("TDI") until disbursed as provided by the Tex. Ins. Code, Chapter 2210 and administrative rules adopted by the TDI under the Association's Plan of Operation.

The trust fund may be terminated only by law. On termination of the trust fund, all assets of the trust fund revert to the state of Texas to provide funding for the mitigation and preparedness plan established under Tex. Ins. Code, §2210.454.

For the years ending December 31, 2013 and 2012, statutory fund costs were approximately $22.8 million and $0, respectively. There was no statutory fund cost during 2012 due to heavy adverse development to loss and LAE related to the 2008 hurricane event.

8. Employee Benefit Plans

Defined Benefit Plan. The Association has a defined pension benefit plan, which covers employees from their date of hire, if the employee is scheduled to work at least 1,000 hours in a twelve-month period. Pension benefits are based on years of service and the employee's compensation during the five highest consecutive years' earnings from the last ten years of employment. An employee's benefits vest 5 years from date of hire. The Association makes contributions to the plan that complies with the minimum funding provisions of the Employee Retirement Income Security Act. Such contributions are included in general expenses. As of December 31, 2013 and 2012, the Association accrued in accordance with actuarially determined amounts with an offset to the pension cost accrual for the incremental asset amortization.

The following sets forth a summary of projected benefit obligations, plan assets, funded status, benefit costs and assumptions of the defined pension benefit plan as follows:

December 31,		**2013**		2012
Change in Projected Benefit Obligations (PBO) (Underfunded):				
Benefit obligation at beginning of year	**$**	**10,701**	$	9,041
Service cost		**1,167**		494
Interest cost		**500**		464
Actuarial (gain) loss		**(1,455)**		850
Benefits paid		**(276)**		(148)
Plan amendments *		**1,160**		-
Projected benefit obligation at end of year		**11,797**		10,701
** Plan amendments includes recognition of non-vested PBO under SSAP No. 102*				
Change in Plan Assets:				
Fair value of plan assets at beginning of year		**7,925**		6,048
Actual return on plan assets		**1,026**		873
Employer contributions		**1,035**		1,152
Benefits paid		**(276)**		(148)
Fair value of plan assets at end of year		**9,710**		7,925
Funded status	**$**	**(2,087)**	$	(2,776)

December 31,		**2013**		2012
Funded Status:				
Assets (non-admitted):				
Prepaid benefit costs	**$**	**-**	$	137
Total assets (non-admitted)		**-**		137
Liabilities recognized:				
Accrued benefit costs		**1,310**		-
Liability for pension benefits		**777**		-
Additional minimum liability		**-**		1,760
Total liabilities recognized		**2,087**		1,760
Unrecognized liabilities as a component of net periodic benefit cost		**-**		1,153
Funded status	**$**	**(2,087)**	$	(2,776)
Accumulated benefit obligation	**$**	**10,619**	$	9,686

Years ended December 31,		**2013**		2012
Components of Net Periodic Benefit Costs:				
Service costs	**$**	**1,167**	$	494
Interest costs		**500**		464
Expected return on plan assets		**(519)**		(424)
Amount of loss recognized		**174**		166
Prior service cost or credit		**1,160**		-
Total net periodic benefit cost	**$**	**2,482**	$	700

Years ended December 31,		**2013**		2012
Amounts in unassigned funds (surplus) recognized as components of net periodic benefit cost:				
Items not yet recognized as a component of net periodic cost – prior year	**$**	**2,913**	$	2,613
Net transition asset or obligation recognized		**-**		-
Net prior service cost or credit arising during the period		**1,160**		-
Net prior service cost or credit recognized		**(1,160)**		-
Net (loss) and gain arising during the period		**(1,962)**		401
Net loss recognized		**(174)**		(166)
Items not yet recognized as a component of net periodic cost – current year	**$**	**777**	$	2,913

Years ended December 31,		**2013**		2012
Amounts in unassigned funds (surplus) expected to be recognized in the next fiscal year as components of net periodic benefit cost:				
Net transition asset or obligation	**$**	**-**	$	-
Net prior service cost or credit	**$**	**-**	$	1,160
Net recognized gains and losses	**$**	**-**	$	174

Years ended December 31,		**2013**		2012
Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost:				
Net transition asset or obligation	**$**	**-**	$	-
Net prior service cost or credit	**$**	**-**	$	-
Net recognized gains and losses	**$**	**777**	$	-

Pension Assumptions:

December 31,	**2013**	2012
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	**4.25%**	5.25%
Rate of compensation increase	**2.50%**	4.00%
Expected long-term rate of return of plan assets	**6.25%**	6.50%
Weighted-average assumptions used to determine projected benefit obligations:		
Weighted-average discount rate	**5.00%**	4.25%
Rate of compensation increase	**2.50%**	2.50%

The amount of accumulated benefit obligation for defined benefit pension plans was approximately $10.6 million as of December 31, 2013 and 2012.

Measurement Date
A measurement date of December 31, 2013 was used to determine the above.

Asset Allocation
The defined benefit pension plan asset allocation as of the measurement date presented as a percentage of total plan assets were as follows:

December 31,	**2013**	2012
Equity securities	**59.9%**	51.4%
Debt securities	**37.5%**	45.4%
Real estate	**0.0%**	0.0%
Other	**2.6%**	3.2%
	100.0%	100.0%

The investment policy of the Plan is to maximize the total return of the fund while maintaining a strong emphasis on preservation of capital. The total portfolio is expected to be less volatile than the market the vast majority of the time. The plan assets are invested in a mix of equity and fixed income investments subject to target allocation ranges. The target allocation range for fixed income investments is between 20% and 40%. The target allocation range for international equity investments is between 10% and 20%. Remaining funds not invested in the categories above are to be invested in short-term cash equivalents such as money market funds.

The long-term rate of return represents the expected average rate of return on the plan assets based on the expected long-term asset allocation of the plan. Several factors are considered, including historical market index returns, expectations of future returns in each asset classes, and the potential to outperform market index returns.

Future Payments

The following estimated future payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Years ending December 31,		Amount
2014	$	332
2015		377
2016		431
2017		487
2018		555
2019 and thereafter		3,768

Planned Contributions

The Association expects to make contributions of $1,034 during the year ending December 31, 2014.

SSAP No. 102 became effective January 1, 2013. This SSAP requires that any underfunded defined benefit pension amounts, as determined when the projected benefit obligation exceeds the fair value of plan assets, to be recognized as a liability under SSAP No. 5R. Such liability is required to be reported in the first quarter statutory financial statement after the transition date with a corresponding entry to unassigned funds. At transition, the Association recognized an approximate net $4.0 million liability from unrecognized transition obligations/assets, prior service costs/credits, and unrecognized gains/losses as a component of the ending balance of unassigned funds as of January 1, 2013. This net impact was reflected as a liability as the plan is in an underfunded state.

The following provides the status of the pension plan as of December 31, 2012, and the transition date (January 1, 2013):

		January 1, 2013		December 31, 2012
Accumulated benefit obligation	$	(9,735)	$	(9,686)
Plus: Non-vested liability		(893)		(893)
Total accumulated benefit obligation		(10,628)		(10,579)
Projected benefit obligation		(10,750)		(10,701)
Plus: Non-vested liability		(1,160)		(1,060)
Total projected benefit obligation		(11,910)		(11,761)
Plan assets at fair value		7,931		7,925
Funded status		(3,979)		(3,836)
Transition obligation (asset)		-		-
Prior service cost (credit)		-		-
Prior service cost (non-vested)		-		1,060
Unrecognized losses (gains)		-		2,913
Total unrecognized items		-		3,973
Net overfunded plan asset (liability for benefits)	$	(3,979)	$	137

Fair value measurements of Plan Assets as of December 31, 2013 and 2012:

	Fair Value Measurements at December 31, 2013			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash	$ -	$ 48	$ -	$ 48
Large cap growth	-	1,847	-	1,847
Small cap equity	2,279	-	-	2,279
Large cap value	-	873	-	873
International equity	-	1,104	-	1,104
Fixed income	-	3,545	-	3,545
Limited partnerships	-	-	14	14
Total plan assets	$ 2,279	$ 7,417	$ 14	$ 9,710

	Fair Value Measurements in Level 3 at December 31, 2013			
	January 1, 2013	Sales	Investment Change	December 31, 2013
Limited partnerships	$ 21	$ (7)	$ -	$ 14
Total plan assets	$ 21	$ (7)	$ -	$ 14

	Fair Value Measurements at December 31, 2012			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash	$ -	$ 175	$ -	$ 175
Large cap growth	-	1,293	-	1,293
Small cap equity	1,440	-	1	1,441
Large cap value	-	715	-	715
International equity	-	845	-	845
Fixed income	-	3,436	-	3,436
Limited partnerships	-	-	20	20
Total plan assets	$ 1,440	$ 6,464	$ 21	$ 7,925

	Fair Value Measurements in Level 3 at December 31, 2012			
	January 1, 2012	Sales	Investment Change	December 31, 2012
Limited partnerships	$ 19	$ (8)	$ 10	$ 21
Small cap equity	1	(1)	-	-
Total plan assets	$ 20	$ (9)	$ 10	$ 21

Defined Contribution Plan. The Association has a defined contribution 401(k) plan available to eligible employees after six months of employment. The Association contributed approximately $525 and $447 for the years ended December 31, 2013 and 2012, respectively.

9. Lease Commitments

Association leases office space under a non-cancellable operating lease agreement which expires in 2022. Future minimum lease payments, by year and in the aggregate, under a non-cancellable operating lease with initial or remaining terms of one year or more consisted of the following at December 31, 2013:

Years ending December 31,	Amount
2014	$ 750
2015	768
2016	786
2017	957
2018 and thereafter	5,178
	$ 8,439

Rental expense under the non-cancelable operating lease was approximately $1,281 and $999 for the years ended December 31, 2013 and 2012, respectively.

10. Federal Income Taxes

The Association adopted SSAP No. 101 as of January 1, 2012 and it did not result in a change in amount or composition of admitted deferred tax assets. The adoption of this statement did not result in a change to surplus.

The components of the net deferred tax assets at December 31 are as follows:

December 31, 2013	Ordinary	Capital	Total
Gross deferred tax assets	$ **188,646**	$ -	$ **188,646**
Statutory valuation allowance adjustment	**(188,646)**	-	**(188,646)**
Adjusted gross deferred tax assets	-	-	-
Deferred tax liabilities	-	-	-
Net deferred tax asset	-	-	-
Deferred tax assets non-admitted	-	-	-
Net admitted deferred tax assets	$ -	$ -	$ -

December 31, 2012	Ordinary	Capital	Total
Gross deferred tax assets	$ 218,320	$ -	$ 218,320
Statutory valuation allowance adjustment	(218,320)	-	(218,320)
Adjusted gross deferred tax assets	-	-	-
Deferred tax liabilities	-	-	-
Net deferred tax asset	-	-	-
Deferred tax assets non-admitted	-	-	-
Net admitted deferred tax assets	$ -	$ -	$ -

Change	Ordinary	Capital	Total
Gross deferred tax assets	$ (29,674)	$ -	$ (29,674)
Statutory valuation allowance adjustment	29,674	-	29,674
Adjusted gross deferred tax assets	-	-	-
Deferred tax liabilities	-	-	-
Net deferred tax asset	-	-	-
Deferred tax assets non-admitted	-	-	-
Net admitted deferred tax assets	$ -	$ -	$ -

The amount of each result or component of the calculation, by tax character, of paragraphs 11a, 11b, and 11c:

December 31, 2013	Ordinary	Capital	Total
Recovered through loss carrybacks (11a)	$ -	$ -	$ -
Expected to be recognized after application of the threshold limitation (11b)	-	-	-
Adjusted gross DTAs offset against existing DTLs (11c)	-	-	-
Total	$ -	$ -	$ -
Total adjusted capital used to determine recovery period and threshold limitation above			$ -
Authorized control level			$ -
ExDTA ACL RBC ratio			-

December 31, 2012	Ordinary	Capital	Total
Recovered through loss carrybacks (11a)	$ -	$ -	$ -
Expected to be recognized after application of the threshold limitation (11b)	-	-	-
Adjusted gross DTAs offset against existing DTLs (11c)	-	-	-
Total	$ -	$ -	$ -
Total adjusted capital			$ -
Authorized control level			$ -
ExDTA ACL RBC ratio			-

There was no impact of tax planning strategies on adjusted gross DTA's and net admitted DTA's.

Current income taxes incurred consist of the following major components:

Years ended December 31,		**2013**		2012		Change
Federal	$	-	$	-	$	-
Foreign		-		-		-
Realized capital gains		-		-		-
Federal and foreign income taxes incurred	$	-	$	-	$	-

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

December 31,		**2013**		2012		Change
Deferred tax assets:						
Ordinary:						
Discount on unpaid losses and LAE	$	**992**	$	2,665	$	(1,673)
Pension accrual		-		-		-
Net operating loss carry-forward		**187,654**		215,655		(28,001)
Total ordinary deferred tax assets		**188,646**		218,320		(29,674)
Statutory valuation allowance adjustment		**(188,646)**		(218,320)		29,674
Non-admitted deferred tax assets		-		-		-
Total deferred tax assets		-		-		-
Deferred tax liabilities:						
Ordinary:		-		-		-
Other		-		-		-
Total deferred tax liabilities		-		-		-
Net admitted deferred tax assets	$	-	$	-	$	-

The significant items causing a difference between the statutory federal income tax rate and the Association's effective income tax rate are as follows:

Years ended December 31,		**2013**		2012
Provision computed at statutory rate	$	-	$	-
Section 115(1) income		-		-
Accrual adjustments – prior year Section 115(1) income		-		-
Other		-		-
Total statutory income taxes	$	-	$	-

Years ended December 31,		**2013**		2012
Federal and foreign income taxes incurred	$	-	$	-
Realized capital gains tax		-		-
Change in net deferred income taxes		-		-
Total statutory income taxes	$	-	$	-

At December 31, 2013, the Association has the following unused operating loss carryforwards available to offset against future taxable income:

Year		Amount
2013	$	-
2012		315,272
2011		91,573
2010		145,080

The Association did not have any income tax expense that is available for recoupment in the event of future net losses.

The Association did not have any protective tax deposits under Section 6603 of the Internal Revenue Code.

11. Related Parties

Pursuant to the Association's Plan of Operation, the Board of Directors consists of nine voting members and one non-voting member appointed by the Commissioner of the Texas Department of Insurance. Four members must be representatives of the insurance industry. Four members must reside in the first tier coastal counties. At least one member appointed must be a property and casualty agent who is licensed.

12. Service Contract with Texas Fair Plan Association

During 2002, the Association entered into a service contract with The Texas Fair Plan Association (the "Plan") in which the Association is to be fully reimbursed for all expenditures, professional fees, consulting services, allocated employee time, lost investment income and other costs directly associated with the services provided by the Association on behalf of the Plan. During 2013 and 2012 the Association paid expenses for the Texas Fair Plan Association under its management contract and was reimbursed $8,060 and $6,262 respectively for each year. As of December 31, 2013 and 2012, the Association incurred or paid expenses for which it has not been reimbursed of $729 and $365, respectively, on behalf of the Plan. These amounts are recognized in the statements of net assets as a receivable from TFPA.

13. Debt

In 2012, the Texas Public Finance Authority (the "Authority" or the "Issuer") issued the Texas Public Finance Authority Class 1 Revenue Notes (Texas Windstorm Insurance Association Program), Taxable Series 2012 (the "Notes") on behalf of the Association for the purpose of financing future costs in the amount of $500 million. The Notes were issued pursuant to a master resolution adopted by the Board of Directors of the Authority (the "Board") on July 9, 2012 (the "Master Resolution"), and a first supplemental resolution adopted by the Board on July 9, 2012 (the "First Supplemental Resolution", and together with the Master Resolution, the "Resolutions"). The Notes constitute the initial series of Class 1 Public Securities of the Authority secured and payable from Class 1 Pledged Revenues irrevocably pledged under the Resolutions. The Association pledged the Class 1 Pledged Revenues to the Authority pursuant to a Financing and Pledge Agreement dated as of July 1, 2012 between the Authority and the Association.

The Notes bore interest initially at the per annum rate of 1.00% from the Delivery Date through and including the 60th day following the Delivery Date. On the 61st day after the Delivery Date the Notes bore interest at the per annum rate of 2.5% as the Notes did not (i) receive long-term ratings equivalent to the "A" category or better by two nationally recognized rating agencies (each, a "Rating Agency") and did not (ii) receive the highest short-term ratings by two Rating Agencies. The effective interest rate from the Delivery Date to the Tender Date is 2.01%.

The Notes were subject to mandatory tender on the Tender Date. The Notes were also subject to defeasance in December if a catastrophe did not occur by December 15, 2012. No catastrophe occurred and as such, the Notes were terminated by in-substance defeasance on December 17, 2012.

The Notes had an original maturity of February 1, 2013, but were defeased on December 17, 2012. There are no future maturities remaining on the Notes and no future payments. Note issuance costs amounted to $1,226 at December 31, 2012. Note issuance costs are expensed as

incurred. Interest expense for the year ending December 31, 2012 totaled $3,507 and calculated through December 17, 2012. A loss on defeasance totaled $1,496.

14. Line of Credit

The Association had a $200 million line of credit with a bank in 2012. There were no balances outstanding as of December 31, 2012 or drawn against the line of credit for the year ended December 31, 2012. This agreement was cancelled on May 18, 2012.

15. Commitments and Contingencies

The Association is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters in excess of the amounts provided will not have a material adverse effect on the financial position of the Association. These matters are subject to various uncertainties, and some of these matters may be resolved unfavorably to the Association.

16. Concentration of Credit Risk

The Association maintains deposits of cash in excess of federally insured limits with certain financial institutions. The Association has not experienced any losses in such accounts and believes they are not exposed to any significant credit risk on cash.

The Association writes windstorm and hail coverage primarily in the 14 counties along the Texas coast in which it has approximately $85 billion, and $82 billion of insurance exposure as of December 31, 2013 and 2012, respectively.

17. Nonadmitted Assets

Nonadmitted assets consisted of the following:

December 31,		**2013**		2012
Prepaid expenses and receivables	$	**745**	$	741
Federal income tax recoverable		**60,169**		60,169
Furniture and equipment		**10,522**		10,597
Total nonadmitted assets	$	**71,436**	$	71,507

18. Fair Value Measurements

The estimated fair values and carrying values of the Association's financial instruments are as follows:

	2013				2012			
December 31,		**Carrying Amount**		**Fair Value**		Carrying Amount		Fair Value
Cash and short-term investments	**$**	**439,193**	**$**	**439,193**	$	427,855	$	427,855

19. Reconciliation with Annual Statement

There were no differences between the 2013 and 2012 annual statements as filed with the Texas Department of Insurance and the 2013 and 2012 audited statutory financial statements.

20. Subsequent Events

The Association has evaluated subsequent events occurring after December 31, 2013, the date of the most recent balance sheet date, through May 8, 2014, the date the financial statements were issued. The Association does not believe any subsequent events have occurred that would require further disclosure or adjustment to the statutory financial statements.

Texas Windstorm Insurance Association

Summary Investment Schedule
December 31, 2013
(Amounts in Thousands)

Investment categories	Gross Investment Holdings * Amount	%	Admitted Assets as Reported in the Annual Statement ** Amount	%
Bonds:				
U.S. Treasury securities	$ -	-	$ -	-
U.S. Government agency obligations (excluding mortgage-backed securities):				
Issued by U.S. Government agencies	-	-	-	-
Issued by U.S. Government-sponsored agencies	-	-	-	-
Non-U.S. government (including Canada, excluding mortgage-backed securities)	-	-	-	-
Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
State, territories and possessions general obligations	-	-	-	-
Political subdivisions of states, territories and possessions political subdivisions general obligations	-	-	-	-
Revenue and assessment obligations	-	-	-	-
Industrial development and similar obligations	-	-	-	-
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities:				
Issued or guaranteed by GNMA	-	-	-	-
Issued or guaranteed by FNMA and FHLMC	-	-	-	-
All other	-	-	-	-
CMO's and REMIC's:				
Issued or guaranteed by GNMA, FNMA, FHLMC or VA	-	-	-	-
Issued by non U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies	-	-	-	-
All other	-	-	-	-
Other debt and other fixed income securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	-	-	-	-
Unaffiliated non-U.S. securities (including Canada)	-	-	-	-
Affiliated securities	-	-	-	-

See accompanying independent auditors' report on supplemental material.

Texas Windstorm Insurance Association

Summary Investment Schedule

December 31, 2013

(Amounts in Thousands)

Investment categories	Gross Investment Holdings * Amount	%	Admitted Assets as Reported in the Annual Statement ** Amount	%
Equity interests:				
Investments in mutual funds	-	-	-	-
Preferred stocks:				
Affiliated	-	-	-	-
Unaffiliated	-	-	-	-
Publicly trade equity securities (excluding preferred stocks):				
Affiliated	-	-	-	-
Unaffiliated	-	-	-	-
Other equity securities:				
Affiliated	-	-	-	-
Unaffiliated	-	-	-	-
Other equity interests including tangible personal property under lease:				
Affiliated	-	-	-	-
Unaffiliated	-	-	-	-
Mortgage loans:				
Construction and land development	-	-	-	-
Agricultural	-	-	-	-
Single family residential properties	-	-	-	-
Multifamily residential properties	-	-	-	-
Commercial loans	-	-	-	-
Mezzanine real estate loans	-	-	-	-
Real estate investments:				
Property occupied by the company	-	-	-	-
Property held for production of income	-	-	-	-
Property held for sale	-	-	-	-
Contract loans	-	-	-	-
Receivables for securities	-	-	-	-
Cash, cash equivalents and short-term investments	439,193	100.00	439,193	100.00
Other invested assets	-	-	-	-
Total invested assets	$ 439,193	100.00	$ 439,193	100.00

**Gross investment holdings as valued in compliance with the NAIC Accounting Procedures Manual.*

*** The Association has no securities lending reinvested collateral at December 31, 2013.*

See accompanying independent auditors' report on supplemental material.

Texas Windstorm Insurance Association

Supplemental Investment Risk Interrogatories

December 31, 2013

(Amounts in Thousands)

1)	Reporting entity's total admitted assets as reported in the accompanying financial statements.	$ 440,231

Questions 2 through 23 are not applicable.

See accompanying independent auditors' report on supplemental material.

7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? YES[ ] NO [X]

7.2 If yes, indicate the number of reinsurance contracts containing such provisions. N/A

7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? YES[ ] N/A [X]

9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year–end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

(a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

(b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity; or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

(c) Aggregate stop loss reinsurance coverage;

(d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;

(e) A provision permitting reporting of losses, or payment of losses, less frequently than a quarterly basis (unless there is no activity during the period); or

(f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. YES[X] NO [ ]

See accompanying independent auditors' report on supplemental material.

9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling by, or under control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

(a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

(b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract? YES[X] NO [ ]

9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:

(a) The aggregate financial statement impact gross of all such ceded reinsurance contacts on the balance sheet and statement income.

Financial Impact – Section A	As Reported	Interrogatory 9 Reinsurance Effect	Restated Without Interrogatory 9 Reinsurance
Assets – Line 1			
Assets	$ 440,231	$ -	$ 440,231
Liabilities	440,231	24,745	415,486
Surplus as regards to policyholders	-	(24,745)	(24,745)
Income before taxes	170,907	(125,976)	296,883

See accompanying independent auditors' report on supplemental material.

(b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and

Effective June 1, 2013, the reinsurance contract is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under Policies classified by the Association as Property business, including, but not limited to Residential, Commercial and Inland Marine business, in force at the inception of this Contract, or written or renewed during the term of this Contract by or on behalf of the Association. The reinsurer shall be liable in respect of each Loss Occurrence for 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of $1.7 billion each Loss Occurrence, subject to limits of liability to the Reinsurer of $1 billion each Loss Occurrence, and $1 billion for all Loss Occurrences commencing during the term of the contract.

The contract is being reported pursuant to Interrogatory 9.1.

(c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.

The Association seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance companies.

9.4 Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

(a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or

(b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP? YES [ ] NO [X]

9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP. N/A

See accompanying independent auditors' report on supplemental material.

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APPENDIX B

GLOSSARY OF TERMS

The following capitalized terms appearing in the Official Statement, including Appendix C hereof, have the meanings set forth below unless the context otherwise requires A reference to any of these terms in the singular number includes the plural and vice versa.

"Account" or "Accounts" means the account or accounts within a Fund, which may be created and established pursuant to the Master Resolution or any Supplemental Resolution, which Accounts do not include the Operating Account.

"Act" means Chapter 2210, Texas Insurance Code, including particularly Subchapters B-1, H, and M of such chapter, as amended.

"Actual Net Coverage Revenue Requirement" means, for a specified period, the actual Net Coverage Revenue coverage requirement established for the Bonds in Section 2.03 of the Financing and Pledge Agreement.

"Actual Net Coverage Revenues" means Net Coverage Revenues that have been realized for the period of time specified in the Additional Obligations Test or in calculating the Actual Net Coverage Revenue Requirement.

"Additional Obligations Test" means the Additional Obligations Test described in Section 2.05(e) of the Master Resolution.

"Administrative Expenses" means expenses incurred by the Association, the Authority, or the Authority's consultants to administer Class 1 Public Securities issued under the Act, including fees for credit enhancement, paying agents, trustees, attorneys, and other professional services, and including any expenses incurred pursuant to the Funds Management Agreement and the Deposit Account Control Agreement.

"Administrative Expenses Account" means the account created and designated within the Obligation Revenue Fund pursuant to Section 4.01 of the Master Resolution.

"Annual Debt Service Requirements" means, for each calendar year, the sum of (i) the interest due on the Outstanding Bonds in such calendar year, assuming that the Outstanding Bonds are retired as scheduled (including by reason of sinking fund installments), and (ii) the principal amount of the Outstanding Bonds due in such calendar year (including any sinking fund installments due in such calendar year).

"Annual Period" means the calendar year or any consecutive twelve-month period.

"Association" means the Texas Windstorm Insurance Association or any successor thereto.

"Association Program" means any or all of the purposes authorized to be funded with the public security proceeds under Section 2210.608 of the Act, including but not limited to:

(a) the payment of Losses and Operating Expenses of the Association;

(b) the payment of Reinsurance Costs, subject to the restriction below;

(c) the payment of Costs of Issuance and Administrative Expenses;

(d) the provision of a debt service reserve fund or account;

(e) the payment of capitalized interest and principal on public securities for a period determined necessary by the Association, subject to the restriction below;

(f) the payment of obligations related to Financial Arrangements entered into by the Association as temporary sources of payment of Losses and Operating Expenses of the Association; and

(g) the reimbursement of the Association for any cost described by subdivisions (a) through (f) paid by the Association before issuance of public securities.

Notwithstanding the above (i) the proceeds from Pre-Event Class 1 Public Securities, including Investment Income therefrom, may not be used to pay Reinsurance Costs, and (ii) the proceeds from Class 1 Public Securities may be used to pay capitalized interest for the period determined necessary by the Association, not to exceed two years.

"Association Representative" means a person at the time designated to act on behalf of the Association for purposes of the Master Resolution or any Supplemental Resolution, which initially shall be the General Manager or such individual designated by a written instrument containing the specimen signature of such person and signed on behalf of Association by the General Manager.

"Authority" means the Texas Public Finance Authority or any successor thereto.

"Authority Representative" means a person at the time designated to act on behalf of the Authority for purposes of the Master Resolution, or any Supplemental Resolution, as appointed by the Board, which initially shall be the Executive Director or the Vice Chair or such individual designated by a written instrument containing the specimen signature of such person and signed on behalf of Authority by the Executive Director or the Vice Chair.

"Authorized Denominations" means the authorized denominations of a Series of Bonds established pursuant to a Supplemental Resolution, and with respect to the Series 2014 Bonds, $100,000 or any integral multiple of $5,000 in excess thereof.

"Authorizing Law" means, collectively, the Act; the TPFA Act; Chapter 1201, Texas Government Code, as amended; Chapter 1371, Texas Government Code, as amended (applicable only when the public securities qualify as an "obligation" under such chapter); the Department Rules; and any regulations promulgated by the Authority under the TPFA Act.

"Blanket Letter of Representations" means any representation letter of, or agreement delivered by the Authority pursuant to the Master Resolution or a Supplemental Resolution providing for administration of a Book-Entry System for the Bonds and any successive arrangements under which the Authority provides for the administration of a Book-Entry System for such Bonds.

"Board" means the Board of Directors of the Authority.

"Bond Counsel" means any law firm or firms experienced in matters relating to the issuance of obligations that are engaged by the Board to provide legal advice and render traditional legal services to the Authority as bond counsel.

"Bonds" means Pre-Event Class 1 Public Securities and Post-Event Class 1 Public Securities issued under the Master Resolution.

"Book-Entry Bond" means any Bond administered under a Book-Entry System pursuant to the Master Resolution or a Supplemental Resolution and the Blanket Letter of Representations.

"Book-Entry System" means the system maintained by the Securities Depository described herein.
"Business Day" means:

(a) any day that is a day on which the Trust Company is open for business and:

A. while the Authority is the Paying Agent/Registrar, on which the Authority is open for business at its principal business office; or

B. while a Person other than the Authority is the Paying Agent/Registrar, on which financial institutions in the city where the principal corporate trust office of the Paying Agent/Registrar, are located are not authorized by law or executive order to close; and

(b) Any day other than a Saturday, Sunday, legal holiday, or any other day on which banking institutions in New York, New York, and in Austin, Texas are generally authorized or obligated by law or executive order to close or a day on which the New York Stock Exchange is closed.

Any payments required hereunder to be made on any day that is not a Business Day may be made instead on the next succeeding Business Day, and no interest shall accrue on such payments in the interim.

"Catastrophe Area" means a municipality, a part of a municipality, a county, or a part of a county designated by the Commissioner as a catastrophe area under Section 2210.005 of the Act.

"Catastrophe Fund" means the catastrophe reserve trust fund established under Subchapter J of the Act.

"Catastrophe Year" means a calendar year in which an occurrence or series of occurrences results in insured losses, regardless of when insured losses are ultimately paid.

"Catastrophic Event" means an occurrence or a series of occurrences that occurs in a Catastrophe Area resulting in Losses and Operating Expenses of the Association in excess of Premium and Other Revenue of the Association.

"Chair" means the Chair of the Board, or any member of the Board authorized to act as Chair.

"Catastrophic Losses" means Losses resulting from a Catastrophic Event.

"Class 1 Public Securities" means a public security that the Authority may issue as authorized by Sections 2210.072 and 2210.612 of the Act, including the Bonds, issued pursuant to the Master Resolution.

"Class 2 Public Securities" means a public security that the Authority may issue as authorized by Sections 2210.073 and 2210.613 of the Act.

"Class 3 Public Securities" means a public security that the Authority may issue as authorized by Sections 2210.074 and 2210.6135 of the Act.

"Commissioner" means the Commissioner of Insurance of the State or any successor thereto.

"Comptroller" means the Comptroller of Public Accounts of the State or any successor thereto and any official designated to act on behalf of the Comptroller.

"Costs of Issuance" means the items of expense payable or reimbursable directly by the Authority or the Association and related to the issuance of public securities.

"Costs of Issuance Amount" means the amount of proceeds of the public securities expected to be expended for payment of Costs of Issuance.

"Credit Agreement" means any agreement defined as a "credit agreement" by Chapter 1371, Texas Government Code, as amended, wherein the payment of obligations under such Credit Agreement is secured by Net Premium and Other Revenue on parity with the Bonds.

"Credit Provider" means each party that provides credit or liquidity support for, or insurance ensuring the payment of, any amounts due or owing on a Series of Bonds.

"Date of Calculation" means the fifth Business Day of each calendar month or as may be further determined in any Supplemental Resolution.

"Debt Service Account" means the account created and designated within the Obligation Revenue Fund pursuant to Section 4.01 of the Master Resolution.

"Debt Service Account Minimum Balance" means an amount that, when added to the amount required for the Debt Service Reserve Requirement results in a total amount established to provide reserves for the payment of Bonds, equal to the lesser of (a) 1.25 times the average annual Obligations on the Bonds then Outstanding, (b) Maximum Annual Obligations on the Bonds then Outstanding; or (c) 10% of the proceeds of the Bonds then Outstanding; provided, however, that as a result of an optional redemption as provided in a Supplemental Resolution, the Debt Service Account Minimum Balance shall be reduced by a percentage equal to the pro rata principal amount of Bonds redeemed by such optional redemption divided by the total principal amount of the Outstanding Bonds prior to such redemption; provided further that, the Debt Service Account Minimum Balance shall not be less than 50% of the average Annual Debt Service Requirements of the Bonds then Outstanding.

"Debt Service Reserve Account" means the account created and designated within the Obligation Revenue Fund pursuant to Section 4.01of the Master Resolution.

"Debt Service Reserve Requirement" means the amount, if any, required to be maintained in any reserve fund created pursuant to the Master Resolution or any Supplemental Resolution, which amount shall be computed and recomputed upon the issuance of each Series of Bonds and on each date on which such Bonds are paid at maturity or optionally or mandatorily redeemed and as described in any Supplemental Indenture; and with respect to the Series 2014 Bonds, an amount equal to six months' of interest to be due on the Series 2014 Bonds in each calendar year.

"Department" means the Texas Department of Insurance or any successor thereto.

"Department Representation Letter" means the letter from the Department to the Association and the Authority delivered on September 17, 2014, and effective as of the Issuance Date of the Series 2014 Bonds, in substantially the form attached to the Master Resolution as Exhibit "C".

"Department Rules" means Subchapter E, Division 3, of Chapter 5 of Part I of Title 28 of the Texas Administrative Code, as amended.

"Deposit Account Control Agreement" means a "Deposit Account Control Agreement" among the Association, the Authority, and the Depository Bank dated as of September 1, 2014, as it may be amended and supplemented from time to time by any supplemental deposit account control agreement, in substantially the form attached to the Master Resolution as Exhibit "D".

"Depository Bank" means the bank(s) or financial institution(s) serving as a depository bank for the Association.

"Disbursement Request" means the written disbursement request to be presented by the Association to the Authority when requesting funds from the Program Fund held by the Trust Company, in substantially the form attached to the Financing and Pledge Agreement.

"Dissemination Agent" means FSC Continuing Disclosure Services, a Division of First Southwest Company, a nationally recognized dissemination agent, or any one or more successor nationally recognized dissemination agent(s) selected by the Association and the Authority.

"DTC" means The Depository Trust Company of New York, New York, or any successor securities depository.

"DTC Participant" means brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among such parties.

"Earned Premium" means that portion of the Gross Premium that the Association has earned because of the expired portion of the time for which the insurance policy has been in effect.

"Eligible Investments" mean any securities or obligations in which the Trust Company is authorized by law to invest the money on deposit in the Funds or Accounts.

"EMMA" means the electronic municipal market access system of the MSRB.

"Event of Default" has the meaning assigned to such term in Section 5.01(a) of the Master Resolution.

"Excess Pledged Revenues" means the amount of the Pledged Revenues that is determined to be available from time to time for deposit into the Redemption Account or distribution to the Association to be used pursuant to the Act and the Department Rules.

"Executive Director" means the executive director of the Authority or any member of the staff of the Authority authorized by the Board to perform the duties of the Executive Director.

"Financial Arrangement" means an agreement between the Association and any market source under which the market source makes interest-bearing loans or provides other financial instruments to the Association to enable the Association to pay Losses or obtain public securities under Section 2210.072 of the Act.

"Financing and Pledge Agreement" means the Financing and Pledge Agreement (Class 1 Public Securities) dated as of September 1, 2014, by and between the Association and the Authority, as it may be amended and supplemented from time to time by any supplemental financing and pledge agreement relating to the Association Program, in substantially the form attached to the Master Resolution as Exhibit "A".

"First Supplemental Resolution" means the "First Supplemental Resolution Authorizing the Issuance of Texas Public Finance Authority Texas Windstorm Insurance Association premium Revenue Taxable Bonds, Series 2014 as Class 1 Public Securities in the Aggregate Principal Amount of $500,000,000; Authorizing the Execution and Delivery of a Purchase Contract and Other Documents in Connection Therewith; Approving the Form of an Official Statement; and the Taking of Action to Effect the Sale and Delivery of such Bonds, and Related Matters Thereto" adopted by the Board on September 24, 2014.

"Funds" mean, collectively, the Obligation Revenue Fund, and each account created therein, and the Program Fund, and each account created therein, created pursuant to the Master Resolution or any Supplemental Resolution.

"Funds Management Agreement" means the Funds Management Agreement dated as of September 1, 2014, between the Authority and the Trust Company providing for the administration of the proceeds of the Bonds and the availability of Pledged Revenues for the payment of Obligations, as it may be amended and supplemented from time to time by any supplemental funds management agreement relating to the Association Program, in substantially the form attached to the Master Resolution as Exhibit "B".

"General Manager" means the general manager of the Association.

"Government Obligations" means any of the following:

(a) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States;

(b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent;

(c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and

(d) other investments now or hereafter authorized by State law for the investment of escrow deposits.

"Gross Premium" means the amount of Premium the Association receives, less Premium returned to policyholders for cancelled or reduced policies.

"Initial Series of Bonds" means the initial Series of Bonds issued and delivered by the Authority under the Master Resolution as authorized pursuant to a Supplemental Resolution, specifically the Series 2014 Bonds.

"Interest Payment Date" means the date or dates on which interest on the Bonds is due and payable, as described in a Supplemental Resolution; and with respect to the Series 2014 Bonds, initially January 1, 2015, and thereafter on each July 1 and January 1 until maturity or prior redemption of the Series 2014 Bonds.

"Investment Income" means income from the investment of funds described in the Master Resolution.

"Issuance Date" means the date of delivery of a Series of Bonds to the initial purchaser or purchasers thereof against payment therefor as provided in a Supplemental Resolution.

"Legislature" means the Legislature of the State.

"Losses" mean amounts paid or expected to be paid on Association insurance policy claims, including adjustment expenses, litigation expenses, other claims expenses, and other amounts that are incurred in resolving a claim for indemnification under an Association insurance policy.

"Make-Whole Redemption Price" means the amount calculated pursuant to Section 4.01(a) of the First Supplemental Resolution.

"Master Resolution" means the "Master Resolution Authorizing The Issuance of Class 1 Public Securities on Behalf of the Texas Windstorm Insurance Association; Establishing and Pledging the Security Therefor; Authorizing the Execution and Delivery of a Financing and Pledge Agreement, a Funds Management Agreement, a Deposit Account Control Agreement, and Other Documents in Connection Therewith; Accepting a Department of Insurance Representation Letter; and Resolving Related Matters" adopted by the Board on September 24, 2014.

"Maximum Annual Obligations" means, as of the Date of Calculation, the greatest amount of Obligations for the current or any succeeding calendar year.

"Maximum Annual Subordinate Obligations" means, as of the Date of Calculation, the greatest amount of annual payments on Subordinate Lien Bonds for the current or any succeeding calendar year.

"Municipal Advisor" means the financial advisory or investment banking firm or firms of nationally recognized experience in municipal bonds selected by the Authority to provide financial advice to the Authority.

"MSRB" means the Municipal Securities Rulemaking Board or any successor thereto.

"Net Coverage Revenues" means Net Premium and Other Revenue, less Non-Catastrophic Losses, less obligations due on Subordinate Lien Bonds, less Underwriting Expenses, less Reinsurance Costs, less Premium Surcharge and Member Assessment Repayment Obligations, and less amounts necessary to replenish the Debt Service Account Minimum Balance and the Debt Service Reserve Requirement.

"Net Premium" means Gross Premium less Unearned Premium.

"Non-Catastrophic Losses" means Losses not resulting from a Catastrophic Event.

"Obligation Revenue Fund" means the dedicated trust fund established by the Authority and created and designated pursuant to the Act and Section 4.01 of the Master Resolution and the "Accounts" created therein.

"Obligations" means, with respect to any particular Annual Period and any Series of Bonds, an amount equal to the sum of:

(a) all interest payable on the Bonds during such period, except to the extent that such interest is to be paid from amounts (including any Investment Income) deposited in the Debt Service Account for the respective Bonds for the purpose of providing capitalized interest, plus

(b) that portion of the principal amount of such Bonds which is due and payable (either at maturity or redemption) during such period, plus

(c) any redemption premium due, if any, and payable on such Bonds during such period, plus

(d) any amount owed under a Credit Agreement relating to such Bonds;

provided, however, that the following rules shall apply for purposes of satisfying the requirement under the Financing and Pledge Agreement relating to the calculation of Obligations or the requirement under Article IV of the Master Resolution relating to the deposit of sufficient Pledged Revenues to the Debt Service Account to fund anticipated Obligations during any such calendar year:

(i) Interest and principal for any Series of Bonds shall be calculated on the assumption that no Bonds which are Outstanding on the Date of Calculation will cease to be Outstanding except by reason of the scheduled payment or redemption of principal on the due date thereof.

(ii) Interest accreting on Bonds issued as capital appreciation bonds shall be treated as principal payable at maturity of such Bonds.

(iii) Interest (other than interest accreting on capital appreciation bonds) shall be deemed to accrue monthly and principal also shall be deemed to accrue monthly but only during the 12 months immediately preceding any scheduled principal payment (or during such shorter periods as may be appropriate if principal payments are more frequent than every 12 months).

(iv) Investment Income in the Obligation Revenue Fund and the Accounts created therein during the calendar year or other period of calculation, which has been transferred to the Debt Service Account, shall reduce Obligations on Bonds during such calendar year or other period of calculation.

"Operating Account" means one or more depository accounts established by the Association at a Depository Bank and held outside of the Obligation Revenue Fund.

"Operating Expenses" means the reasonable and necessary administrative expenses incurred in connection with the operation of the Association and the processing of Association policy claims excluding expenses related to Catastrophic Losses.

"Other Revenue" means revenue of the Association from any source other than Premium. Other Revenue includes Investment Income on Association assets. Other Revenue does not include premium surcharges and member assessments collected under Sections 2210.259, 2210.613, 2210.6135, and 2210.6136 of the Act and Investment Income on those amounts.

"Outstanding" means, as of the date of determination, all Bonds delivered under the Master Resolution and any Supplemental Resolution, except:

(a) Bonds canceled and delivered to the Authority or delivered to the Paying Agent/Registrar, as applicable, for cancellation;

(b) Bonds issued upon transfer of or in exchange for and in lieu of which other Bonds have been delivered; and

(c) Bonds under which obligations of the Authority have been defeased, released, discharged, or extinguished in accordance with the terms thereof.

"Owner" or "Registered Owner" means the Person who is the beneficial owner of any public security as shown on the Register or each Person for which a participant in a book-entry system acquired an interest in a public security; provided, however, that for a particular Series of Bonds, such term shall also include any Credit Provider for such Bonds.

"Paying Agent/Registrar" means initially, the Authority for the Series 2014 Bonds, and thereafter, any financial institution appointed by the Authority in accordance with the Master Resolution or any Supplemental Resolution for the Bonds as the paying agent/registrar for any Bond.

"Person" means any individual, partnership, corporation, trust, or unincorporated organization or any governmental entity.

"Pledged Revenues" means:

(a) Net Premium and Other Revenue;

(b) amounts on deposit in the Funds and Accounts created hereunder and in any Supplemental Resolution, including Investment Income or earnings, if any, credited to such Funds and Accounts;

(c) any revenue received pursuant to the exercise of any rights and remedies of the Authority under the Financing and Pledge Agreement, the Funds Management Agreement, and the Deposit Account Control Agreement;

(d) proceeds of any Bonds issued for the purpose of paying, refinancing, renewing, or refunding Bonds previously issued and Outstanding thereunder; and

(e) any additional revenues hereafter designated as Pledged Revenues that are lawfully available to pay Obligations and Administrative Expenses.

"Policy Takeout Proposals" means proposals provided to the Association in accordance with the Association's approved depopulation procedures from voluntary market insurance carriers to select and voluntarily assume or write policies currently written by the Association with the goal to reduce or lessen the exposure of the Association from potential Losses.

"Post-Event Class 1 Public Securities" or "Post-Event Bonds" means Class 1 Public Securities authorized to be issued on or after the occurrence of a Catastrophic Event pursuant to Sections 2210.072 and 2210.612 of the Act.

"Post-Event Costs of Issuance Account" means the account created and designated within the Program Fund pursuant to Section 4.02 of the Master Resolution.

"Post-Event Program Account" means the account created and designated within the Program Fund pursuant to Section 4.02 of the Master Resolution.

"Pre-Event Class 1 Public Securities" or "Pre-Event Bonds" means Class 1 Public Securities authorized and issued prior to the occurrence of a Catastrophic Event pursuant to Sections 2210.072 and 2210.612 of the Act.

"Pre-Event Costs of Issuance Account" means the account created and designated within the Program Fund pursuant to Section 4.02 of the Master Resolution.

"Pre-Event Program Account" means the account created and designated within the Program Fund pursuant to Section 4.02 of the Master Resolution.

"Premium" means amounts received in consideration for the issuance of Association insurance coverage; however, Premium does not include premium surcharges collected by the Association pursuant to Sections 2210.259, 2210.613, and 2210.6136 of the Act.

"Premium Revenue Account" means the account created and designated within the Obligation Revenue Fund in Section 4.01 of the Master Resolution.

"Premium Surcharge and Member Assessment Repayment Obligations" means the amount of premium surcharge and member assessment collected under Section 2210.613 of the Act that the Commissioner has ordered the Association to repay over a specified number of years under Section 2210.6136 of the Act and Title 28, Texas Administrative Code, Section 5.4126.

"Proceeds" means any Sale Proceeds and Investment Proceeds of the Class 1 Public Securities.

"Program Fund" means the fund created pursuant to Section 4.02 of the Master Resolution and the "Accounts" created therein.

"Projected Net Coverage Revenues" mean Net Coverage Revenues projected to be realized for the period of time specified in the Additional Obligations Test, and for purposes of calculating the Projected Net Coverage Revenue Requirement and the Net Coverage Revenue covenant in Section 4.03 of the Financing and Pledge Agreement; in calculating Projected Net Coverage Revenues, the Association shall identify the critical assumptions used to project such revenues, and in making such projections may only use amounts projected to be received from adopted policyholder rate increases.

"Projected Net Coverage Revenue Requirement" means, for a consecutive four calendar quarter period, the projected Net Coverage Revenue coverage requirement established for the Bonds in Section 2.03 of the Financing and Pledge Agreement.

"Public Securities Request" means the Association's request to the Commissioner for the issuance of Class 1 Public Securities.

"Purchase Contract" means one or more public security purchase contracts among the Authority and a purchaser or the representative(s) of an underwriting syndicate pursuant to which Bonds are sold.

"Record Date" means the close of business on the record date as established in a Supplemental Resolution, preceding the applicable Interest Payment Date; and with respect to the Series 2014 Bonds, means the close of business on the 15th calendar day of the month next preceding an Interest Payment Date.

"Redemption Account" means the account created and designated within the Obligation Revenue Fund pursuant to Section 4.01 hereof.

"Register" means the official registration records for the Bonds maintained by the Paying Agent/Registrar.

"Reinsurance Costs" means the Association's cost to acquire reinsurance.

"Request for Financing" means the resolution, letter, or other written communication to the Authority from the Association, approved by the Commissioner, requesting the issuance of a Series of Bonds.

"Required Monthly Debt Service Deposit" shall have the meaning assigned to such term in Section 4.04(a) hereof.

"Rule" means Rule 15c2-12, as amended, adopted by the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

"Sale Proceeds" means any amounts actually or constructively received from the sale (or other disposition) of any Class 1 Public Securities, including amounts used to pay underwriters' discount or compensation and accrued interest.

"Secretary" means the Secretary of the Board, or any member of the Board authorized to act as Secretary.

"Securities Depository" means any Person acting as a securities depository for the Book-Entry Bonds.

"Series" means any Bonds identified as a separate series in a Supplemental Resolution, which is authenticated and delivered on an Issuance Date, and thereafter authenticated in lieu of or in substitution for such Bonds pursuant to the Supplemental Resolution.

"Series 2014 Bonds" means the "Texas Public Finance Authority Texas Windstorm Insurance Association Premium Revenue Taxable Bonds, Series 2014" authorized by Section 2.05 of the Master Resolution and Section 3.01 of the First Supplemental Resolution.

"State" means the State of Texas.

"Stated Maturity Date" means the date or dates of maturity for each Bond so specified in each Bond.

"Sufficient Assets" means any combination of the following:

(a) an amount of money sufficient, without investment, to pay such Obligations when due; or

(b) Government Obligations that:

(i) are not redeemable prior to maturity;

(ii) mature as to principal and interest in such amounts and at such times as will provide, without reinvestment, money sufficient to pay such Obligations when due; and

(iii) have been verified by an independent firm of nationally recognized certified public accountants or such other accountant verifying the sufficiency of the Government Obligations.

"Subordinate Lien Bonds" means any Class 1 Public Securities secured, in whole or in part, by a pledge of the Pledged Revenues junior and subordinate to the pledge of the Pledged Revenues pertaining to any then Outstanding Bonds and authorized by a resolution of the Authority.

"Supplemental Resolution" means any resolution of the Board adopted concurrently with or subsequent to the adoption of the Master Resolution that supplements the Master Resolution for (i) the purpose of authorizing and providing the terms and provisions of a Series of Bonds or (ii) any other purposes permitted by Article VI hereof.

"TPFA Act" means the Texas Public Finance Authority Act, Chapter 1232, Texas Government Code, as amended.

"Transaction Documents" means collectively, the Master Resolution, and any other document entered into in connection with the issuance of Bonds, including but not limited to, a Supplemental Resolution, a Funds Management Agreement, a Purchase Contract, a Financing and Pledge Agreement, a Deposit Account Control Agreement, the Department Representation Letter, the Bonds, and, if applicable, a Remarketing Agreement, a Tender Agent Agreement, a Credit Agreement, and a Paying Agent/Registrar Agreement.

"Treasury" means the funds of the State subject to the custody and control of the Comptroller and available for appropriation by the Legislature.

"Trust Company" means the Texas Safekeeping Trust Company or any successor thereto.

"Trust Company Representative" means any individual employed by the Trust Company who is designated by the Trust Company as the authorized representative for purposes of the Funds Management Agreement or the Class 1 Public Securities.

"Underwriter" means the underwriter or syndicate of underwriters identified in a purchase contract to determine the structure, time of sale, and the terms necessary for it to purchase Bonds, and its successors and assigns; and with respect to the Series 2014 Bonds, means Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of a syndicate of underwriters identified in the Purchase Contract, and its successors and assigns

"Underwriting Expenses" means expenses of the Association including agent commissions, Premium taxes and other expenses associated with underwriting policies and general administration of the Association.

"Unearned Premium" means that portion of Gross Premium that has been collected in advance for insurance that the Association has not yet earned because of the unexpired portion of the time for which the insurance policy was in effect.

"Vice Chair" means the Vice Chair of the Board, or any member of the Board authorized to act as Vice Chair.

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APPENDIX C

EXCERPTS OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS

The following are excerpts of certain provisions of the Master Resolution, the First Supplemental Resolution, the Financing and Pledge Agreement, and the Deposit Account Control Agreement. Such excerpts do not purport to be complete or verbatim and reference should be made to the Master Resolution, the First Supplemental Resolution, the Financing and Pledge Agreement, and the Deposit Account Control Agreement, respectively, for the entirety thereof. Copies of such documents may be obtained from the Executive Director, Texas Public Finance Authority, 300 West 15th Street, Suite 4111, Austin Texas 78701, (512) 463-5544. Capitalized terms appearing in this "APPENDIX C--EXCERPTS OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS" of the Official Statement have the meanings set forth in "APPENDIX B--GLOSSARY OF TERMS" of this Official Statement.

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MASTER RESOLUTION

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ARTICLE II. AUTHORIZATION AND SECURITY

Section 2.01 Authorization and Purpose. (a) The purposes of this Master Resolution are:

(i) to establish a lien and the security for all Class 1 Public Securities, including the Bonds, and the payment of Obligations;

(ii) to prescribe the minimum standards for the authentication, sale, execution, and delivery of the Class 1 Public Securities; and

(iii) to prescribe other matters and the general rights of the Owners, the Authority, any Credit Provider, the Paying Agent/Registrar, and the Trust Company in relation to such public securities.

(b) Before the occurrence of a Catastrophic Event and after a Request for Financing and approval by the Commissioner of a Series of Pre-Event Class 1 Public Securities, the Authority, on behalf of the Association, shall issue Pre-Event Class 1 Public Securities pursuant to the Authorizing Law and as authorized in a Supplemental Resolution to provide funds for the purpose of funding the Association Program Costs.

(c) On or after the occurrence of a Catastrophic Event and after a Request for Financing and upon approval by the Commissioner of a Series of Post-Event Class 1 Public Securities, the Authority, on behalf of the Association, shall issue Post-Event Class 1 Public Securities pursuant to the Authorizing Law and as authorized in a Supplemental Resolution to provide funds for the purpose of funding the Association Program Costs.

Section 2.02 Particular Terms and Provisions of the Bonds. All Bonds issued under this Master Resolution shall be authorized and identified in a Supplemental Resolution. Any Supplemental Resolution shall specify the manner of sale; method of determining the interest rate and the use of proceeds; the form and denomination; and such other details, terms, conditions, redemption features, and provisions of such Bonds, as the Board deems appropriate and as do not conflict with this Master Resolution, the

Authorizing Law, or any Credit Agreement then in effect. The Bonds may be sold for cash or issued for such other consideration as may be permitted by the Authorizing Law.

Section 2.03 Security for the Bonds. (a) Pursuant to the Financing and Pledge Agreement, the Association has irrevocably pledged and assigned all rights, title, and interest in the Pledged Revenues to the Authority. According to such assignment and the authority granted under the Authorizing Law, for the benefit of any Owners, the Authority hereby pledges as the sole security and sole source of payment for the Bonds and Administrative Expenses, all of its right, title, and interest in the Financing and Pledge Agreement, the Funds Management Agreement, the Deposit Account Control Agreement, and the Pledged Revenues. Said pledge shall constitute an irrevocable first lien on such Pledged Revenues for the payment of the Bonds and Administrative Expenses.

(b) THE BONDS ARE PAYABLE SOLELY FROM THE PLEDGED REVENUES AND ARE NOT AN OBLIGATION OF THE STATE, ANY AGENCY OF THE STATE, POLITICAL CORPORATION, OR POLITICAL SUBDIVISION OF THE STATE, AND NONE OF THEM IS OBLIGATED TO PAY THE BONDS, EXCEPT TO THE EXTENT THE ASSOCIATION IS OBLIGATED TO PAY UNDER THE FINANCING AND PLEDGE AGREEMENT AND THE AUTHORITY IS OBLIGATED TO PAY PURSUANT TO THIS MASTER RESOLUTION, A SUPPLEMENTAL RESOLUTION, AND THE AUTHORIZING LAW. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, OR ANY OTHER AGENCY, POLITICAL CORPORATION, OR POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE BONDS.

Section 2.04 Perfected Security Interest. (a) A certified copy of this Master Resolution and any Supplemental Resolution shall be delivered to the Trust Company and the Paying Agent/Registrar, and the same shall constitute a security agreement pursuant to and for all purposes of State law, with the Owners of the Class 1 Public Securities as the secured parties to the extent stated in this Master Resolution and any Supplemental Resolution. The grants, assignments, liens, pledges, and security interests created therein shall become effective immediately upon the issuance of any such Class 1 Public Securities, and the same shall be continuously effective for so long as any such Class 1 Public Securities are Outstanding. The Authority hereby covenants that it will cause to be filed all documents, security instruments, and financing statements as it may reasonably deem necessary to protect, maintain, and enforce the lien and pledge of the security interest created by this Master Resolution, any Supplemental Resolution, and the Financing and Pledge Agreement.

(b) Chapter 1208, Texas Government Code, as amended, applies to the security interest that secures payment of the Bonds, and the pledge of the Pledged Revenues granted by the Authority under this Master Resolution and any Supplemental Resolution, and such pledge is, therefore, valid, effective, and perfected. If State law is amended at any time while the Bonds are Outstanding such that the pledge of the Pledged Revenues hereunder is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, as amended, then in order to preserve to the Owners of Bonds the perfection of the security interest in said pledge, the Authority agrees to take such measures as are reasonable and necessary under State law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, as amended, and enable a filing to perfect the security interest in the Pledged Revenues to occur.

(c) Chapter 1208, Texas Government Code, as amended, applies to the pledge of the Pledged Revenues granted by the Association to the Authority, and such pledge is, therefore, valid, effective, and perfected. However, in order to assure the perfection and delivery of the security interest in and the first lien pledged on the Pledged Revenues in the Operating Account, the Association and the Authority agreed to provide for the perfection of the security interest under Chapter 9, Texas Business and Commerce Code, as amended. The Financing and Pledge Agreement and the Deposit Account Control Agreement shall be

considered security agreements pursuant to and for all purposes under State law, with the Authority as the secured party for the benefit of the Owners. The grants, assignments, liens, pledges and security interests created herein and recognized in the Deposit Account Control Agreement shall become effective immediately upon and from the time of payment for and the delivery of the Initial Series of Bonds under this Master Resolution and any Supplemental Resolution, and the same shall be continuously effective for so long as any Bonds are Outstanding. To this end, the Association and Authority shall enter into a Deposit Account Control Agreement with respect to the Operating Account, in substantially the form attached hereto as Exhibit "D", in order to authorize the Authority to cause the transfer of the Pledged Revenues in a manner contemplated by the Financing and Pledge Agreement. The Association and the Authority agree to take such measures as are reasonable and necessary under State law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, as amended, and to cause to be filed financing statements as may be reasonably necessary to perfect the security interest in the Pledged Revenues.

Section 2.05 Issuance of Bonds. (a) Issuance of Initial Series of Bonds. Subject to the requirements of this subsection, the Authority, on behalf of the Association, shall issue the Initial Series of Bonds for the purpose of financing, in whole or in part, the Association Program. Notwithstanding the foregoing, the Initial Series of Bonds shall not be issued and delivered unless:

(i) the Association shall deliver a Public Securities Request to the Commissioner;

(ii) the Commissioner shall execute and deliver written approval of the Public Securities Request relating the issuance of the Initial Series of Bonds and the authorized maximum principal amount of such Series;

(iii) the Association shall deliver a Request for Financing to the Authority;

(iv) the Authority shall adopt, execute, and deliver the Master Resolution and a Supplemental Resolution authorizing the issuance of the Initial Series of Bonds;

(v) the Authority and the Association shall adopt, execute and deliver a Financing and Pledge Agreement and a Deposit Account Control Agreement;

(vi) the Authority shall execute and deliver a Funds Management Agreement;

(vii) the Authority Representative certifies (which certification may rely on certificates and other documentation delivered by the Municipal Advisor or the Association Representative) to the effect that the Financing and Pledge Agreement (as the same may be amended) will provide Pledged Revenues sufficient to pay the Obligations and Administrative Expenses on the Initial Series of Bonds, including a statement of the principal and interest to be due on the Initial Series of Bonds; and

(viii) the Authority obtains an opinion of Bond Counsel that the execution and delivery of the Supplemental Resolution has been duly authorized by the Authority in accordance with this Master Resolution; that such Series of Bonds when duly executed and delivered by the Authority and authenticated by the Paying Agent/Registrar, will be valid and binding obligations of the Authority; and that upon the delivery of such Bonds the aggregate principal amount of the Bonds then Outstanding will not exceed the amount permitted by the Authorizing Law and this Master Resolution.

(b) Issuance of Additional Bonds. Following the issuance of the Initial Series of Bonds and subject to the Financing and Pledge Agreement, the requirements of this subsection, and the provisions of any

Supplemental Resolutions imposing any additional restriction thereon, the Authority, on behalf of the Association, may issue one or more Series of Bonds for the purpose of financing, in whole or in part, the Association Program, or for the purpose of refunding and defeasing any outstanding obligations which are Bonds. Such Bonds, when issued, and the interest thereon shall be equally and ratably secured by and payable from an irrevocable first lien on and pledge of Pledged Revenues, in the same manner and to the same extent as the Bonds Outstanding at the time, and shall be on parity and in all respects of equal dignity with other Bonds. Notwithstanding the foregoing, no installment, series, or issue of Bonds shall be issued and delivered unless:

(i) the Association delivers a Public Securities Request to the Commissioner;

(ii) the Commissioner executes and delivers written approval of the Public Securities Request relating to the issuance of the Series of Bonds and the authorized maximum principal amount of such Series;

(iii) the Association delivers a Request for Financing to the Authority;

(iv) the Authority adopts, executes, and delivers a Supplemental Resolution authorizing the issuance of the Series of Bonds;

(v) the Authority Representative certifies that the Authority is not in default, or as of the date of issuance and delivery of any Bonds then being issued will not be in default, as to any of its covenants, conditions, or obligations set forth in the Transaction Documents to which it is a party;

(vi) the Association Representative certifies that the Association is not in default as to any of its covenants, conditions, or obligations set forth in the Financing and Pledge Agreement or the Deposit Account Control Agreement;

(vii) the Trust Company Representative certifies that the Trust Company is not in default as to any covenants, conditions, or obligations set forth in the Funds Management Agreement;

(viii) the Authority Representative certifies (which certification may rely on certificates and other documentation delivered by the Municipal Advisor or the Association Representative) to the effect that the Financing and Pledge Agreement (as the same may be amended) will provide Pledged Revenues sufficient to pay Obligations and Administrative Expenses on all then Outstanding Bonds, and any additional Series of Bonds then proposed to be issued, stating:

(A) the principal and interest to be due on the Outstanding Bonds and any Financial Arrangements in each year after giving effect to the proposed Bonds; and

(B) that the Additional Obligations Test in Section 2.05(f) hereof will be met with respect to the issuance of the proposed Bonds;

(ix) the Authority obtains an opinion of Bond Counsel that the execution of the Supplemental Resolution has been duly authorized by the Authority in accordance with this Master Resolution; that such Series of Bonds when duly executed by the Authority and authenticated by the Paying Agent/Registrar, will be valid and binding obligations of the Authority; and that upon the delivery of such Bonds the aggregate principal amount of the Bonds then Outstanding will not exceed the amount permitted by the Authorizing Law and this Master Resolution.

(c) Subordinate Lien Bonds. Subject to the Financing and Pledge Agreement, the Authority reserves the right and may issue Subordinate Lien Bonds as authorized by and in accordance with requirements of the Act. The issuance of such Subordinate Lien Bonds shall be subject to any applicable requirements set forth in the resolution of the Authority approving the issuance of such Subordinate Lien Bonds and shall not be delivered unless the Association Representative certifies to the Authority (which certification may rely on certificates and other documentation delivered by the Municipal Advisor or the Association Representative) that the Additional Obligations Test in Section 2.05(f) hereof will be met with respect to the proposed issuance of the Subordinate Lien Bonds.

(d) Financial Arrangements. The Association may enter into Financial Arrangements as authorized by the Act, provided that such Financial Arrangements shall not be delivered unless (i) the Association Representative certifies to the Authority (which certification may rely on certificates and other documentation delivered by the Municipal Advisor or the Association Representative) that the Additional Obligations Test in Section 2.05(f) hereof will be met with respect to the proposed entry into the Financial Arrangements; and (ii) such Financial Arrangements are payable, in whole or in part, from a pledge of Net Premium and Other Revenue junior and subordinate to the pledge of the Pledged Revenues pertaining to the Bonds or Subordinate Lien Bonds, if any.

(e) Refunding Bonds. Bonds may be issued to refund or refinance one or more Series of Outstanding Bonds, Subordinate Lien Bonds, or any Obligation of a Credit Provider secured on parity with the Bonds; provided that (i) if such refunding or refinancing of Outstanding Bonds (including any cash contribution from the Association) results in a net present value savings, Section 2.05(f) hereof shall not apply; (ii) if any refunding or refinancing of Outstanding Bonds does not result in a net present value savings, such refunding or refinancing shall comply with Section 2.05(f) hereof; or (iii) if any refunding or refinancing of Outstanding Subordinate Lien Bonds is proposed, such refunding or refinancing shall comply with Section 2.05(f) hereof.

(f) Additional Obligations Test. Prior to the Authority's issuance of any Bonds (other than the Initial Series of Bonds) or any Subordinate Lien Bonds, or the Association entering into a Financial Arrangement, the Authority Representative shall certify that (which certification may rely upon certificates or other documentation delivered by the Municipal Advisor and the Association Representative) the following Additional Obligations Test set forth below will be met with respect to the Authority's issuance of proposed Bonds or Subordinate Lien Bonds or the Association's entry into such Financial Arrangement, as applicable:

(i) the ratio of (A) Actual Net Coverage Revenues for the most recently ended calendar year to (B) the sum of (x) Maximum Annual Obligations, Maximum Annual Subordinate Obligations, and maximum annual payments on Financial Arrangements to be Outstanding (or with respect to Financial Arrangements, those to be effective) after the issuance of the proposed Bonds, Subordinate Lien Bonds, or entry into Financial Arrangements, as applicable, plus (y) the projected Maximum Annual Administrative Expenses, calculated within 30 days of the date of sale of such proposed Bonds, Subordinate Lien Bonds, or incurrence of or entry into Financial Arrangements, as applicable, will not be less than 1.25:1.00; or

(ii) the ratio of (A) Projected Net Coverage Revenues for the next calendar year, to (B) the sum of (x) projected Maximum Annual Obligations, Maximum Annual Subordinate Obligations, and maximum annual payments on Financial Arrangements to be Outstanding (or with respect to Financial Arrangements, those to be effective) after the issuance of the proposed Bonds, Subordinate Lien Bonds, or entry into Financial Arrangements, as applicable, plus (y) projected Maximum Annual Administrative Expenses, calculated within 30 days of the date of sale of such

proposed Bonds, Subordinate Lien Bonds, or the incurrence of or entry into Financial Arrangements, as applicable will not be less than 1.25:1.00.

Section 2.06 Approval of Certain Transaction Documents. (a) The Financing and Pledge Agreement, substantially in the form attached as Exhibit "A" hereto, is hereby approved by the Authority, and the Executive Director is hereby authorized to execute and deliver such Financing and Pledge Agreement, together with such changes and modifications thereto as are deemed by the Executive Director or his designee to be appropriate and necessary to carry out the intent of this Master Resolution and any Supplemental Resolution.

(b) The Funds Management Agreement, substantially in the form attached as Exhibit "B" hereto, is hereby approved, and the Executive Director is hereby authorized and directed to execute and deliver such Funds Management Agreement together with such changes and modifications thereto as deemed by the Executive Director or his designee to be appropriate and necessary to carry out the intent of this Master Resolution and any Supplemental Resolution.

(c) The Department Representation Letter, attached as Exhibit "C" hereto, is hereby accepted by the Authority.

(d) The Deposit Account Control Agreement, substantially in the form attached as Exhibit "D" hereto, is hereby approved, and the Executive Director is hereby authorized and directed to execute and deliver such Deposit Account Control Agreement together with such changes and modifications thereto as deemed by the Executive Director or his designee to be appropriate and necessary to carry out the intent of this Master Resolution, any Supplemental Resolution, and the Financing and Pledge Agreement.

Section 2.07 Bond Insurance. The Authority may obtain one or more municipal bond insurance policies guaranteeing the scheduled payments of the principal of and the interest on any Series of Bonds. The Authority may include covenants relating to a municipal bond insurance policy in the Supplemental Resolution authorizing the issuance of such Series of Bonds.

Section 2.08 No Additional Encumbrance. The Authority shall not incur additional debt secured by the Pledged Revenues in any manner except as specifically set forth in this Master Resolution unless such debt is made junior and subordinate in all respects to the liens, pledges, covenants, and agreements of this Master Resolution. Notwithstanding anything to the contrary herein, the Authority reserves the right to issue additional Bonds and Subordinate Lien Bonds in accordance with this Article II.

ARTICLE III. GENERAL PROVISIONS

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Section 3.12 Payment of Obligations. (a) The Authority shall pay or cause to be paid all Obligations as provided in this Master Resolution or any Supplemental Resolution.

(b) The Paying Agent/Registrar shall calculate the amount of Obligations from time to time payable on each Series of Bonds and make timely payment of the Obligations thereon from the funds available therefor under this Master Resolution, any Supplemental Resolution, and the Financing and Pledge Agreement. The payment of Obligations with respect to Book-Entry Bonds shall be made in accordance with the Blanket Letter of Representations or comparable instrument under any subsequent book-entry system and the Funds Management Agreement.

(c) Interest on each Bond shall be paid to the Person who is the Owner at the close of business on the Record Date.

(d) The Paying Agent/Registrar shall maintain proper records of all payments of Obligations.

ARTICLE IV. MANAGEMENT OF FUNDS AND ACCOUNTS

Section 4.01 Creation and Establishment of Obligation Revenue Fund and Accounts. (a) The "Texas Public Finance Authority Texas Windstorm Insurance Association Obligation Revenue Fund" (the "Obligation Revenue Fund"), is hereby created and established for all purposes under the Act and the Financing and Pledge Agreement and shall at all times be held by the Trust Company as a dedicated fund outside of the Treasury of the State for the benefit of the Owners to be applied as described in Section 4.05 hereof. In order to cause the timely and proper payment of the principal of, redemption premium, if any, and interest on the Bonds to the Owners, the Authority is authorized to create accounts within the Obligation Revenue Fund to facilitate the payment of Obligations and the Administrative Expenses relating thereto. Accordingly, there shall be created and designated within the Obligation Revenue Fund the following accounts:

(i) the Premium Revenue Account (the "Premium Revenue Account");

(ii) the Debt Service Account (the "Debt Service Account");

(iii) the Administrative Expenses Account (the "Administrative Expenses Account");

(iv) the Debt Service Reserve Account (the "Debt Service Reserve Account"); and

(v) the Redemption Account (the "Redemption Account").

(b) The Obligation Revenue Fund and its Accounts shall be maintained as a dedicated trust fund outside of the Treasury of the State in custody of the Trust Company, and shall be held in trust for the benefit of the Owners to be applied as described in Section 4.05 hereof. The Authority reserves the right to create such additional accounts or subaccounts or take other actions as may be necessary for the receipt and application of Pledged Revenues. Notwithstanding the foregoing, the Authority shall take no actions under this Master Resolution that would in any way alter the pledge of and first lien on Pledged Revenues to the Bonds.

Section 4.02 Creation and Establishment of Program Fund and Accounts. (a) The "Texas Public Finance Authority Texas Windstorm Insurance Association Class 1 Program Fund" (the "Program Fund") is hereby created and established for all purposes under the Act and the Financing and Pledge Agreement and shall at all times be held by the Trust Company as a dedicated fund outside of the Treasury of the State to be applied as described in Section 4.06 hereof. Accordingly, there shall be created and designated within the Program Fund the following accounts:

(i) the Pre-Event Program Account (the "Pre-Event Program Account");

(ii) the Post-Event Program Account (the "Post-Event Program Account");

(iii) the Pre-Event Costs of Issuance Account (the "Pre-Event Costs of Issuance Account"); and

(iv) the Post-Event Costs of Issuance Account (the "Post-Event Costs of Issuance Account").

(b) As required by the Act, the Program Fund and its Accounts created therein shall be maintained as a dedicated trust fund outside of the Treasury of the State in custody of the Trust Company. The Authority may also create additional accounts hereunder from time to time as may be necessary to account properly for the costs of the Association Program financed hereunder, including establishing separate subaccounts relating to a specific Catastrophe Year or Series of Bonds.

Section 4.03 Disposition of Bond Proceeds. The proceeds derived from the sale and delivery of each Series of Bonds shall be deposited as and to the extent directed in an applicable Supplemental Resolution in conformity with the Act.

Section 4.04 Flow of Funds. On each Date of Calculation, the Authority shall direct or cause the Trust Company to transfer Pledged Revenues on deposit in the Premium Revenue Account to the following funds and accounts and in the following order of priority:

(a) *First*, to the Debt Service Account, amounts which, when added to other amounts in the Debt Service Account (excluding amounts maintained as the Debt Service Account Minimum Balance), equal the amount required to pay Obligations on the Bonds as follows (collectively, the "Required Monthly Debt Service Deposit"), unless otherwise provided in a Supplemental Resolution:

(i) 1/6th of any interest to become due and payable on Outstanding Bonds on the next succeeding Interest Payment Date calculated from the previous Interest Payment Date; or if interest on the Bonds bears interest payable on other than a semiannual basis or on a truncated or stub interest period, the amount required to provide for the payment of interest thereon becoming due on the next succeeding Interest Payment Date in substantially equal monthly installments calculated from the previous Interest Payment Date;

(ii) 1/12th of any principal scheduled to become due and payable on the Outstanding Bonds on the next succeeding principal payment date commencing within twelve months of the Date of Calculation; provided, however, that this required monthly deposit may be satisfied, in whole or in part, to the extent that funds on deposit in the Program Fund have been transferred and deposited in the Debt Service Account by the Authority prior to the Date of Calculation in accordance with Section 4.06(c) hereof;

(iii) 1/12th of any principal amount subject to mandatory sinking fund redemption on a mandatory redemption date occurring within twelve months of the Date of Calculation or previous mandatory redemption date; provided, however, that this required monthly deposit may be satisfied, in whole or in part, to the extent that funds on deposit in the Program Fund have been transferred and deposited in the Debt Service Account by the Authority prior to the Date of Calculation in accordance with Section 4.06(c) hereof; and

(iv) amounts due on Credit Agreements, excluding any termination payments arising under any such Credit Agreements shall be determined in the applicable Supplemental Resolution authorizing such Credit Agreement.

To the extent that sufficient Pledged Revenues are not on deposit in the Debt Service Account and are not available on a date on which the Required Monthly Debt Service Deposits are required to be made or are not available on any Interest Payment Date, at any Stated Maturity Date, or upon a mandatory redemption date or any sinking fund installment payment date to make such payments, the Authority covenants to promptly exercise any and all rights under the Financing and Pledge Agreement and this Master Resolution to cause the transfer of the following amounts until such Debt Service Account attains an amount equal to the Required Monthly Debt Service Deposits or the amounts required to be available

on any Interest Payment Date, at any Stated Maturity Date or upon a mandatory redemption date or any sinking fund installment payment date to make such payment; first, from the Pledged Revenues deposited to the Premium Revenue Account, second, from amounts on deposit in the Debt Service Account maintained as the Debt Service Account Minimum Balance, and third, from amounts on deposit in the Debt Service Reserve Account;

(b) *Second*, to the Administrative Expenses Account from Pledged Revenues after the payment and transfers in (a) above, 1/12th of the amount of Pledged Revenues representing the amount needed to pay Administrative Expenses occurring within twelve months of the Date of Calculation, unless otherwise provided in a Supplemental Resolution;

(c) *Third*, to the Debt Service Account from Pledged Revenues after the payment and transfers in (a) through (b) above, in addition to the Required Monthly Debt Service Deposit, the amount of Pledged Revenues necessary to replenish in equal monthly installments within three months the Debt Service Account Minimum Balance;

(d) *Fourth*, to the Debt Service Reserve Account from Pledged Revenues after payment of (a) through (c) above, the amount of Pledged Revenues necessary to replenish in equal monthly installments within three months the Debt Service Reserve Requirement;

(e) *Fifth*, after payment and transfers in (a) through (d) above, to the payment of obligations related to any Subordinate Lien Bonds, Administrative Expenses of any Subordinate Lien Bonds, any reserve fund requirements related thereto, and obligations under any credit agreement related thereto, when and in the amounts required by any resolution or order authorizing the issuance of such Subordinate Lien Bonds; and

(f) *Sixth*, after deposit, payment, and transfer of Pledged Revenues as provided in subsections (a) through (e) above and subject to the further limitations contained in Section 4.07 hereof and this Section, to the Association to be used for any lawful purpose; provided, however, Pledged Revenues consisting of proceeds from Pre-Event Bonds shall not be used to pay Reinsurance Costs; provided further, if the monthly installment to replenish the Debt Service Account Minimum Balance and the Debt Service Reserve Requirement as required under subsection (c) and (d) have been made but there still exists a deficiency in the Debt Service Account Minimum Balance or the Debt Service Reserve Requirement, Pledged Revenues may be transferred to the Association solely for the payment of current monthly Operating Expenses, Non-Catastrophic Losses, and Reinsurance Costs, and any remaining Pledged Revenues shall be used to further replenish first, the Debt Service Account to the Debt Service Account Minimum Balance, and second, the Debt Service Reserve Account to the Debt Service Reserve Requirement, before being used for any other purpose. While there is a deficiency in any Account, the Association shall certify to the Authority as to the amount of Pledged Revenues required for the payment of current monthly Operating Expenses, Non-Catastrophic Losses, and Reinsurance Costs prior to such funds being transferred to the Association.

Section 4.05 Application of Accounts within the Obligation Revenue Fund. (a) Premium Revenue Account. While any Obligations are outstanding, the Association shall on each Date of Calculation promptly deposit or shall cause to be promptly deposited all Net Premium and Other Revenue into the Premium Revenue Account within the Obligation Revenue Fund. Disbursements from the Premium Revenue Account shall be made with the priorities specified in Section 4.04 hereof.

(b) Debt Service Account. Unless provision for payment has been made with the applicable Paying Agent/Registrar, there shall be paid out of the Debt Service Account on or before each Interest Payment Date, the amount required to pay Obligations on such date. On or before any redemption date for Bonds to be redeemed, there shall also be paid out of the Debt Service Account the amount required for the payment of the redemption price of and interest on the Bonds then to be redeemed. On or before any other payment

date set forth in any Supplemental Resolution, there shall also be paid out of the respective subaccounts within the Debt Service Account the amounts required to be paid on the Outstanding Bonds and any Credit Agreements on such payment date. The Authority shall apply amounts available in the Debt Service Account, or from other Pledged Revenues, for the payment of any scheduled mandatory or sinking fund redemptions on Bonds issued as "term bonds" to pay the purchase price (including any brokerage and other charges) for any Bonds subject to such mandatory or sinking fund redemption provided that such purchase price shall not exceed the applicable mandatory redemption price of such securities. Upon any such purchase, the purchased Bond shall be delivered to the Paying Agent/Registrar for cancellation and the principal amount of such Bond purchased shall be credited toward the next mandatory redemption or sinking fund installment.

(c) Debt Service Reserve Account. Money or investments held in the Debt Service Reserve Account shall, except as otherwise provided in a Supplemental Resolution, be held and used for the benefit of all Bonds. If on any Interest Payment Date or date on which principal on any Bond is due, after giving effect to all transfers pursuant to Section 4.04(a), the amount in the Debt Service Account shall be less than the amount required to pay the interest on or the principal of Bonds due and payable on such date, the amount required to pay the interest on or principal amount of Bonds maturing on such date or the redemption price of Bonds becoming subject to scheduled mandatory or sinking fund redemption on such date, then the Authority shall apply amounts from the Debt Service Reserve Account to the extent necessary to eliminate such deficiency. If at any time, the money, investments, held in the Debt Service Reserve Account are less than the Debt Service Reserve Requirement, the Authority shall make the monthly deposits required in Section 4.04(c), in equal installments, in such amount as will restore the balance of the Debt Service Reserve Account to the Debt Service Reserve Requirement within three months of the occurrence of any such deficiency. If at any time the money, investments, held in the Debt Service Reserve Account shall exceed the Debt Service Reserve Requirement, the Authority shall direct whether such excess money shall be transferred to the Debt Service Account.

(d) Administrative Expenses Account. There shall be paid out of the Administrative Expenses Account any amounts required to pay Administrative Expenses pertaining to the Bonds.

(e) Redemption Account. To the extent that Excess Pledged Revenues are transferred to the Association in 4.04(f) hereof, the Association may direct the Authority to transfer those amounts determined to be excess into the Redemption Account to be used solely to redeem Bonds. Prior to redemption of any Bonds, the Authority shall transfer the amount required to effect redemption from the Redemption Account to the respective subaccount of the Debt Service Account.

Section 4.06 Application of Program Fund. (a) Subject to the restrictions provided in the Act, this Section 4.06, and the Financing and Pledge Agreement, the Program Fund created therein shall be applied to pay the costs of the Association Program. All Investment Income on the Program Fund shall be available to pay the costs of the Association Program. The Pre-Event Costs of Issuance Account and the Post-Event Costs of Issuance Account shall be applied to pay the respective Costs of Issuance Amount and shall be funded solely with a portion of the proceeds of Bonds all as set forth in the Financing and Pledge Agreement. All Investment Income on the Pre Event Costs of Issuance Account and the Post-Event Costs of Issuance Account shall be available to be maintained in the Program Fund to fund the Association Program.

(b) During any Catastrophe Year, the proceeds of any Outstanding Pre-Event Class 1 Public Securities shall be depleted before the proceeds of any Post-Event Class 1 Public Securities, Class 2 Public Securities, or Class 3 Public Securities may be used. This subsection does not prohibit the Authority from issuing Post-Event Class 1 Public Securities before the proceeds of Outstanding Pre-Event Class 1 Public Securities issued during a previous Catastrophe Year have been depleted. Catastrophic Losses shall only

be paid from proceeds of Class 1 Public Securities after all reserves of the Association and amounts available in the Catastrophe Fund have been exhausted. The Authority may establish a subaccount relating to a specific Series of Bonds within each Account of the Program Fund.

(c) The Association Representative may provide written instructions to the Authority providing that the Association has determined that it is necessary to use funds on deposit in the Program Fund to pay principal due on the Bonds. On or before the first Business Day of any month in which the Association determines that it is necessary to use funds on deposit in the Program Fund, the Association Representative shall provide written instructions to the Authority to transfer or cause to be transferred amounts from the Program Fund to the Debt Service Account for the satisfaction, in whole or in part, of the Required Monthly Debt Service Deposit under Section 4.04(a)(ii) or (iii) hereof. The Authority shall make such Required Monthly Debt Service Deposit as specified in the Association Representative's written instruction on or before the fourth Business Day of the month. The Authority may conclusively rely on the written instructions delivered in accordance with this subsection (c), and need not conduct an independent investigation as to such matters.

(d) Notwithstanding anything to the contrary herein, if it is determined at any time that the aggregate of all funds on deposit in the Program Fund, including all accounts created therein, exceeds the amount needed to fund the Association Program or Costs of Issuance, then the Authority may (i) transfer any additional Investment Income earned on amounts in the Program Fund to the Debt Service Account for application to the next interest payment coming due; provided, however, that the amount transferred shall not exceed the next such payment coming due or (ii) transfer such amounts to the Redemption Account. Any excess Bond proceeds remaining after the purposes for which the Bonds were issued are satisfied may be used to purchase or redeem Outstanding Bonds. If there are no Outstanding Bonds and all Administrative Expenses have been paid, the Authority shall cause the excess amounts to be transferred to the Catastrophe Fund.

(e) The Program Fund and the accounts created therein shall otherwise be applied in accordance with the Funds Management Agreement.

Section 4.07 Deficiencies in Funds. If in any month there shall not be transferred into any Fund or account maintained pursuant to this Article IV the full amounts required herein, amounts equivalent to such delinquency shall be set apart and transferred to such Fund(s) or Account(s) from the first available and unallocated funds in the Premium Revenue Account within the Obligation Revenue Fund in the order provided in Section 4.04 hereof, and such transfer shall be in addition to the amounts otherwise required to be transferred to such Fund(s) or Account(s) during any succeeding month or months. No amounts shall be deemed Excess Pledged Revenues until any deficiencies in all funds and accounts have been funded.

Section 4.08 Investment of Funds. (a) The money on deposit in any Fund or Account may be invested and reinvested only in Eligible Investments by the Trust Company in accordance with the Funds Management Agreement. The Board hereby concurs with any such investment so made by the Trust Company.

(b) The investment of money in each Fund shall be made under conditions that will timely provide money sufficient to satisfy the purpose(s) for which such Fund or Account is intended.

(c) The Investment Income acquired with money from any Fund or Account, and any income received from any such investment, shall be deposited into such Fund or Account.

(d) Uninvested money (if any) in any Fund or Account shall be secured in the manner and to the extent required by law. If all funds or account requirements are satisfied, the Authority may direct the Paying Agent/Registrar to transfer such investment income to the Debt Service Account.

Section 4.09 Unclaimed Payment. (a) Any money held for the payment of any Bonds, which is unclaimed by the Owner shall be set aside in an escrow fund, uninvested, and held for the exclusive benefit of the Owner, without liability for any interest thereon.

(b) Any such money remaining unclaimed for three years after such Bonds became due (or such other period as specified by applicable law) shall be transferred to the Authority, which shall dispose of such money pursuant to Title 6 of the Texas Property Code, as amended, or other applicable law. After such disposal, all liability of the Authority and any Paying Agent/Registrar for the payment of such money shall cease.

(c) The Authority and any Paying Agent/Registrar shall comply with the reporting requirements of Chapter 74, Texas Property Code, as amended, or other applicable law with respect to such unclaimed money.

ARTICLE V. EVENT OF DEFAULT AND REMEDIES

Section 5.01 Event of Default; Remedies. (a) Each of the following events is hereby declared an "Event of Default" under this Master Resolution:

(i) the failure of the Authority to pay when due any Obligations with respect to which the Association has provided money from which such Obligations are authorized to be paid; or

(ii) the failure of the Authority to perform or observe its obligations, duties, or covenants set forth in Sections 2.05(d), 4.04, 6.03, and 6.04 of this Master Resolution; or

(iii) the failure of the Authority to fund the requirements set forth in Section 4.04 of this Master Resolution within 20 days of the Date of Calculation; or

(iv) the failure of the Authority to perform or observe its obligations, duties, or covenants set forth in Sections 2.04(d) and 4.07 of the Financing and Pledge Agreement; or

(v) the failure of the Association to perform or observe of its obligations, duties, or covenants set forth in Section 2.03(f), Section 4.03(a)(i), (iv), (v), and (vi), and Section 4.07 of the Financing and Pledge Agreement; or

(vi) the failure of the Association to perform or observe of its obligations, duties, or covenants set forth in Section 4.03(a)(ii) of the Financing and Pledge Agreement within 75 days of each calendar quarter (30 days following the 45 day deadline set forth in Section 4.03(a)(ii)); or

(vii) the failure of the Association to perform or observe of its obligations, duties, or covenants set forth in Section 2.03(a), (b), (c), (d), (e), and (g) of the Financing and Pledge Agreement, and such failure shall continue for a period of 20 days after written notice to the Association by the Authority.

(b) Upon the occurrence of any Event of Default, any party at interest, including an Owner, may seek a writ of mandamus (as set forth under Section 2210.617 of the Act) and any other legal and equitable remedies to require the Association or another party, including without limitation the Authority, to perform

functions and duties under: (i) subchapter M of the Act; (ii) the Texas Constitution; (iii) this Master Resolution; (iv) any Supplemental Resolution; and (v) any other Transaction Document.

Section 5.02 Additional Remedies. (a) In addition to the remedies provided under this Master Resolution, the Owners may exercise any other rights and remedies afforded by law. No delay or omission to exercise any right or power existing upon the breach of this Master Resolution or any Transaction Document shall impair such right or power or constitute a waiver thereof, and each such right or power may be exercised as often as may be deemed expedient.

(b) No remedy under the Transaction Documents available to the Authority or the Owners is intended to be exclusive of any other remedy, except as expressly provided herein, and each such remedy shall be cumulative.

(c) Supplemental Resolutions may provide for additional remedies available to the parties.

(d) Under no circumstance shall the Owners be entitled to acceleration of payments as a remedy for any Event of Default.

ARTICLE VI. PARTICULAR REPRESENTATIONS, STIPULATIONS, AND COVENANTS

Section 6.01 Resolution Constitutes a Contract. This Master Resolution shall constitute a contract between the Authority and the Owners, and the provisions hereof shall inure to the benefit of the Owners equally and ratably except as otherwise expressly provided in this Master Resolution.

Section 6.02 State Not To Impair Obligations. Pursuant to the Act, if Bonds are Outstanding, Section 2210.616 of the Act provides for the benefit and protection of financing parties, the Board, and the Association that the State will not take or permit any action that would in any way impair the rights and remedies of the Owners until the Bonds are fully discharged.

Section 6.03 Affirmative Covenant. To the extent permitted by law and the TPFA Act, the Authority shall utilize the remedies available to it pursuant to the Transaction Documents and the Act to cause the Association to comply with its covenants, duties, or obligations under the Transaction Documents to enable the Authority to fulfill its covenants and perform its duties under this Master Resolution as further supplemented from time to time.

Section 6.04 Action Under Deposit Account Control Agreement. If the Association fails to make available when due amounts to pay the Obligations, including any Required Monthly Debt Service Deposit or to remedy any deficiencies in Funds or Accounts as provided in Section 4.07 hereof, as provided hereunder, the Authority shall take all reasonably necessary steps, including but not limited to its right under the Deposit Account Control Agreement (subject to Section 4.07 of the Financing and Pledge Agreement) to cause funds in the Operating Account to be deposited into the appropriate Fund or Account as required under this Master Resolution and any Supplemental Resolution, and promptly upon receipt from the Depository Bank pay or cause to be paid the Obligations, including any Required Monthly Debt Service Deposit or amounts required to remedy any deficiencies in Funds or Accounts as provided in Section 4.07 hereof. Additionally, the Authority hereby covenants to take all reasonably necessary steps to enforce the Association's covenant in the Financing and Pledge Agreement to enter into a deposit account control agreement that is substantially similar to the Deposit Account Control Agreement if the Association changes or adds another Depository Bank with respect to the Operating Account.

Section 6.05 Effect of Prior Action. Any consent of or other communication from an Owner shall bind every future Owner of the same Bond in respect of anything done by or on behalf of the Authority, the Trust Company, or the Paying Agent/Registrar pursuant to such communication.

Section 6.06 Notification of Annual Obligations and Administrative Expenses. Pursuant to Section 2210.609 of the Act, the Authority shall notify the Association of the amount of Bonds and other Obligations and the estimated amount of Administrative Expenses, if any, each calendar year in a period sufficient, as determined by the Association, to permit the Association to comply with the Association's covenants in the Financing and Pledge Agreement.

Section 6.07 Written Communications by Owners. (a) Any communication required or authorized by this Master Resolution to be executed by Owners may be in any number of concurrent instruments of similar tenor and may be executed by Owners in person or by agent appointed by written instrument.

(b) The fact and date of the execution by any Person of any such communication may be proved by the certificate of any officer in any jurisdiction who, under the law thereof, has power to take acknowledgments within such jurisdiction, to the effect that the Person signing such communication acknowledged before such officer the execution thereof; or an affidavit of a witness to such execution.

(c) Proof of execution of instruments in the manner provided by this Section shall be sufficient for any purpose of this Master Resolution and shall be conclusive in favor of the Authority, the Comptroller, and the Paying Agent/Registrar with respect to any action taken in reliance thereon.

Section 6.08 Determining Ownership. The Paying Agent/Registrar is not bound to recognize any Person as the Owner or take action at such Person's request unless such Person furnishes evidence of its identity as the Owner satisfactory to the Paying Agent/Registrar.

Section 6.09 Special Record Date. The Authority may fix, with respect to any notice or other communication to be given to, or any consent or other action to be taken by, Owners under this Master Resolution or any Supplemental Resolution, a record date in order to establish the identity of the Owners for purposes of such communication or action.

Section 6.10 Interpretation of Transaction Documents. The Authority, in its discretion, may rely on the written advice of the Attorney General of Texas with respect to the interpretation of the terms of, and the rights and obligations of the respective parties under, the Transaction Documents.

ARTICLE VII. SUPPLEMENTS AND AMENDMENTS TO RESOLUTION AND OTHER TRANSACTION DOCUMENTS

Section 7.01 Amendment of Resolution. (a) Except as otherwise provided by Subsections (b), (c), and (d) of this Section, this Master Resolution or any Supplemental Resolution may not be amended without the consent of the Owners of at least a majority in aggregate principal amount of the Outstanding Bonds affected by such amendment.

(b) Subject to any limitations contained in a Supplemental Resolution, for any one or more of the following purposes and at any time or from time to time, this Master Resolution or a Supplemental Resolution, without the consent of, or notice to, any of the Owners, and except to the extent consent is required in a Supplemental Resolution or Credit Agreement, without the consent of or notice to any Credit Providers, may be amended or supplemented for any of the following purposes:

(i) To increase the amount required to be maintained in the Debt Service Account or the reserve requirement for any debt service reserve fund or account;

(ii) To designate Paying Agents, Registrars, and other agents for the Bonds of any Series;

(iii) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Master Resolution or any Supplemental Resolution;

(iv) To authorize the issuance of a Series of Bonds, and to prescribe the terms, forms, and details thereof not inconsistent with this Master Resolution or any Supplemental Resolution and, in connection therewith, to create such additional funds and accounts, and to effect such amendments of this Master Resolution or any Supplemental Resolution as may be necessary for such issuance, provided that no Supplemental Resolution shall be inconsistent with the limits set forth in subsections (c) and (d) below; and

(c) Subject to any limitations contained in a Supplemental Resolution, for any one or more of the following purposes and at any time or from time to time, this Master Resolution or a Supplemental Resolution, without the consent of, or notice to, any of the Owners, and except to the extent consent is required in a Supplemental Resolution or Credit Agreement, without the consent of or notice to any Credit Providers, may be amended or supplemented for any of the following purposes; provided, however, that prior to the execution of any such amendment pursuant to this subsection (c), there shall be delivered to the Authority an opinion of nationally recognized bond counsel to the effect that such amendments will not have a material adverse effect on the security for the Bonds or the rights or remedies of the Owners:

(i) To close this Master Resolution and any Supplemental Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in this Master Resolution or any Supplemental Resolution on, the delivery of additional or the issuance of other evidences of indebtedness;

(ii) To add to the covenants and agreements of the Authority in this Master Resolution or any Supplemental Resolution, other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with this Master Resolution or any Supplemental Resolution;

(iii) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Master Resolution or any Supplemental Resolution of the Pledged Revenues, or to grant to Owners additional rights or enhancements on any Credit Agreement;

(iv) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of this Master Resolution or any Supplemental Resolution; provided, however, that the surrender of such right, power, or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in this Master Resolution or any Supplemental Resolution;

(d) The consent of the Owners of all Outstanding Bonds is required for any proposed amendment to this Master Resolution or any Supplemental Resolution that would:

(i) permit a preference or priority of any Bond over another Bond;

(ii) reduce the percentage of Owners that is required to consent to an amendment of this Master Resolution any Supplemental Resolution;

(iii) change the time of any regularly scheduled payment of Obligations, the principal amount of any Bond, the interest rate on any Bond, the currency in which Obligations are required to be paid, or any of the other terms of this Master Resolution or any Supplemental Resolution governing the time, place, or manner of payment of Obligations;

(iv) impair the security for any Bond; or

(v) result in a reduction of any then existing rating on the Bonds.

Section 7.02 Amendment of Financing and Pledge Agreement and Funds Management Agreement. The Financing and Pledge Agreement and the Funds Management Agreement will not be amended unless the Executive Director receives an opinion of Bond Counsel that such amendment will not adversely affect the rights or remedies of any Owner under the Transaction Documents, or the Owners of at least a majority in aggregate principal amount of the Outstanding Bonds affected by such amendment consent thereto, except that the consent of the Owner of each Outstanding Bond affected by such amendment is required if such amendment would decrease the minimum percentage of Owners required for effective consent to such amendment.

ARTICLE VIII. DISCHARGE

Section 8.01 Discharge of Claim Against Pledged Revenues. (a) The claim of this Master Resolution against Pledged Revenues shall be deemed discharged and of no further force and effect when:

(i) all Bonds have been discharged; and

(ii) all other amounts of money payable under this Master Resolution (including, without limitation, the Administrative Expenses) have been paid, or arrangements satisfactory to the Person to whom any such payment is due for making such payment have been made.

(b) Any Bonds shall be deemed discharged when:

(i) such Bonds have:

(A) been paid in accordance with the terms of such Bond; or

(B) become due (whether at stated maturity or otherwise) and an amount of money sufficient for the payment thereof has been deposited in the Debt Service Account, with the Paying Agent/Registrar or any Tender Agent, if applicable;

(ii) such Bond(s) has (have) been canceled or surrendered to the Paying Agent/Registrar or any Tender Agent, if applicable, for cancellation; or

(iii) such Bonds have been discharged by a deposit of Sufficient Assets pursuant to this Master Resolution as described in Section 8.02 hereof.

(c) When the claim of this Master Resolution against money to be provided hereunder ceases to be of force and effect, the Paying Agent/Registrar or any Tender Agent, if applicable, at the Authority's request, shall execute and deliver such instruments (if any) as are necessary to effect the discharge.

Section 8.02 Defeasance of Bonds. (a) The benefits of this Master Resolution, and the covenants of the Authority contained herein in support of any such Bonds shall be discharged by a deposit of Sufficient Assets pursuant to this Master Resolution, and the covenants of the Authority contained herein in support of Bonds shall be deemed redeemed and discharged with respect to such Bonds when the following requirements have been satisfied:

(i) the payment of the Bonds with respect thereto has been provided for by irrevocably depositing Sufficient Assets into the respective subaccount of the Debt Service Account or with the Paying Agent/Registrar or a financial institution or trust company designated by the Authority, which shall be held in trust in a separate escrow account and applied exclusively to the payment of such Bonds;

(ii) the Authority has received a certificate or a verification report that confirms that such deposit of Sufficient Assets is adequate to pay the Bonds on the applicable redemption or maturity date;

(iii) the Authority has received an opinion of Bond Counsel to the effect that such deposit of Sufficient Assets complies with State law, and all conditions precedent to such Bonds being deemed discharged have been satisfied;

(iv) all amounts of money (other than Obligations) due, or reasonably estimated by the Paying Agent/Registrar to become due, under this Master Resolution with respect to such Bond has been paid, or provision satisfactory to the Person to whom any such payment is or will be due for making such payment has been made; and

(v) the Paying Agent/Registrar has received its compensation and such other documentation and assurance as the Paying Agent/Registrar reasonably may request.

(b) If a deposit of Sufficient Assets pursuant to this Section is to provide for the payment of less than all of the Outstanding Bonds, the particular Series and maturity or maturities of Bonds (or, if less than all of a particular Series and maturity, the principal amounts) shall be as specified by the Authority, and the particular Bonds (or portions thereof) shall be selected by the Paying Agent/Registrar by lot, on a pro rata basis in accordance with the operational arrangements of the Securities Depository, or in such manner as the Paying Agent/Registrar shall determine or by such method of selection as may be specified in a Supplemental Resolution.

(c) The Paying Agent/Registrar shall transfer money from the Debt Service Account or the escrow account established pursuant to this Section (as applicable) at such times and in such amounts as necessary for the timely payment of the Bonds.

(d) To the extent permitted by law, the Paying Agent/Registrar, at the Executive Director's direction, may substitute, for any of the securities or obligations deposited as Sufficient Assets pursuant to this Section, other securities or obligations constituting Sufficient Assets if, upon such substitution, the requirements of Subsection (a) of this Section are satisfied. Any net proceeds realized from such a substitution shall be paid to the Authority.

(e) If a provision of this Section conflicts with law, this Section shall be applied, to the maximum extent practicable, consistent with law.

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FIRST SUPPLEMENTAL RESOLUTION

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ARTICLE II. PURPOSES, PLEDGE AND SECURITY FOR BONDS

Section 2.01 Purposes of Resolution. The purposes of this First Supplemental Resolution are to approve the specific terms and provisions of the Series 2014 Bonds; to extend expressly the pledge, lien, security, and provisions of the Master Resolution to and for the benefit of the Owners of the Series 2014 Bonds; to provide for certain rights in addition to those provided for in the Master Resolution; and to sell the Series 2014 Bonds to the Underwriter pursuant to the Purchase Contract.

Section 2.02 Pledge, Security for, and Sources of Payment of Series 2014 Bonds. Pursuant to the Financing and Pledge Agreement and the Deposit Account Control Agreement, the Association has irrevocably pledged and assigned all of its rights, title, and interest in the Pledged Revenues to the Authority for the benefit of the Owners. The Series 2014 Bonds are "Bonds" under the Master Resolution, and as such are secured by an irrevocable, first lien on and pledge of the Association's rights, title, and interest to the Pledged Revenues.

ARTICLE III. AUTHORIZATION; GENERAL TERMS AND PROVISIONS REGARDING THE SERIES 2014 BONDS

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Section 3.03 Medium, Method, and Place of Payment. (a) The principal of and interest on the Series 2014 Bonds (or the Make-Whole Redemption Price, if applicable), shall be paid in lawful money of the United States of America as provided in this Section.

(b) Interest on the Series 2014 Bonds shall be payable to the Owners whose names appear in the Register at the close of business on the Record Date; provided, however, that in the event of nonpayment of interest on a scheduled Interest Payment Date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar if and when funds for the payment of such interest have been received from the Board. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date," which shall be at least 15 days after the Special Record Date) shall be sent at least five Business Days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Owner of a Series 2014 Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last Business Day next preceding the date of mailing of such notice.

(c) Interest on the Series 2014 Bonds shall be paid by check (dated as of the Interest Payment Date) and sent by the Paying Agent/Registrar to the Owner entitled to such payment, United States mail, first class postage prepaid, to the address of the Owner as it appears in the Register or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expenses of such other customary banking arrangements.

(d) The principal of each Series 2014 Bond shall be paid to the Owner on the due date thereof (whether at the Stated Maturity Date or the date of prior redemption thereof) upon presentation and surrender of such Series 2014 Bond to the Paying Agent/Registrar.

(e) If a date for the payment of the principal of or interest on the Series 2014 Bonds is not a Business Day, then the date for such payment shall be the next succeeding Business Day, and payment on such date shall have the same force and effect as if made on the original date payment was due.

(f) Interest shall accrue and be paid on each Series 2014 Bond respectively until its maturity or prior redemption, from the later of the Issuance Date or the most recent Interest Payment Date to which interest has been paid or provided for at the Interest Rate. Such interest shall be payable on each Interest Payment Date. Interest on the Series 2014 Bonds shall be calculated on the basis of a 360-day year comprised of twelve 30-day months for actual number of days elapsed.

(g) Notwithstanding any other provision of this First Supplemental Resolution, during any period in which the Series 2014 Bonds are held in book-entry form by DTC in accordance with Section 3.05 hereof, payment of the principal and interest on the Series 2014 Bonds (or the Make-Whole Redemption Price, if applicable), shall be paid to DTC in immediately available or next day funds on each Interest Payment Date in the manner specified in the Blanket Letter of Representations.

Section 3.04 Ownership. (a) The Board, the Paying Agent/Registrar, and any other person may treat each Owner of each Series 2014 Bond as the absolute owner of such Series 2014 Bond for the purpose of making and receiving payment of the principal thereof and for the further purpose of making and receiving payment of the interest thereon, subject to the provisions herein that interest is to be paid to each Owner on the Record Date (or the Make-Whole Redemption Price thereof, if applicable), and for all other purposes, whether or not such Series 2014 Bond is overdue, and neither the Board nor the Paying Agent/Registrar shall be bound by any notice or knowledge to the contrary.

(b) All payments made to the person deemed to be the Owner of a Series 2014 Bond in accordance with this Section shall be valid and effectual and shall discharge the liability of Authority and the Paying Agent/Registrar upon such Series 2014 Bond to the extent of the sums paid.

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ARTICLE IV. REDEMPTION OF SERIES 2014 BONDS BEFORE MATURITY

Section 4.01 Optional Redemption. Upon approval by the Board of Directors of the Association and with approval of the Commissioner, the Series 2014 Bonds shall be subject to optional redemption prior to maturity as follows:

(a) On or after the Issuance Date of the Series 2014 Bonds, but prior to July 1, 2019, in whole or in part, at a redemption price (the "Make-Whole Redemption Price") equal to the greater of:

(i) 100 percent of the principal amount of the Series 2014 Bonds to be redeemed; or

(ii) the sum of the present values of the remaining scheduled payments of principal of and interest on the Series 2014 Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 100 basis points, plus, in each case, accrued and unpaid interest on the Series 2014 Bonds being redeemed to the date fixed for redemption.

For the purposes of determining the "Treasury Rate" under this Section, the following definitions shall apply:

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Series 2014 Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the applicable Series 2014 Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the applicable Series 2014 Bonds to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a particular Series 2014 Bond, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Deal Quotations, or (2) if the Designated Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Designated Investment Banker" means one of the Reference Treasury Dealers appointed by the Authority.

"Reference Treasury Dealer" means Merrill Lynch Pierce Fenner & Smith Incorporated and its successors and three other firms, specified by the Authority from time to time, that are primary U.S. Government securities dealers in the City of New York, New York (each a "Primary Treasury Dealer"); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the Authority shall substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series 2014 Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date for a particular Series 2014 Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

(b) On or after July 1, 2019, in whole or in part, at the redemption price of the principal amount of the Series 2014 Bonds to be redeemed plus accrued interest to the date fixed for redemption.

Section 4.02 Mandatory Redemption. The Series 2014 Bonds maturing in 2017 and 2024 (the "Term Bonds") shall be subject to mandatory sinking fund redemption, in whole or in part (at a redemption price equal to the principal amount thereof and any accrued interest thereon to the date set for redemption), on July 1 in each of the years and in the amounts set forth below:

Bonds Maturing 2017

Year	Amount
2016	$41,600,000
2017 (final maturity)	$43,800,000

Bonds Maturing 2024

Year	Amount
2018	$46,100,000
2019	$49,900,000
2020	$54,000,000
2021	$58,500,000
2022	$63,300,000
2023	$68,600,000
2024 (final maturity)	$74,200,000

At least 30 days prior to the mandatory redemption date for the Term Bonds, the Paying Agent/Registrar shall select by lot the numbers of the Term Bonds to be redeemed. Any Term Bonds, or a portion thereof, not selected for prior redemption shall be paid on the date of final maturity. To the extent, however, that the Term Bonds of a maturity which at least 45 days prior to a mandatory redemption date have been (i) defeased or acquired by the Authority and delivered to the Paying Agent/Registrar at the request of the Authority, or (ii) called for optional redemption in part and other than from a sinking fund redemption payment, the annual sinking fund payments therefor shall be reduced by the amount obtained by multiplying the principal amount of the Term Bonds of such maturity so purchased or redeemed by the ratio which each remaining annual sinking fund redemption payment therefore bears to the total sinking fund payments for such maturity, and by rounding each such payment to the nearest $5,000 integral.

Section 4.03. Redemption Procedures. (a) The Series 2014 Bonds may be redeemed in part only in integral multiples of $100,000 or any integral multiple of $5,000 in excess thereof. If a Series 2014 Bond subject to redemption is in a denomination larger than $5,000, a portion of such Series 2014 Bond may be redeemed, but only in integral multiples of $100,000 or any integral multiple of $5,000 in excess thereof. In selecting portions of the Series 2014 Bonds for redemption, the Paying Agent/Registrar shall allocate the principal amount to be redeemed as nearly as feasible pro rata among the maturities (and among mandatory redemption requirements within maturities) and interest rates of all the Series 2014 Bonds (subject to DTC operational requirements for the Series 2014 Bonds held by DTC). A partial redemption of the Series 2014 Bonds processed through DTC will be treated, in accordance with DTC's rules and procedures, as a "Pro Rata Pass-Through Distribution of Principal".

(b) Upon surrender of any Series 2014 Bond for redemption in part, the Paying Agent/Registrar, in accordance with Section 3.08 of the Master Resolution, shall authenticate and deliver an exchange Series 2014 Bond or Series 2014 Bonds in an aggregate principal amount equal to the unredeemed portion of the Series 2014 Bond so surrendered, such exchange being without charge.

(c) The Paying Agent/Registrar shall promptly notify the Authority in writing of the principal amount to be redeemed of any Series 2014 Bond as to which only a portion thereof is to be redeemed.

Section 4.04 Notice of Redemption to Owners. (a) The Authority, at least 45 days before a redemption date, unless a shorter period shall be satisfactory to the Paying Agent/Registrar, shall notify the Paying Agent/Registrar in writing of such redemption date and of the principal amount of Series 2014 Bonds to be redeemed.

(b) So long as the Series 2014 Bonds are Book-Entry Bonds, all redemption notices and payments upon redemption shall be made by the Paying Agent/Registrar to DTC and not the Owners of the Series 2014 Bonds; otherwise the Paying Agent/Registrar shall give notice of any redemption of Series 2014 Bonds by sending notice by first class United States mail, postage prepaid, not less than 30 days before the date fixed for redemption, to the Owner of each Series 2014 Bond (or part thereof) to be redeemed, at the address shown on the Register.

(c) The notice shall state the redemption date, the redemption price, the place at which the Series 2014 Bonds are to be surrendered for payment, and, if less than all the Series 2014 Bonds outstanding are to be redeemed, an identification of the Series 2014 Bonds or portions thereof to be redeemed.

(d) Any notice given as provided in this Section shall be conclusively presumed to have been duly given, whether or not the Owner receives such notice. Failure to give notice of redemption to any Owner of Series 2014 Bonds, or any defect therein, shall not affect the validity of any proceedings for the redemption of any Series 2014 Bonds for which notice was properly given.

Section 4.05 Payment Upon Redemption. (a) Before or on each redemption date, the Authority shall deposit with the Paying Agent/Registrar money sufficient to pay all amounts due on the redemption date and the Paying Agent/Registrar shall make provision for the payment of the Series 2014 Bonds to be redeemed on such date by setting aside in trust such amounts as are received by the Paying Agent/Registrar from the Authority and shall use such funds solely for the purpose of paying the principal of and accrued interest on the Series 2014 Bonds (or the Make-Whole Redemption Price, if applicable) being redeemed.

(b) Upon presentation and surrender of any Series 2014 Bond called for redemption to the Paying Agent/Registrar on or after the date fixed for redemption, the Paying Agent/Registrar shall pay the principal of and accrued interest on such Series 2014 Bond (or the Make-Whole Redemption Price, if applicable) to the date of redemption from the money set aside for such purpose.

Section 4.06 Effect of Redemption. (a) Notice of redemption having been given as provided in Section 4.04 of this First Supplemental Resolution, the Series 2014 Bonds or portions thereof called for redemption shall become due and payable on the date fixed for redemption and, unless the Authority fails in its obligation to make provision for the payment of the principal thereof or accrued interest thereon on the date fixed for redemption, such Series 2014 Bonds or portions thereof shall cease to bear interest from and after the date fixed for redemption, whether or not such Series 2014 Bonds are presented and surrendered for payment on such date.

(b) If the Authority shall fail to make provision for payment of all sums due on a redemption date, then any Series 2014 Bond or portion thereof called for redemption shall continue to bear interest at the rate stated on the Series 2014 Bond until due provision is made for the payment of same by the Authority.

Section 4.07 Conditional Notices of Redemption. The Authority reserves the right to give notice of its election or direction to redeem all or a portion of the Series 2014 Bonds under this Article IV conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of money or Sufficient Assets, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar no later than the redemption date, or (ii) that the Authority retains the right to rescind such notice at any time prior to the scheduled redemption date if the Authority delivers a certificate of an Authority Representative to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such money or Sufficient Assets are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Series 2014 Bonds subject to conditional redemption where redemption has been rescinded shall remain Outstanding, and the rescission shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the Authority to make funds available in part or in whole on or before the redemption date shall not constitute an event of default.

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ARTICLE VIII. GENERAL PROVISIONS

Section 8.01 Creation of Additional Accounts. (a) Pursuant to the provisions of Section 4.01 of the Master Resolution, the "Texas Public Finance Authority Texas Windstorm Insurance Association 2014 Debt Service Subaccount" of the Debt Service Account (the "2014 Debt Service Subaccount") is hereby created and established for all purposes under the Act and shall at all times be held by the Trust Company as a dedicated fund outside of the Treasury of the State.

(i) In addition to the deposits required pursuant to Section 4.04 of the Master Resolution, there shall be maintained in the 2014 Debt Service Subaccount the Debt Service Account Minimum Balance. The Debt Service Account Minimum Balance shall be initially funded from the proceeds of the Series 2014 Bonds on the Issuance Date.

(ii) Subject to Section 4.04 of the Master Resolution, if and whenever the balance in the 2014 Debt Service Subaccount is reduced below the Debt Service Account Minimum Balance for any given calendar year, the Authority shall, from the first available and unallocated Pledged Revenues (excluding proceeds of the Series 2014 Bonds on deposit in the 2014 Pre-Event Program Subaccount), cause amounts equal in the aggregate to any such deficiency to be set apart and transferred into the 2014 Debt Service Subaccount from the Premium Revenue Account of the Obligation Revenue Fund; provided, however, that in any event the 2014 Debt Service Account shall be restored to the Debt Service Account Minimum Balance in equal monthly installments within three months of such reduction.

(iii) Subject to Section 4.04 of the Master Resolution, if at the end of any calendar year, surplus funds remain in 2014 Debt Service Subaccount resulting from any reduction of the Debt Service Account Minimum Balance or otherwise, such surplus funds shall remain in the 2014 Debt Service Subaccount to be applied to the payment of interest and principal on the Series 2014 Bonds (or the Make-Whole Redemption Price, if applicable) in the succeeding year, and transfers into the 2014 Debt Service Subaccount of the Obligation Revenue Fund from the Premium Revenue Account of the Obligation Revenue Fund shall be reduced accordingly.

(iv) Any amount maintained in the 2014 Debt Service Subaccount, including the Debt Service Account Minimum Balance, shall be applied to the payment of interest and principal on the Series 2014 Bonds (or the Make-Whole Redemption Price, if applicable) in the year of final maturity or upon redemption or defeasance of the Series 2014 Bonds.

(b) Pursuant to the provisions of Section 4.01 of the Master Resolution, the "Texas Public Finance Authority Texas Windstorm Insurance Association 2014 Debt Service Reserve Subaccount" of the Debt Service Reserve Account (the "2014 Debt Service Reserve Subaccount") is hereby created and established for all purposes under the Act and shall at all times be held by the Trust Company as a dedicated fund outside of the Treasury of the State.

(i) The 2014 Debt Service Reserve Subaccount shall be used to pay interest and principal on the Series 2014 Bonds when and to the extent the amounts in the Debt Service Account, including any amount maintained as the Debt Service Account Minimum Balance, available for such payment are insufficient for such purpose, and may be used for the purpose of finally retiring the last of the Outstanding Series 2014 Bonds.

(ii) There shall be maintained in the 2014 Debt Service Reserve Subaccount an amount equal to the Debt Service Reserve Requirement. The 2014 Debt Service Reserve Subaccount shall

be initially funded from the proceeds of the Series 2014 Bonds on the Issuance Date in an amount equal to Debt Service Reserve Requirement.

(iii) If and whenever the balance in the 2014 Debt Service Reserve Subaccount is reduced below the Debt Service Reserve Requirement, the Authority shall, from the first available and unallocated Pledged Revenues (excluding proceeds of the Series 2014 Bonds on deposit in the 2014 Pre-Event Program Subaccount), cause amounts equal in the aggregate to any such deficiency to be set apart and transferred into the 2014 Debt Service Reserve Subaccount from the Premium Revenue Account of the Obligation Revenue Fund; provided, however, that in any event the Debt Service Reserve Requirement shall be replenished to the Debt Service Reserve Requirement in equal monthly installments within three months of such reduction.

(iv) If at the end of any calendar year, surplus funds remain in 2014 Debt Service Reserve Subaccount resulting from any reduction of the Debt Service Reserve Requirement or otherwise, such surplus funds shall be promptly transferred from the 2014 Debt Service Reserve Subaccount into the 2014 Debt Service Subaccount of the Obligation Revenue Fund to be applied in accordance with subsection (a) of this Section, and transfers into the 2014 Debt Service Subaccount of the Obligation Revenue Fund from the Premium Revenue Account of the Obligation Revenue Fund shall be reduced accordingly.

(v) Any amounts maintained in the 2014 Debt Service Reserve Subaccount shall be applied to the payment of interest and principal on the Series 2014 Bonds in the year of final maturity or upon redemption or defeasance of the Series 2014 Bonds.

(c) Pursuant to the provisions of Section 4.02 of the Master Resolution, the “Texas Public Finance Authority Texas Windstorm Insurance Association 2014 Pre-Event Program Subaccount” of the Pre-Event Program Account (the “2014 Pre-Event Program Subaccount”) is hereby created and established for all purposes under the Act and shall at all times be held by the Trust Company as a dedicated fund outside of the Treasury of the State.

(d) Additional Accounts or subaccounts relating to the Series 2014 Bonds may be established by the Authority if it determines such are necessary or desirable to provide for the efficient administration of the Funds and Accounts established in the Master Resolution and this First Supplemental Resolution.

Section 8.02 Initial Deposits and Withdrawals. (a) On the Issuance Date, the proceeds of the sale of the Series 2014 Bonds, net of underwriters’ discount and expenses, shall be deposited as follows:

(i) $30,656,000.00 shall be deposited into the 2014 Debt Service Subaccount representing the Debt Service Account Minimum Balance;

(ii) $19,344,000.00 shall be shall be deposited into the 2014 Debt Service Reserve Subaccount representing the Debt Service Reserve Requirement; and

(iii) $443,939,424.37 shall be deposited into the 2014 Pre-Event Program Subaccount to be used for costs of the Association Program.

(b) Amounts on deposit in the 2014 Pre-Event Program Subaccount shall be applied as permitted pursuant to Section 2210.608 of the Act for costs of the Association Program as specified in a “Disbursement Request” from the Association to the Authority as provided in the Financing and Pledge Agreement.

Section 8.03 Payment of the Series 2014 Bonds. The Paying Agent/Registrar shall calculate and furnish calculations of the Obligations for the Bonds as provided in Section 3.12 of the Master Resolution. While any of the Series 2014 Bonds or Administrative Expenses are outstanding and unpaid, the Authority shall direct the Trust Company to deposit Pledged Revenues to the Debt Service Account and Administrative Expenses Account (as appropriate) at the times and in the amounts required by the Master Resolution, and shall make available to the Paying Agent/Registrar, out of the Debt Service Fund, the amounts and at the times required by this First Supplemental Resolution required to pay all amounts due and payable on the Series 2014 Bonds when and as due and payable.

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FINANCING AND PLEDGE AGREEMENT

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ARTICLE II. REPRESENTATIONS, WARRANTIES, AND COVENANTS

Section 2.01 General Representations and Warranties of Authority. The Authority represents and warrants as follows:

(a) the Authority is a validly existing agency of the State of Texas authorized to operate under the TPFA Act;

(b) the Authority has full power and authority to execute and deliver this Agreement, perform its obligations hereunder, and carry out the transactions contemplated hereby;

(c) the Authority has duly authorized the execution and delivery of this Agreement and the performance of its obligations hereunder;

(d) the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby, the performance of its obligations hereunder, and the compliance with the terms hereof by the Authority will not conflict with, or constitute a default under, any law (including administrative rule), judgment, decree, order, permit, license, agreement, mortgage, lease, or other instrument to which the Authority is subject or by which it is bound;

(e) the Authority has full power and authority to issue Class 1 Public Securities, on behalf of the Association, to cause funds to be made available to finance the Association Program in accordance with the Resolution and this Agreement and to perform its obligations under the Resolution;

(f) the Resolution has been duly adopted by the Authority, is in full force and effect, and constitutes a legal, valid, and binding obligation of the Authority; and

(g) this Agreement, when duly executed and delivered by the Authority, will constitute a legal, valid, and binding obligation of the Authority.

Section 2.02 General Representations and Warranties of Association. The Association represents and warrants, as follows:

(a) the Association is a validly existing association created by the State legislature authorized to operate under the Act;

(b) the Association has full power and authority to execute and deliver this Agreement, perform its obligations hereunder, and carry out the transactions contemplated hereby and by the Authorizing Law;

(c) the Association has presented the Transaction Documents to the Department for review and the Department has not objected to the Association entering into the Transaction Documents to which the Association is a party;

(d) the Association has duly authorized the execution and delivery of this Agreement and the performance of its obligations hereunder;

(e) the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby, the performance of its obligations hereunder, and the compliance with the terms hereof by the Association will not conflict with, or constitute a default under, any law (including administrative rule), judgment, decree, order, permit, license, agreement, mortgage, lease, or other instrument to which the Association is subject or by which the Association or any of its property is bound;

(f) the Association is not in violation of any law, which violation could adversely affect the consummation of the transactions contemplated by this Agreement;

(g) as of the date of this Agreement, the Association is able to pay its obligations when due and has admitted assets at least equal to all of its liabilities;

(h) this Agreement, when duly executed and delivered by the Association, will constitute a legal, valid, and binding obligation of the Association; and

(i) the Association has full power and authority to charge and collect the Net Premiums and Other Revenues and to cause Net Premium and Other Revenues to be delivered to the Trust Company for payment of Bonds and Administrative Expenses in accordance with the Resolution.

Section 2.03 General Covenants of the Association. The Association hereby covenants that:

(a) during each calendar year (or more often as necessary) it will review all relevant data and confirm that it has established and/or taken actions, or it will endeavor to establish and/or take actions, including rate changes and Reinsurance Costs adjustments, sufficient to result in Net Coverage Revenues adequate to comply with the Association's covenant in Section 4.03(a)(i) hereof;

(b) during each calendar year it will annually (or more often as necessary) make a filing with the Department pursuant to the Subchapter H of the Act and Title 28, Texas Administrative Code, Section 5.4136 that includes rates sufficient to produce Net Coverage Revenues in the amounts required by Section 4.03 hereof, and, to the extent that such filings are not approved by the Commissioner, the Association shall take such action as allowed under the Act, including but not limited to rate changes (including the ability to file under Section 2210.352 of the Act), Reinsurance Costs adjustments, and other fiscal steps necessary to increase coverage to the Projected Net Coverage Revenue Requirement;

(c) to keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Pledged Revenues and that such accounting records shall at all times during business hours be subject to the inspection of the Authority (who has no duty to inspect) or any Owner or representative of an Owner authorized in writing;

(d) for so long as the Bonds are Outstanding, prior to the approval or issuance of any additional Class 1 Public Securities or entry into Financing Arrangements, it will provide the Authority with a certificate of the Association Representative demonstrating that after taking into account the approval or issuance of such Class 1 Public Securities, the Association will be in compliance with Section 2.05(b) of the Master Resolution;

(e) prior to implementing any Policy Takeout Proposals, the Association shall provide a report to the Authority demonstrating the expected effects of the Policy Takeout Proposal and the impact of such Policy Takeout Proposal on the Net Coverage Revenues covenant described in Section 4.03 hereof. If the

expected effect of the Policy Takeout Proposal would be to reduce the Projected Net Coverage Revenues below the amounts required by Section 4.03 hereof, the Association shall take such action as allowed under the Act, including but not limited to rate changes (including the ability to file under Section 2210.352 of the Act), Reinsurance Costs adjustments, and other fiscal steps necessary to increase coverage to the Projected Net Coverage Revenue Requirement in connection with the implementation of the Policy Takeout Proposal;

(f) for so long as Bonds are Outstanding, prior to entering into any Financial Arrangement the Association Representative shall provide a certificate to the Authority demonstrating that (i) the Additional Obligations Test described in Section 2.05(f) of the Master Resolution would be satisfied with respect to the proposed issuance of or entry into the Financial Arrangement; and (ii) any such Financial Arrangements entered into by the Association shall be payable, in whole or in part, from a pledge of Net Premium and Other Revenue junior and subordinate to the pledge of Pledged Revenues pertaining to the Bonds and Subordinate Lien Bonds, if any; and

(g) for so long as the Bonds are Outstanding, the Association will (i) maintain the Operating Account at a Depository Bank subject to a deposit account control agreement so as to maintain a perfected security interest in the Net Premium and Other Revenue held therein for the benefit of the Owners, and if the Association changes or adds another Depository Bank, the Operating Account or additional account will be subject to a deposit account control agreement that is substantially similar to the Deposit Account Control Agreement, (ii) deposit Gross Premium as received into such Operating Account, (iii) transfer Net Premium and Other Revenues as required under this Agreement, and (iv) comply with its continuing disclosure undertakings set forth in Article VI hereof.

Section 2.04 Special Covenants of the Authority. The Authority hereby covenants and agrees with the Association that:

(a) upon its receipt of a Request for Financing of Class 1 Public Securities, it will use its best efforts to cause a Series of Bonds to be sold pursuant to Authorizing Law, as soon as such sale can be accomplished, to comply with the financing request;

(b) it will provide the Association and the Trust Company confirmation of the sale of Bonds and the amount and time Obligations are due;

(c) it will only redeem any Outstanding Bonds as provided in the Resolution pursuant to the prior written direction of the General Manager of the Association (upon the approval of the Board of Directors of the Association and approval of the Commissioner, as provided in the Act); and

(d) to the extent permitted by law and the TPFA Act, the Authority shall utilize all available remedies to cause the Association to comply with its covenants, duties, or obligations under the Transaction Documents, and, as further described in the Transaction Documents, if the Association shall not be in compliance with any covenants, the Authority shall provide the Association with written notice by electronic transmission or other means of a description of the failure or non-compliance with any covenant, duty, or obligation and an opportunity to cure any matter described in such notice within 20 days' after such notice thereof prior to exercising any such remedies provided to the Authority under the Transaction Documents and the Act; provided, however, that such notice and cure provisions do not apply to the enforcement of the Association's covenants in Section 2.03(f), Section 4.03(a)(i), (iv), (v), and (vi), and Section 4.07 hereof, which may be enforced without the 20 day notice and cure period. Notwithstanding the foregoing, the Authority will not invoke its rights under the Deposit Account Control Agreement except in circumstances when the Association fails to make transfers, deposits and payments as required under this

Agreement and funds on deposit in the Debt Service Account, including any subaccount created thereunder, are not sufficient to make such payments.

Section 2.05 State Not To Impair Class 1 Public Securities Obligations. Pursuant to the Act, the State has pledged for the benefit and protection of the Owners, the Board, and the Association that the State will not take or permit any action that would in any way impair the rights and remedies of the Owners of the Class 1 Public Securities until such public securities are fully discharged.

ARTICLE III. THE CLASS 1 PUBLIC SECURITIES; USE OF PROCEEDS

Section 3.01 Cooperation by Association. The Association shall take the action(s), enter into the agreement(s), provide the certification(s) required by this Agreement, and otherwise cooperate with the Authority and its agents, to effect the lawful issuance and administration of the Class 1 Public Securities under this Agreement.

Section 3.02 Deposit of Sale Proceeds. Upon issuance and delivery of a Series of the Class 1 Public Securities, the Authority shall cause the Sale Proceeds of the Class 1 Public Securities to be delivered to the Trust Company for deposit into the Funds and Accounts in accordance with this Agreement and the Funds Management Agreement, and as specified in the Resolution.

Section 3.03 Use of Class 1 Public Security Proceeds. (a) The Association may use Class 1 Public Security proceeds to:

(i) pay Losses and Operating Expenses of the Association;

(ii) pay Reinsurance Costs, subject to the restriction below;

(iii) pay Costs of Issuance and any Administrative Expenses;

(iv) provide a debt service reserve fund or account;

(v) pay capitalized interest and principal on the Class 1 Public Securities for the period determined necessary by the Association, subject to the restriction below;

(vi) pay obligations related to Financial Arrangements entered into by the Association as temporary sources of payment of Losses and Operating Expenses of the Association; and

(vii) reimburse the Association for any cost described by subdivisions (i)-(vi) paid by the Association before issuance of public securities.

Notwithstanding the above (i) the proceeds from Pre-Event Class 1 Public Securities, including Investment Income therefrom, may not be used to pay Reinsurance Costs, and (ii) the proceeds from Class 1 Public Securities may be used to pay capitalized interest for the period determined necessary by the Association, not to exceed two years.

(b) Any excess proceeds from the Class 1 Public Securities remaining after the purposes for which the Class 1 Public Securities were issued are satisfied may be used to purchase or redeem Outstanding Class 1 Public Securities (subject to approval by the Board of Directors of the Association and with approval of the Commissioner). If there are no Outstanding Class 1 Public Securities or unpaid Class 1 Administrative Expenses, the Association, with consent of Authority, shall transfer or cause the transfer of the remaining proceeds to the Catastrophe Fund.

ARTICLE IV. FUNDS AND REPAYMENT OF FINANCIAL OBLIGATIONS

Section 4.01 Program Fund. (a) The Program Fund is created pursuant to the Resolution as a dedicated trust fund outside the State Treasury in the custody of the Trust Company. The money in the Program Fund shall be applied to pay Costs of Issuance and costs of the Association Program without legislative appropriation. Disbursements from the Program Fund shall be directed by the Authority, as requested by the Association in a Disbursement Request. The Program Fund shall otherwise be applied in accordance with the Funds Management Agreement.

(b) During any Catastrophe Year, the proceeds of any Outstanding Pre-Event Bonds shall be depleted before the proceeds of any Post-Event Class 1 Public Securities, Class 2 Public Securities, or Class 3 Public Securities may be used. Catastrophic Losses shall only be paid from the proceeds of Class 1 Public Securities after all reserves of the Association and amounts available in the Catastrophe Fund have been exhausted. The Authority may establish a subaccount relating to a specific Series of Class 1 Public Securities within each Account of the Program Fund.

(c) The Association may determine that it is necessary to use funds on deposit in the Program Fund, including all Accounts created therein, to pay principal due on the Bonds. The Association Representative may provide a Disbursement Request to the Authority providing that the Association has determined that it is necessary to use funds on deposit in the Program Fund to pay principal due on the Bonds. On or before the first Business Day of any month in which the Association determines that it is necessary to use funds on deposit in the Program Fund, the Association Representative shall provide a Disbursement Request to the Authority to transfer or cause to be transferred amounts from the Program Fund to the Debt Service Account for the satisfaction, in whole or in part, of the Required Monthly Debt Service Deposit under Section 4.03(b)(i)(B) or (C) hereof. The Authority shall make such Required Monthly Debt Service Deposit as specified in the Disbursement Request submitted by the Association Representative on or before the fourth Business Day of the month. The Authority may conclusively rely on the Disbursement Request delivered in accordance with this subsection (c), and need not conduct an independent investigation as to such matters.

(d) The following accounts within the Program Fund are created pursuant to the Resolution:

(i) Pre-Event Program Account;

(ii) Post-Event Program Account;

(iii) Pre-Event Costs of Issuance Account; and

(iv) Post-Event Costs of Issuance Account.

(e) Additional Accounts or subaccounts relating to a Series of Bonds may be established by the Authority if it determines such Accounts or subaccounts are necessary or desirable to provide for the efficient administration of the Funds and Accounts established in the Master Resolution and any Supplemental Resolution.

Section 4.02 Obligation Revenue Fund. (a) The Obligation Revenue Fund is created pursuant to the Resolution as a dedicated trust fund outside of the State Treasury in the custody of the Trust Company. The Authority, on behalf of the Association, may use money in the Obligation Revenue Fund without legislative appropriation to pay the Bonds and Administrative Expenses. The following accounts within the Obligation Revenue Fund are created pursuant to the Resolution:

(i) Premium Revenue Account;

(ii) Debt Service Account;

(iii) Administration Expenses Account;

(iv) Debt Service Reserve Account; and

(v) Redemption Account.

(b) Additional Accounts or subaccounts relating to a Series of Class 1 Public Securities may be established by the Authority if it determines such Accounts and subaccounts are necessary or desirable to provide for the efficient administration of the Funds and Accounts established in the Resolution.

Section 4.03 Pledged Revenues and Related Special Covenants of the Association. (a) The Association hereby covenants and agrees with the Authority that:

(i) so long as there are Outstanding Class 1 Public Securities and Administrative Expenses are incurred, it will take actions, including but not limited to Reinsurance Costs adjustment and premium changes according to the requirements of the Act, subject to the limitations imposed by the Act, that will produce Projected Net Coverage Revenues in an amount not less than:

(A) 1.25 times the amount of Obligations due in the next calendar year; and

(B) 1.25 times the estimated amount of Administrative Expenses due in the next calendar year;

(ii) the Association shall, not later than 45 days after the end of each calendar quarter, file with the Authority a certificate of the Association Representative demonstrating the following:

(A) the Actual Net Coverage Revenues during such immediately preceding four completed calendar quarters; and additionally, if the Actual Net Coverage Revenues were less than 110% of the Obligations and Administrative Expenses, the Association shall also disclose in its certificate to the Authority the circumstances or events relating to its failure to meet the Actual Net Coverage Revenue Requirement and the Association shall specifically describe the action or actions, if any, that it will take (including but not limited to rate changes, Reinsurance Costs adjustments, and other fiscal steps) to meet the Actual Net Coverage Revenue Requirement in the future or why the Association believes that it will not be necessary to take any action in order to meet the Actual Net Coverage Revenue Requirement in the future; and

(B) the Projected Net Coverage Revenues for the next succeeding four calendar quarters and the assumptions, calculations, and components used by the Association in calculating the Projected Net Coverage Revenues; and additionally, if the Projected Net Coverage Revenues are less than 125% of the Obligations and Administrative Expenses to become due and owing during such four calendar quarters, the Association shall disclose in its certificate to the Authority the action or actions (including but not limited to rate changes, Reinsurance Costs adjustments, and other fiscal steps) necessary to meet the Projected Net Coverage Revenue Requirement;

(iii) it will calculate on or before the fourth Business Day of each calendar month the Net Premium and Other Revenue available to the Association, and deliver written notice by electronic transmission of such deposit to the Authority;

(iv) it will transfer and deposit on or before the fifth Business Day of each calendar month (each a Date of Calculation) the Net Premium and Other Revenue on deposit in the Operating Account to the Trust Company;

(v) in addition to making Required Monthly Debt Service Deposits, it will maintain the Debt Service Account Minimum Balance in the Debt Service Account and replenish the Debt Service Account to the Debt Service Account Minimum Balance as required under the Master Resolution and any Supplemental Resolution; and

(vi) it will maintain the required balance equal to the Debt Service Reserve Requirement in the Debt Service Reserve Account and replenish the Debt Service Reserve Account to the Debt Service Reserve Requirement as required under the Master Resolution and any Supplemental Resolution.

(b) The Authority hereby covenants and agrees with the Association that it will instruct the Trust Company on the fifth Business Day of each calendar month (each a Date of Calculation) to transfer the Pledged Revenues on deposit in the Premium Revenue Account as follows, unless otherwise provided in a Supplemental Resolution:

(i) to the Debt Service Account:

(A) 1/6th of any interest to be come due and payable on Outstanding Bonds on the next succeeding Interest Payment Date, calculated from the previous Interest Payment Date; or if interest on the Bonds bears interest payable on other than a semiannual basis or on a truncated or stub interest period, the amount required to provide for the payment of interest thereon becoming due on the next succeeding Interest Payment Date in substantially equal monthly installments, calculated from the previous Interest Payment Date;

(B) 1/12th of any principal scheduled to become due and payable on the Outstanding Bonds on the next succeeding principal payment date commenting within twelve months of the Date of Calculation; provided, however, that this required monthly deposit may be satisfied, in whole or in part, to the extent that funds on deposit in the Program Fund have been transferred and deposited in the Debt Service Account by the Authority prior to the Date of Calculation in accordance with Section 4.01(c) hereof

(C) 1/12th of any principal amount subject to mandatory sinking fund redemption on a mandatory redemption date occurring within twelve months of the Date of Calculation or previous mandatory redemption date; provided, however, that this required monthly deposit may be satisfied, in whole or in part, to the extent that funds on deposit in the Program Fund have been transferred and deposited in the Debt Service Account by the Authority prior to the Date of Calculation in accordance with Section 4.01(c) hereof; and

(D) amounts due on Credit Agreements, excluding any termination payments arising under any such Credit Agreements shall be determined in the applicable Supplemental Resolution authorizing such Credit Agreements.

To the extent that sufficient Pledged Revenues are not on deposit in the Debt Service Account and are not available on a date which the Required Monthly Debt Service Deposits are required to be made or are not available on any Interest Payment Date, at any Stated Maturity Date, or upon a mandatory redemption date or any sinking fund installment payment date to make such payments, the Authority covenants to promptly exercise any and all rights under the Master Resolution and this Agreement to cause the transfer of the following amounts until such Debt Service Account attains an amount equal to the Required Monthly Debt Service Deposits or the amounts required to be available on any Interest Payment

Date, at any Stated Maturity Date or upon a mandatory redemption date or any sinking fund installment payment date to make such payment; first, from the Pledged Revenues deposited to the Premium Revenue Account, second, from amounts on deposit in the Debt Service Account maintained as the Debt Service Account Minimum Balance, and third, from amounts on deposit in the Debt Service Reserve Account.;

(ii) to the Administrative Expenses Account, 1/12th of the estimated annual Administrative Expenses occurring within twelve months of the Date of Calculation, unless otherwise provided in a Supplemental Resolution;

(iii) to the Debt Service Account, in addition to the Required Monthly Debt Service Deposit, the amount of Pledged Revenues sufficient to replenish in equal monthly installments within three months any deficit in the Debt Service Account Minimum Balance as further provided in the Supplemental Resolution;

(iv) to the Debt Service Reserve Account, the amount of Pledged Revenues necessary to replenish in equal monthly installments within three months any deficit in the Debt Service Reserve Requirement as further provided in the Supplemental Resolution;

(v) to the payment of obligations related to any Subordinate Lien Bonds, Administrative Expenses of any Subordinate Lien Bonds, any reserve fund requirements related thereto, obligations under any credit agreement related thereto, and when and in the amounts required by any resolution or order authorizing the issuance of such Subordinate Lien Bonds;

(vi) the excess Pledged Revenues, to the Association to be used for any other lawful purpose, as further described and subject to the limitations in Section 4.06 hereof;

(vii) it will transfer Pledged Revenues from the Debt Service Reserve Account at such times and in such amounts as it deems necessary to pay Bonds; and

(viii) it will transfer from the Administrative Expenses Account at such other times and in such amounts as it deems necessary to pay Administrative Expenses.

Section 4.04 Pledge of Pledged Revenues by the Association. The Association covenants and agrees and hereby irrevocably pledges and assigns to the Authority the Pledged Revenues, said pledge shall constitute an irrevocable first lien on the Pledged Revenues for the payment of the Bonds and Administrative Expenses; and further the Association hereby acknowledges and agrees and authorizes the Authority to pledge and assign the Pledged Revenues to secure the payment of the Bonds and the Administrative Expenses.

Section 4.05 Notification by Authority of Obligations and Other Amounts. As long as there are Outstanding Bonds, the Authority shall notify the Association of the amount of Obligations and the estimated amount of Administrative Expenses for each calendar year in sufficient time to permit the Association to annually file and request approval of sufficient rates from the Department to pay the amounts stated in the notice.

Section 4.06 Excess Pledged Revenues. After all payments and transfers in Section 4.03 hereof have been made, the Association shall instruct the Authority to transfer amounts remaining in the Premium Revenue Account within the Obligation Revenue Fund to the Association to be used for any lawful purpose; provided, however, if the monthly installment to replenish the Debt Service Account Minimum Balance and the Debt Service Reserve Requirement have been made but there still exists a deficiency in the Debt Service Account Minimum Balance or the Debt Service Reserve Requirement, Pledged Revenues may be transferred to the Association solely for the payment of current monthly Operating Expenses, Non-

Catastrophic Losses, and Reinsurance Costs (except that Pledged Revenues consisting of the proceeds from Pre-Event Bonds shall not be used to pay Reinsurance Costs), and any remaining Pledged Revenues shall be used to further replenish *first*, the Debt Service Account to the Debt Service Account Minimum Balance, and *second*, the Debt Service Reserve Account to the Debt Service Reserve Requirement, before being used for any other purpose. While there is a deficiency in any Account, the Association shall certify to the Authority as to the amount of Pledged Revenues required for the payment of current monthly Operating Expenses, Non-Catastrophic Losses, and Reinsurance Costs prior to such funds being transferred to the Association.

Section 4.07 Insufficient Pledged Revenues. If Obligations are due and payable, or there is a deficiency in any Fund or Account described in Section 4.03(b)(i) through (v) hereof, and there are insufficient funds in the Debt Service Account and the Obligation Revenue Fund to pay such Obligations or to cure such deficiency in any Fund or Account described in Section 4.03(b)(i) through (v) hereof, the Authority shall provide the Association with written notice by electronic transmission or other means of the Association's failure to transfer or deposit sufficient funds to permit the Authority to pay such Obligations or to cure such deficiency in any Fund or Account described in Section 4.03(b)(i) through (v) hereof at least three Business Days prior to exercising the Authority's rights under the Deposit Account Control Agreement; and if the Association's failure to promptly deposit or cause to be promptly deposited any money that is legally available to it under the Act into the Debt Service Account in an amount sufficient to permit the Authority to timely pay such Obligations or to cure such deficiency in any Fund or Account described in Section 4.03(b)(i) through (v) hereof within three Business Days of the notice thereof, the Authority shall exercise its rights under the Deposit Account Control Agreement to carry out the Authority's obligations under the Resolution. When the Required Monthly Debt Service Deposits have been made under the Resolution and the Debt Service Account and the Debt Service Reserve Account are funded as required by the Resolution and are sufficient to pay the Obligations, the Authority shall file an Activation Termination Notice (as defined in the Deposit Account Control Agreement) with the Depository Bank within three Business Days of the date the Association notifies the Authority and verifies that such amounts are on deposit and in compliance with the Resolution.

Section 4.08 Association Funds. The Association hereby confirms that the Funds and Accounts are held by the Trust Company outside of the State Treasury.

Section 4.09 Enforcement by Mandamus. Pursuant to Section 2210.617 of the Act, a writ of mandamus and any other legal and equitable remedies are available to the Authority and any other party at interest to require the Association or another party to perform functions and duties under: (i) subchapter M of the Act; (ii) the Texas Constitution; (iii) this Master Resolution; (iv) any Supplemental Resolution authorizing the issuance of Bonds thereunder; and (v) any other Transaction Document.

ARTICLE V. ASSIGNMENT OF RIGHTS IN AGREEMENT

Section 5.01 Security Agreement; Authority's Assignment of this Agreement. (a) Pursuant to the Resolution, the Authority shall pledge, assign, and transfer all of its right, title, and interest in and to this Agreement and the Pledged Revenues to the Owners as security for the payment of Bonds and Administrative Expenses. The parties to this Agreement acknowledge that the covenants and agreements contained in this Agreement and in the Resolution are for the benefit of the Owners from time to time and may be enforced by the Owners.

(b) Chapter 1208, Texas Government Code, as amended, applies to the security interest that secures payment of the Bonds, and the pledge of the Pledged Revenues granted by the Association under this Agreement, and such pledge is, therefore, valid, effective, and perfected. However, in order to assure the perfection and delivery of the security interest in and the first lien on the Pledged Revenues on deposit in

the Operating Account, the Association and the Authority agree to provide for the perfection of the security interest under the requirements of Chapter 9, Texas Business and Commerce Code, as amended. This Agreement and the Deposit Account Control Agreement described herein shall be considered security agreements pursuant to and for all purposes under State law, with the Authority as the secured party for and on behalf of the Owners. The grants, assignments, liens, pledges and security interests created herein and recognized in the Deposit Account Control Agreement shall become effective immediately upon and from the time of payment for and the delivery of the Initial Series of Bonds under the Resolution and any Supplemental Resolutions, and the same shall be continuously effective for so long as any Bonds are Outstanding. The Association and the Authority agree to take such measures as are reasonable and necessary under State law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, as amended, and to cause to be filed financing statements as may be reasonably necessary to perfect the security interest in the Pledged Revenues.

(c) The Authority shall, at the expense of the Association, execute and deliver from time to time, in addition to the instruments of assignment specifically provided for in this Agreement, such other and further instruments and documents as may be reasonably requested by the Owners from time to time to further evidence, effect, or perfect such pledge and assignment for the purposes stated in the Resolution. The Association acknowledges and consents to the assignment and pledge of the Pledged Revenues by the Authority to the Owners as security for the payment of the Bonds and as security for the payment of amounts owing under this Agreement, including all of the Authority's rights and interests under this Agreement and the Pledged Revenues and the right and interest to enforce the performance of the obligations of the Association under this Agreement.

Section 5.02 Third-Party Beneficiaries. The Owners are intended to be, and shall be, third-party beneficiaries of this Agreement, and each shall have the right (but not the obligation) to enforce the terms of this Agreement insofar as this Agreement sets forth obligations of the Association and the Authority under this Agreement. The Association acknowledges that this Agreement and its obligations hereunder are enforceable by the Owners under the provisions of Section 2210.617 of the Act.

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ARTICLE VII. MISCELLANEOUS PROVISIONS

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Section 7.02 Amendment. The Authority and the Association, by mutual agreement, may amend this Agreement if, before the amendment takes effect:

(a) the Association obtains an opinion of its legal counsel to the effect that such amendment is permitted under the Act and other law governing the Association; and

(b) either (i) the Authority obtains an opinion of Bond Counsel to the effect that such amendment will not violate the Authorizing Law or the Resolution, and will not adversely affect the rights of the Owners hereunder, or (ii) the Owners of at least a majority in aggregate principal amount of the Outstanding Bonds affected by such amendment consent thereto.

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DEPOSIT ACCOUNT CONTROL AGREEMENT

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The capitalized terms appearing in the Deposit Account Control Agreement have the meanings set forth below unless the context otherwise requires Terms not otherwise defined in the Deposit Account Control Agreement have the meanings ascribed thereto in the "APPENDIX B-- GLOSSARY OF TERMS.

"Account" means, individually and collectively, the Association's deposit account, which account is held by the Depository Bank outside of the Obligation Revenue Fund, commonly referred to as the "operating account."

"Pledged Funds" mean, collectively, the Account and any checks, automated clearing house ("ACH") transfers, wire transfers, instruments and other payment items consisting of Net premium and Other Revenue.

1. The Authority's Control over the Pledged Funds in the Account.

(a) This Agreement evidences the Authority's control over the Pledged Funds deposited in the Account. Notwithstanding any contrary duties owed by Bank to the Association under any other deposit account agreements, terms and conditions or other documentation entered into by and between Bank and the Association governing the Account and any cash management or similar services provided by Bank or an affiliate of Bank in connection with the Account (collectively, the "Account Related Agreements"). Bank will comply with instructions originated by the Authority as set forth herein directing the disposition of Pledged Funds in the Account without further consent of the Association. Bank may follow such instructions even if doing so results in the dishonoring by Bank of items presented for payment from the Pledged Funds in the Account or Bank otherwise not complying with any instruction from the Association directing the disposition of any Pledged Funds in the Account.

(b) The Association represents and warrants to the Authority and Bank that it has not assigned or granted a security interest in the Account or any Pledged Funds deposited in the Account, except to the Authority as described and set forth in the Financing and Pledge Agreement.

(c) The Association will not permit the Account to become subject to any other pledge, assignment, lien, charge or encumbrance of any kind ("Charges"), except as otherwise permitted under the Financing and Pledge Agreement or the Master Resolution as supplemented by the First Supplemental Resolution, other than the Authority's security interest referred to herein, Bank's setoffs and the Charges permitted hereinafter.

(d) The Association covenants to the Authority that it will not close the Account prior to the termination of this Agreement. Bank shall have no liability in the event the Association breaches this covenant to the Authority.

2. Association Access to the Account. Except as otherwise provided in this Section 2 of the Agreement, prior to an Activation Effective Time (as defined below), Bank may honor withdrawal, payment, transfer, or other instructions originated by the Association concerning the disposition of Pledged Funds in the Account (collectively, "Association Instructions"). On and after each Activation Effective Time until termination of such Activation Effective Time as provided in Section 3, Bank shall only honor instructions originated by the Authority concerning the disposition of Pledged Funds in the Account ("Authority Instructions") without further consent from the Association and the Association shall have no right or ability to access, withdraw or transfer Pledged Funds from the Account. Except as provided herein,

no Authority Instruction may be rescinded or modified without Bank's consent, except the Authority may terminate the Activation Effective Time as provided in this Agreement. Both the Authority and the Association acknowledge that Bank may, without liability, (i) comply with any Association Instruction or otherwise complete a transaction involving the Account that Bank or an affiliate had started to process before an Activation Effective Time and (ii) commence to solely honor the Authority's Instructions at any time or from time to time after Bank becomes aware that the Authority has sent to Bank the Activation Notice (as defined below) even if prior to an Activation Effective Time (including without limitation halting, reversing or redirection of any transaction), which actions (under (i) and/or (ii)) shall not, in any way, affect the commencement of the Activation Effective Time. The Account may receive merchant card deposits and chargebacks. The Association acknowledges and agrees that upon commencement of the Activation Effective Time, chargebacks may be blocked from debiting the Account.

For purposes hereof, and notwithstanding anything to the contrary in this agreement, each "Activation Effective Time" shall commence upon the opening of business on the second Banking Day (as defined below) following the Banking Day on which the receipt of a notice purporting to be signed by the Authority in substantially the form of Exhibit A and sent to the location of Bank to which the Authority is required hereunder to send the Activation Notice, with a copy of this Agreement attached (an "Activation Notice"), is acknowledged by the Bank; provided, however, that if such receipt is acknowledged on any day after 12:00 noon, eastern time, the acknowledgement shall be deemed to have occurred on the next Banking Day. A "Banking Day" is any day other than a Saturday, Sunday or other day on which Bank is or is authorized or required by law to be closed.

Within a reasonable time, after commencement of each Activation Effective Time and continuing on each Banking Day thereafter, Bank shall wire transfer any amount specified in any Authority Instructions , less the Retained Balance (defined below), to remain in the account on activation, from immediately available Pledged Funds in the Account to the account specified by the Authority in the Activation Notice. In the event the Authority requests in writing a change to the wire transfer instructions provided to Bank in the Activation Notice by sending a written notice in substantially the form of Exhibit B and sent to the location of Bank to which the Authority is required hereunder to send the Activation Notice to Bank to the location set forth hereunder, any such change requested by the Authority shall commence within a reasonable time, but no earlier than two Banking Days, after the opening of business on the second Banking Day following the Banking Day on which such notice is acknowledged by Bank; provided, however, that if such receipt is acknowledged on any day after 12:00 noon, eastern time, the acknowledgement shall be deemed to have occurred on the next Banking Day. Pledged Funds are not available if (i) they are not available pursuant to Bank's funds availability policy as set forth in the Account Related Agreements or (ii) in the reasonable determination of Bank, (A) they are subject to hold, dispute or a binding order, judgment, decree or injunction or a garnishment, restraining notice or other legal process directing or prohibiting or otherwise restricting, the disposition of the Pledged Funds in the Account or (B) the transfer of such Pledged Funds would result in Bank failing to comply with a statute, rule or regulation.

3. Multiple Lender Activations Permitted. The Authority shall be entitled to send no more than three separate Activation Notices to the Bank. After a "Termination Effective Time" as defined below and prior to commencement of a subsequent Activation Effective Time, the Association may operate and transact business through the Account in its normal fashion, including issuing Association Instructions to the Bank. Each of the three Activation Effective Times shall commence as described in Section 2 of this Agreement and until the termination of each such Activation Effective Time, Bank shall only honor Authority Instructions. Each Activation Effective Time may be terminated by the Authority by sending Bank a notice of termination (the "Activation Termination Notice") in the form of Exhibit D. Each termination shall become effective on the Termination Effective Time. The third and final Activation Effective Time will terminate concurrently with the termination of the Agreement in accordance with the terms of Section 12. Each "Termination Effective Time" shall commence no earlier than upon the opening of business on the

second Banking Day (as defined below) following the Banking Day on which the receipt of an Activation Termination Notice purporting to be signed by the Authority in substantially the form of Exhibit D, is acknowledged by the location of Bank to which the Authority is required hereunder to send the Activation Termination Notice; provided, however, that if such receipt is acknowledged on any day after 12:00 noon, eastern time, the acknowledgement shall be deemed to have occurred on the next Banking Day. The Bank shall have a reasonable period of time after the Termination Effective Time to halt further transfers from the Account to the account specified by the Authority in the Activation Notice.

4. Returned Items. The Authority and the Association understand and agree that the face amount ("Returned Item Amount") of each Returned Item (as defined herein) may be paid by Bank debiting the Account to which the Returned Item was originally credited, without prior notice to the Authority or the Association. As used in this Agreement, the term "Returned Item" means (i) any item deposited to the Account and returned unpaid or otherwise uncollected, whether for insufficient funds or for any other reason, and without regard to timeliness of the return or the occurrence or timeliness of any drawee's notice of non-payment; (ii) any item subject to, a claim against Bank of breach of transfer or presentment warranty under the Uniform Commercial Code (as adopted in the applicable state), Regulation CC (12 C.F.R. §229), clearing house operating rules or NACHA (i.e. National Automated Clearing House Association) as in effect from time to time; (iii) any ACH entry credited to the Account and returned unpaid or subject to an adjustment entry under applicable clearing house rules, whether for insufficient funds or for any other reason, and without regard to timeliness of the return or adjustment; (iv) any credit to the Account from a merchant card transaction, against which a contractual demand for chargeback has been made; and (v) any credit to the Account made in error and any other adjustments including those due to encoding errors or other items posted to the account in error.

5. Settlement Items. The Authority and the Association understand and agree that Bank may pay the face amount ("Settlement Item Amount") of each Settlement Item (as defined herein) by debiting the Account, without prior notice to the Authority or the Association. As used in this Agreement, the term "Settlement Item" means (i) each check or other payment order drawn on or payable against any controlled disbursement account, a Controlled Balance Account (as defined below) or other deposit account at any time linked to the Account by a controlled balance arrangement (each a "Linked Account"), which Bank takes for deposit or value, cashes or exchanges for a cashier's check or official check in the ordinary course of business prior to an Activation Effective Time, and which is presented for settlement against the Account (after having been presented against the Linked Account) after an Activation Effective Time, (ii) each check or other payment order drawn on or payable against the Account, which, prior to the Activation Effective Time, Bank takes for deposit or value, assures payment pursuant to a banker's acceptance, cashes or exchanges for a cashier's check or official check in the ordinary course of business after Bank's cutoff time for posting, (iii) each ACH credit entry initiated by Bank, as originating depository financial institution, on behalf of the Association, as originator, prior to Activation Effective Time, which ACH credit entry settles after Activation Effective Time, and (iv) any other payment order drawn on or payable against the Account, which Bank has paid or funded prior to the Activation Effective Time, and which is first presented for settlement against the Account in the ordinary course of business after an Activation Effective Time. The Association and the Authority acknowledge and agree that if there are Linked Accounts not subject to this Agreement, that upon commencement of the Activation Effective Time any such Linked Accounts will be de-linked and will no longer transfer balances to or from the Account. "Controlled Balance Account" is a deposit account that is linked to one or more other deposit accounts in order to allow transfers to be made between such accounts on an automated basis, pursuant to the Association's instructions, in order to maintain a specified balance in one or more of the Linked Accounts, including, without limitation, zero balance arrangements where transfers are made to a subaccount from a master account or from a subaccount to a master account at the end of each Banking Day in order to maintain a zero balance in such subaccount at the end of such Banking Day.

* * * * *

7. Bank Subordination and Permitted Debits. Bank agrees that, after each Activation Effective Time, Bank shall not offset, charge, deduct, debit or otherwise withdraw funds from the Account, except as permitted by this Section 7, until Bank has been advised in writing by the Authority that this Agreement has been terminated. The Authority shall notify Bank promptly in writing when the Association is compliance with its obligations upon payment in full of the Association's obligations under the Financing and Pledge Agreement by means of a Termination Notice (defined below).

Continuing after commencement of any Activation Effective Time, Bank is permitted to debit the Account for:

(a) Bank's fees and charges relating to the Account or associated with this Agreement and any other charges, fees, expenses, payments and other amounts for treasury management services or card services provided by Bank to the Association, including, without limitation, funds transfer (origination or receipt), trade, merchant card, lockbox, stop payment, positive pay, automatic investment, imaging, and information services (collectively "Bank Fees");

(b) any Returned Item Amounts;

(c) any Settlement Item Amounts; and

(d) chargebacks regarding merchant card deposits, merchant card fees and debits related to cash vault coin and currency requests ("Permitted Debits").

Bank's right to debit the Account under this Section 7 shall exist notwithstanding any obligation of the Association to reimburse or indemnify Bank or the Authority to reimburse Bank.

8. The Association and the Authority Responsibilities.

(a) If the balances in the Account are not sufficient to compensate Bank for any Bank Fees, the Association agrees to pay Bank on demand the amount due Bank. If the Association fails to so pay Bank and such Bank Fees are incurred on or after any Activation Effective Time, the Authority agrees to pay Bank within five days after Bank's demand to the Authority with respect to such Bank Fees out of and to the extent that funds are available in the Retained Balance. The failure of the Association or the Authority to so pay Bank shall constitute a breach of this Agreement.

(b) If the balances in the Account are not sufficient to compensate Bank for any Returned Item Amounts or Settlement Item Amounts, the Association agrees to pay Bank on demand the amount due Bank. If the Association fails to so pay Bank immediately upon demand, the Authority agrees to pay Bank the amount due within five days after Bank's demand to the Authority to pay such amount out of and to the extent that funds are available in the Retained Balance. The failure by the Association or the Authority to so pay Bank shall constitute a breach of this Agreement.

(c) Bank is authorized, without prior notice and without regard to the Activation Notice under this Agreement or any other control agreement with the Authority, from time to time to debit any other account the Association may have with Bank for the amount or amounts due Bank under this Agreement or any other Account Related Agreement.

* * * * *

12. Termination and Assignment of this Agreement.

(a) The Authority may terminate this Agreement by providing notice substantially in the form of Exhibit C (“Termination Notice”) together with a copy of this Agreement to the Association and Bank, provided that Bank shall have a reasonable time to act on such termination. Bank may terminate this Agreement upon 30 days' prior written notice to the Association and the Authority. The Association may not terminate this Agreement except with the written consent of the Authority and upon prior written notice to Bank.

(b) Notwithstanding subsection 12(a), Bank may terminate this Agreement at any time by providing thirty (30) days’ prior written notice to the Association and the Authority if either the Association or the Authority breaches any of the terms of this Agreement, or if the Association breaches any other agreement with Bank.

(c) Sections 8, 10 and 11 shall survive any termination of this Agreement.

(d) With the termination of the third and final Activation Effective Time and the termination of this Agreement, all funds held by the Bank in the Account will be released to the Association and transferred and deposited as directed by the Association; notwithstanding, in order to comply with the provisions of the Financing and Pledge Agreement relating to maintaining a Deposit Account Control Agreement in respect to the Operating Account, the parties agree to enter into an additional Deposit Account Control Agreement substantially similar to this Agreement upon the second Activation Effective Time.

* * * * *

14. Miscellaneous.

(a) This Agreement may be amended only by a writing signed by the Association, the Authority and Bank; except that Bank Fees are subject to change by Bank upon 30 days' prior written notice to the Association.

* * * * *

(h) Retained Balance. The Association and the Authority agree that a minimum balance of $50,000.00 (the “Retained Balance”) shall be retained in the Account upon the commencement of each Activation Effective Time for the benefit of the Bank until this Agreement is terminated to pay amounts owed, if any, under Sections 4, 5, 8, 9 and 11.

* * * * *

APPENDIX D

FORM OF CO-BOND COUNSEL'S OPINION

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An opinion in substantially the following form will be delivered by Winstead PC and Andrews Kurth LLP, Co-Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.

300 CONVENT STREET
SUITE 2700
SAN ANTONIO, TEXAS 75205
TELEPHONE: 210.277.6800
FACSIMILE: 210.277.6810

www.winstead.com

111 CONGRESS AVENUE
SUITE 1700
AUSTIN, TEXAS 78701
TELEPHONE: (512) 320.9200
FACSIMILE: (512) 320.9292

www.andrewskurth.com

September 30, 2014

TEXAS PUBLIC FINANCE AUTHORITY
TEXAS WINDSTORM INSURANCE ASSOCIATION
PREMIUM REVENUE TAXABLE BONDS, SERIES 2014
IN THE PRINCIPAL AMOUNT OF $500,000,000

WE HAVE ACTED AS "CO-BOND COUNSEL" FOR THE TEXAS PUBLIC FINANCE AUTHORITY (the "Authority") in connection with the issuance of the captioned bonds (the "Bonds"), and in that connection we have examined into the legality and validity of the Bonds for the sole purpose of providing legal advice and traditional legal services to the Authority including rendering an opinion with respect to the legality and validity of the Bonds under the laws of the State of Texas and with respect to the treatment of interest on the Bonds for federal income tax purposes. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Authority or the Texas Windstorm Insurance Association (the "Association") or the disclosure thereof in connection with the sale of the Bonds, and we have not assumed any responsibility with respect thereto.

WE HAVE EXAMINED the applicable and pertinent provisions of the laws of the State of Texas, including Chapter 2210, Texas Insurance Code, particularly Subchapters B-1, H, and M of such chapter, as amended (the "Act"); the Texas Public Finance Authority Act, Chapter 1232, Texas Government Code, as amended (the "TPFA Act"); the Public Security Procedures Act, Chapter 1201, Texas Government Code, as amended; Subchapter E, Division 3 of Chapter 5 of Part I of Title 28, Texas Administrative Code (the "Department Rules"); and any regulations promulgated by the Authority under the TPFA Act (the Act, the TPFA Act, the Department Rules, and such statutes and regulations are herein collectively referred to as the "Authorizing Law"), a transcript of certified proceedings of the Authority (the "Transcript"), the approving opinion of the Attorney General of the State of Texas, and other pertinent instruments authorizing and relating to the issuance of the Bonds, including the form of Bond to be executed and delivered by the Authority. Capitalized terms not otherwise defined herein shall have the meanings assigned to such terms in the "Master Resolution" and "First Supplemental Resolution" authorizing the issuance of the Bonds adopted on September 24, 2014 (collectively, the "Resolution"). Defined terms used herein are defined in the Resolution.

BASED ON SAID EXAMINATION and in accordance with customary legal opinion practice, it is our opinion that:

(1) The Authority is a validly existing agency of the State of Texas with power to adopt the Resolution, perform its agreements described therein, and issue the Bonds.

(2) The Transcript evidences legal authority for the issuance of the Bonds in full compliance with the Authorizing Law presently in effect; the Bonds, when authenticated and delivered to and paid for by the initial purchasers of the Bonds, will be valid and legally binding special obligations of the Authority enforceable in accordance with the terms and conditions thereof, except to the extent that the enforcement of the rights and remedies of the owners thereof may be limited by laws relating to sovereign immunity, bankruptcy, insolvency, reorganization, or moratorium or other similar laws affecting the rights of creditors, or the exercise of judicial discretion in accordance with general principles of equity; the Bonds have been authorized in accordance with law; and the Bonds are payable solely from and equally secured by an irrevocable first lien on and pledge of the Pledged Revenues consisting of the following: (a) Net Premium and Other Revenue; (b) amounts on deposit in the Funds and Accounts created in the Resolution and in any Supplemental Resolution, including Investment Income or earnings, if any, credited to such Funds and Accounts; (c) any revenue received pursuant to the exercise of any rights and remedies of the Authority under the Financing and Pledge Agreement, the Deposit Account Control Agreement, and the Funds Management Agreement; (d) proceeds of any Bonds issued for the purpose of paying, refinancing, renewing, or refunding Bonds previously issued and Outstanding thereunder; and (e) any additional revenues hereafter designated as Pledged Revenues that are lawfully available to pay Obligations and Administrative Expenses.

THE BONDS ARE NOT AN OBLIGATION OF THE STATE; ANY AGENCY OF THE STATE, POLITICAL CORPORATION, OR POLITICAL SUBDIVISION OF THE STATE; AND NONE OF THEM IS OBLIGATED TO PAY THE BONDS, EXCEPT TO THE EXTENT THE ASSOCIATION IS OBLIGATED TO PAY UNDER THE FINANCING AND PLEDGE AGREEMENT AND THE AUTHORITY IS OBLIGATED TO PAY PURSUANT TO THE RESOLUTIONS AND THE AUTHORIZING LAW. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY AGENCY, POLITICAL CORPORATION, OR POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE BONDS.

IT IS FURTHER OUR OPINION that even though the Bonds are issued by an agency of the State of Texas, under existing law interest on the Bonds is **not** excludable pursuant to section 103 of the Internal Revenue Code of 1986, as amended, from gross income of the owners thereof for federal income tax purposes.

THE OPINIONS SET FORTH ABOVE are based on existing laws of the United States and the State of Texas, which are subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention, or to reflect any changes in any law that may hereafter occur or become effective.

WE EXPRESS NO OPINION herein regarding the accuracy, adequacy, or completeness of the Official Statement relating to the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds.

YOU ARE REMINDED that this opinion expresses our professional judgment as to the legal issues explicitly addressed herein. We express no opinion as to any matters not specifically covered by the foregoing opinion. In rendering this opinion we do not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does this opinion guarantee the outcome of any legal dispute that may arise out of the transaction described herein.

Respectfully submitted,

APPENDIX E

DEPOSITORY TRUST COMPANY

This section describes how ownership of the Series 2014 Bonds is to be transferred and how the principal of, premium, if any, and interest on the Series 2014 Bonds are to be paid to and accredited by The Depository Trust Company, New York, New York ("DTC"), while the Series 2014 Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Authority, the Association and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The Authority, the Association and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Series 2014 Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Series 2014 Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission (the "SEC"), and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the each series of the Series 2014 Bonds. The Series 2014 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Series 2014 Bond will be issued for each maturity of the Series 2014 Bonds in the aggregate principal amount of each such maturity and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of: AA+. The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at www.dtcc.com and www.dtc.org.

To facilitate subsequent transfers, all Series 2014 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2014 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership.

DTC has no knowledge of the actual Beneficial Owners of the Series 2014 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2014 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Purchases of Series 2014 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2014 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2014 Bond("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2014 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2014 Bonds, except in the event that use of the book-entry system for any series of the Series 2014 Bonds is discontinued.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2014 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2014 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the documents governing the Series 2014 Bonds or each series as the case may be. For example, Beneficial Owners of Series 2014 Bonds may wish to ascertain that the nominee holding the Series 2014 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. Unless otherwise stated in the offering document, if less than all of the Series 2014 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed. If less than all of the Series 2014 Bonds are to be redeemed, or if any Series 2014 Bonds are subject to Mandatory Sinking Fund Redemption, the Series 2014 Bonds to be redeemed will be treated by DTC, in accordance with its rules and procedures, as a "Pro Rata Pass-Through Distribution of Principal".

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2014 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2014 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Series 2014 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Paying Agent/Registrar, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the Authority or the Paying Agent/Registrar, disbursement of such

payments to Direct Participants will be the responsibility of DTC; and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to any series of the Series 2014 Bonds at any time by giving reasonable notice to the Authority or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, the Series 2014 Bonds, or the respective series for which DTC services have been discontinued, are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository) for any series of the Series 2014 Bonds. In that event, Series 2014 Bonds, or the respective series for which DTC services have been discontinued, will be printed and delivered as required by the Resolutions.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC, but the Authority, the Association and the Underwriters take no responsibility for the accuracy thereof.

THE ASSOCIATION AND THE AUTHORITY, SO LONG AS THE DTC BOOK-ENTRY SYSTEM IS USED FOR ANY SERIES OF THE SERIES 2014 BONDS, WILL SEND ANY NOTICE OF PROPOSED AMENDMENT TO THE RESOLUTIONS OR OTHER NOTICES WITH RESPECT TO SUCH SERIES 2014 BONDS ONLY TO DTC. ANY FAILURE BY DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO NOTIFY THE BENEFICIAL OWNERS, OF ANY NOTICES AND THEIR CONTENTS OR EFFECT WILL NOT AFFECT ANY ACTION PREMISED ON ANY SUCH NOTICE. NEITHER THE ASSOCIATION NOR THE AUTHORITY WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM DTC PARTICIPANTS ACT AS NOMINEES, WITH RESPECT TO THE PAYMENTS ON THE SERIES 2014 BONDS OR THE PROVIDING OF NOTICE TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS.

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