Texas Windstorm Insurance Association

Statutory Financial Statements and Supplemental Information

Years Ended December 31, 2016 and 2015

Calhoun, Thomson+Matza, LLP
Certified Public Accountants

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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, 2016 and 2015, and have issued our report thereon dated April 14, 2017. 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 12 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 2016, 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, Thomas & Matza, LLP

April 14, 2017

ctm Calhoun, Thomson+Matza, LLP
Certified Public Accountants

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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, 2016 and 2015 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, 2016 and 2015 cash, cash equivalents, and short-term investments were understated by $59.2 million and $15.1 million, respectively, and other assets were understated by approximately $9.0 million and $11.2 million, respectively. The departures identified above reduced total net position as of December 31, 2016 and 2015 by approximately $69.9 million and $28.4 million, respectively. The effects on change in net position for the years ended December 31, 2016 and 2015 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, 2016 and 2015, 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, 2016 and 2015, 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, 2016, the Association had approximately $81 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 ("CRTF" or "Trust Fund"). As of the December 31, 2016, the balance in the Trust Fund was approximately $588 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 Senate Bill 900 ("SB 900") passed by the Texas Legislature during 2015, the Association is authorized to place $1.0 billion in public securities and assess insurance companies $1.0 billion. 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 all 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 $2.6 billion by the Association's actuary as of December 31, 2016. If the ultimate loss projection changes in the future it could have a severe impact on the financial condition of the Association.

The Association was removed from Administrative Oversite as of April 8, 2016. The Texas Department of Insurance will continue to monitor and receive periodic reporting for matters relating to contracts, litigation, depopulation, public security covenants and reinsurance.

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.

Calh, Thomson & Matza, LLP

April 14, 2017

Texas Windstorm Insurance Association

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

(Amounts in Thousands)

December 31,		**2016**		2015
Admitted Assets				
Cash, cash equivalents, and short-term investments	**$**	**970,530**	$	991,617
Other		**2,178**		1,477
	$	**972,708**	$	993,094
Liabilities, Surplus and Other Funds				
Liabilities:				
Loss and loss adjustment expenses	**$**	**53,459**	$	75,053
Borrowed money – bonds and interest payable		**476,652**		519,344
Underwriting expenses payable		**10,281**		11,087
Unearned premiums		**237,725**		246,829
Ceded reinsurance premiums payable, net of ceding commissions		**27,497**		26,039
Funds held by company under reinsurance treaties		**1,819**		-
Statutory fund payable		**147,015**		92,713
Other liabilities		**18,260**		22,029
Total liabilities		**972,708**		993,094
Commitments and contingencies (Notes 8, 9, 10, 13, 15 and 16)				
Surplus and other funds:				
Unassigned surplus		**-**		-
	$	**972,708**	$	993,094

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,		2016		2015
Underwriting income:				
Premiums earned	$	**496,457**	$	501,722
Premiums ceded		**(126,053)**		(124,128)
Net premiums earned		**370,404**		377,594
Deductions:				
Losses and loss expenses incurred		**38,625**		178,886
Underwriting expenses incurred		**109,756**		114,973
Total underwriting deductions		**148,381**		293,859
Net underwriting gain		**222,023**		83,735
Investment loss:				
Net investment loss		**(34,620)**		(37,754)
Other income:				
Other income		**67**		4
Net income before statutory fund cost and federal income tax expense		**187,470**		45,985
Statutory fund cost		**147,015**		92,713
Net income (loss) before federal income tax expense		**40,455**		(46,728)
Federal income taxes incurred		**-**		(7,829)
Net income (loss)	$	**40,455**	$	(38,899)

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
Balance at January 1, 2015	$	-
Net loss		(38,899)
Change in nonadmitted assets		39,447
Other		(548)
Balance at December 31, 2015		-
Net income		40,455
Change in nonadmitted assets		(40,375)
Other		(80)
Balance at December 31, 2016	$	-

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,		2016		2015
Cash from operations:				
Premiums collected, net of reinsurance	$	**362,588**	$	379,329
Net investment loss		**(36,440)**		(37,895)
Miscellaneous income		**67**		4
Benefit and loss related payments		**(36,787)**		(134,184)
Federal income taxes recovered		**-**		61,059
Commissions, expenses paid and aggregate write-ins for deductions		**(226,493)**		(417,776)
Net cash from operations		**62,935**		(149,463)
Cash from financing and miscellaneous sources:				
Borrowed funds		**(42,692)**		9,564
Other cash applied		**(41,330)**		(13,842)
Net cash from financing and miscellaneous sources		**(84,022)**		(4,278)
Net change in cash and cash equivalents		**(21,087)**		(153,741)
Cash and cash equivalents, beginning of year		**991,617**		1,145,358
Cash and cash equivalents, end of year	$	**970,530**	$	991,617

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

Texas Windstorm Insurance Association

Summary of Significant Accounting Policies
(Amounts in Thousands)

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 established in 1971 by the Texas Legislature to provide wind and hail coverage to applicants unable to obtain insurance in the Texas seacoast territory from the private market. The Legislature's action was a response to market constrictions along the Texas coast after several hurricanes. The Association is governed by Chapter 2210 of the Insurance Code (Chapter 2210); however, it is not a state agency and does not receive funds from the general revenue.

The Association is a residual insurer of last resort and as such is not a direct competitor in the private market. The Association's primary purpose is to provide an adequate market for windstorm and hail insurance in certain designated portions of the seacoast territory of Texas. The seacoast territory includes 14 first tier and 14 second tier coastal counties. The designated catastrophe area is that portion of the seacoast territory where the Commissioner of Insurance has found that windstorm and hail insurance is not reasonably available. It currently includes the entire first tier and a portion of Harris County (second tier). The specific designated catastrophe areas are: Aransas, Brazoria, Calhoun, Cameron, Chambers, Galveston, Jefferson, Kenedy, Kleberg, Matagorda, Nueces, Refugio, San Patricio and Willacy, inside the city limits and east of Highway 146, and the following portions of Harris County: La Porte, Morgan's Point, Pasadena, Seabrook, and Shore Acres.

The Association operates as an insurance company by issuing policies, collecting premiums, and paying losses. The Association is required by law to use the net gain from operations each year to make payments to the CRTF, procure reinsurance or use alternative risk mechanisms. The CRTF is an account maintained by the Texas Comptroller dedicated to funding the payment of Association catastrophe losses.

Association policies provide residential and commercial property coverage for losses resulting from windstorm or hail. No other perils are covered by Association policies. Applications for coverage, accompanied by the full annual premium, may be submitted to the Association through a property and casualty agent properly licensed through the Texas Department of Insurance ("TDI"). In order to be eligible for an Association policy, applicants and properties must meet certain criteria defined by the Texas Legislature:

- Applicants must have been denied coverage by at least one insurer in the private market.
- Properties must be located in the designated catastrophe area.
- Properties must be certified by TDI as having been built to applicable building codes, with limited exceptions.
- Properties located in specified flood zones that were constructed, altered, remodeled, or enlarged after September 1, 2009 and that can obtain flood insurance through the National Flood Insurance Program must provide proof of flood insurance coverage.
- Properties must be in an insurable condition as specified by the Association in the Plan of Operation.

Texas Insurance Code Sections 2210.251 and 2210.258 - 2210.259 and the Association's Plan of Operation (28 TAC 5.4001 et seq.) outline the building code and inspection requirements for eligibility in the Association and provide for limited exceptions. In accordance with these sections, the Association requires a WPI-8 certificate of compliance on all structures constructed, altered, remodeled, enlarged, repaired, or to which additions have been made on or after January 1, 1988. To obtain a WPI-8, TDI inspectors or TDI-approved licensed professional engineers must inspect the property and certify that it is fully compliant with the windstorm building code.

Properties must be in an insurable condition to be eligible for Association coverage, i.e. in good repair with no unrepaired damage or hazardous conditions. The Association regularly inspects properties as part of its underwriting process to verify insurability. Properties may be inspected on-site by a vendor or remotely via high-quality aerial imagery. Inspections are used to determine the accuracy of rating information, discover any unrepaired damage, and identify any other conditions that affect the insurability of the property.

Approximately $4,900,000 in funding was secured for the 2016 hurricane season. SB 900, passed by the 84th Texas Legislature, took effect during 2015, and changed the Association's funding structure. $4,900,000 is sufficient to fund claims associated with 99% of all modeled hurricane seasons, or a 100-year season.

Class 1, 2, and 3 public securities will be repaid by Association premiums and surcharges on Association policies. Class 2 and 3 public securities, after a finding by the Commissioner of Insurance, may also be repaid by surcharges on coastal policyholders, if necessary.

Depopulation measures were introduced in the 84th Texas Legislature in 2015 authorizing assumption reinsurance agreements between the Association and the private market to facilitate depopulation. This allows private insurance companies interested in writing on the Texas coast to assume portions of the Association's book of business as of a point in time. Policyholders have the chance to opt-out of assumption process.

(Amounts in Thousands)

The Association implemented the Assumption Reinsurance Depopulation Program in 2016. Four private market insurers participated in the program. The program requires participating insurers to work through agents to identify the policies that will receive assumption offers. A total of 18,074 policies were identified for assumption. Policyholders have until May 31, 2017 to opt out of the assumption.

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 (loss) 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,		**2016**		2015
Net income (loss), Texas basis	**$**	**40,455**	$	(38,899)
Effect of Texas prescribed practices		**-**		-
Effect of Texas permitted practices		**-**		-
Net income (loss), NAIC SAP basis	**$**	**40,455**	$	(38,899)

December 31,		**2016**		2015
Statutory surplus, Texas basis	**$**	**-**	$	-
Effect of Texas prescribed practices		**-**		-
Effect of Texas permitted practices		**(476,642)**		(519,341)
Policyholders' deficit, NAIC SAP basis	**$**	**(476,642)**	$	(519,341)

TDI has approved the permitted practice to allow the Association to admit the following restricted assets associated with the issuance of Series 2014 Pre-Event Class 1 Revenue Bonds ("Series 2014 Bonds") as of December 31, 2016 and 2015, respectively:

- $445,390 and $444,243 held in the program fund.

- $90,412 and $90,190 held in the obligation revenue fund for repayment of the Series 2014 bonds.
- $(59,160) and $(15,092) related to the amounts of assets in excess of bond liabilities.

The restrictions are primarily due to debt service reserves and use of proceeds only when a large hurricane event occurs. The permitted practice will last the life of the Series 2014 Bonds or until rescinded by TDI at an earlier date.

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) The statements of cash flows represent cash balances and cash equivalents with initial maturities of one year or less rather than cash and cash equivalents with initial maturities of three months or less.

d) Unearned premiums and loss and loss adjustment expense reserves are presented net of related reinsurance rather than on a gross basis as required under GAAP.

Use of Significant Estimates
The preparation of financial statements in accordance with statutory accounting practices prescribed or permitted by the Texas Department of Insurance 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.

Reverse Repurchase Agreements
Reverse repurchase agreements are recorded in cash equivalents as the repurchase date is less than 90 days. Reverse repurchase agreements represent the purchase of a security with an agreement to resell.

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 had filed amended returns with the IRS for open years based upon the PLR excluding from gross income the income derived from an essential governmental function. During September 2015, the Association received a final federal tax refund in the amount of $61,059. As of December 31, 2016 and 2015, the recoverable, liabilities and non-admitted assets have been reduced to $0. Due to the actual refund being greater than the original estimate recorded at December 31, 2014, $7,829 was recognized in the Federal income taxes incurred within the 2015 statutory statements of income.

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. There are existing net operating loss carryforwards in the open tax years that are not anticipated to be realized. As of December 31, 2016, the statute of limitations remains open for the 2010 to 2016 tax years. No further federal income tax impact is expected in the future.

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 other liabilities within the Association's statutory statements 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 other liabilities within the Association's statutory statements 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. Depopulation ceded premiums are recognized as the ceded policies' premiums are earned.

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, cash equivalents, 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.

(Amounts in Thousands)

1. Cash, Cash Equivalents and Short-Term Investments

Cash, cash equivalents and short-term investments are as follows:

December 31,		2016		2015
Cash	$	**467,792**	$	472,276
Cash equivalents		**476,642**		519,341
Short-term investments		**26,096**		-
	$	**970,530**	$	991,617

Reverse Repurchase Agreements

The Association invests in overnight reverse repurchase agreements with the Texas Treasury Safekeeping Trust Company ("TTSTC"). These invested funds were received during the issuance of bonds during 2014 and include debt service payments. The funds are held at the TTSTC to be used for debt service and for use when a catastrophic event occurs (See Note 13). The collateral required requires at least 100% for Treasuries; 101% for Agencies and U.S Instrumentalities and 102% for mortgage-backed securities. The fair value of reverse repurchase agreements was approximately $535,802 and $534,433 as of December 31, 2016 and 2015, respectively. The admitted value of reverse repurchase agreements was approximately $476,642 and $519,341 as of December 31, 2016 and 2015, respectively, and is included in cash equivalents in the statutory statements of admitted assets, liabilities, surplus and other funds.

The Association has not pledged any of its assets as collateral as of December 31, 2016 and 2015.

Reverse Repurchase Agreements

Fair Value as of December 31,		2016		2015
Open	$	-	$	-
30 days or less		**535,802**		534,433
31 to 60 days		-		-
61 to 90 days		-		-
Greater than 90 days		-		-
Securities received		-		-
	$	**535,802**	$	534,433

(Amounts in Thousands)

2. Restricted Assets

Restricted assets summarized by restricted asset category. Certain assets below included in the subject to reverse repurchase category are held by the TTSTC and are restricted for use for debt service reserves and for when a catastrophic event occurs (See Note 13). These assets are invested in overnight reverse repurchase agreements. The other restricted assets category consists of minimum maturity time deposit investments.

	Gross (Admitted & Nonadmitted) Restricted								Current Year		
	Current Year									Percentage	
	1	2	3	4	5	6	7	8	9	10	11
Restricted Asset Category	Total General Account (G/A)	G/A Supporting S/A Restricted Assets (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase / (Decrease) (5 minus 6)	Total Non-admitted Restricted	Total Admitted Restricted (5 minus 8)	Gross (Admitted & Non-Admitted) Restricted to Total Assets (c)	Admitted Restricted to Total Admitted Assets (d)
Subject to reverse repurchase	$ 535,802	$ -	$ -	$ -	$ 535,802	$ 534,433	$ 1,369	$ 59,160	$ 476,642	51.67%	49.00%
Other restricted assets	90,425	-	-	-	90,425	60,031	30,394	-	90,425	8.72%	9.30%
Total restricted assets	$ 626,227	$ -	$ -	$ -	$ 626,227	$ 594,464	$ 31,763	$ 59,160	$ 567,067	60.39%	58.30%

	Gross (Admitted & Nonadmitted) Restricted								Percentage	
	Current Year									
	1	2	3	4	5	6	7	8	9	10
Restricted Asset Category	Total General Account (G/A)	G/A Supporting Protected Cell Account Activity (a)	Total Protected Cell Account Restricted Assets	Protected Cell Account Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase / (Decrease) (5 minus 6)	Total Current Year Admitted Restricted	Gross (Admitted & Non-Admitted) Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
Minimum Maturity Time Deposits	$ 90,425	$ -	$ -	$ -	$ 90,425	$ 60,031	$ 30,394	$ 90,425	8.72%	9.30%
Total other restricted assets	$ 90,425	$ -	$ -	$ -	$ 90,425	$ 60,031	$ 30,394	$ 90,425	8.72%	9.30%

(Amounts in Thousands)

3. **Furniture and Equipment**
Furniture and equipment consist of the following:

December 31,		2016		2015
Furniture and equipment	$	642	$	642
Electronic data processing equipment and software		10,869		10,869
Leasehold improvements		1,858		1,858
		13,369		13,369
Less: accumulated depreciation		(8,713)		(5,806)
		4,656		7,563
Less: non-admitted furniture and equipment		(4,656)		(7,563)
	$	-	$	-

Depreciation expense was approximately $2,907 and $2,151 for the years ended December 31, 2016 and 2015, respectively.

4. **Reinsurance**
During 2016 and 2015, 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 aggregate excess of loss reinsurance agreement ("aggregate excess of loss").

Aggregate Excess of Loss
Effective June 1, 2016, the reinsurance program 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 the aggregate in respect of losses occurring during the term of this contract of 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of $2,700,000, subject to a limit of liability to the Reinsurer of $2,200,000. The Association also purchased a second season cover for $700,000 in excess of $2,000,000. This cover was purchased to ensure that if an event occurred in 2016 and the CRTF was depleted, adequate reinsurance coverage was secured for the 2017 storm season. As there was no event in 2016, the coverage became null in 2017. All reinsurance premiums related to the second season cover have been 100% earned as of December 31, 2016.

Effective June 1, 2015, the reinsurance program 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 the aggregate in respect of losses occurring during the term of this contract of 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of $2,600,000, subject to a limit of liability to the Reinsurer of $2,280,000.

(Amounts in Thousands)

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 no unsecured reinsurance recoverables which exceed 3% of the Association's surplus as of December 31, 2016 and 2015.

The effect of reinsurance on premiums written and earned for the years ended December 31, 2016 and 2015 is as follows:

	2016		2015	
	Written	**Earned**	Written	Earned
Direct	**$ 487,354**	**$ 496,457**	$ 503,824	$ 501,722
Excess of loss ceded premium	**(123,658)**	**(123,658)**	(124,128)	(124,128)
Depopulation ceded premium	**(2,395)**	**(2,395)**	-	-
Net	**$ 361,301**	**$ 370,404**	$ 379,696	$ 377,594

Ceded premiums include premiums ceded to companies that assume policies pursuant to the Assumption Reinsurance Depopulation Program (see Note 14).

During 2016 and 2015, the Association recovered $1 and $0, respectively, of paid losses and loss adjustment expenses relating to reinsurance contracts.

5. Ceded Reinsurance Premiums Payable

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

December 31,	**2016**	2015
Ceded reinsurance premiums payable	**$ 29,038**	$ 27,421
Reinsurance ceding commissions receivable	**(1,541)**	(1,382)
	$ 27,497	$ 26,039

(Amounts in Thousands)

6. Unearned Premiums

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

December 31,		2016		2015
Gross unearned premiums	$	237,725	$	246,829
Ceded unearned premiums		-		-
	$	237,725	$	246,829

The amount of return commission that would have been due to reinsurers if they or the Association had cancelled the Association's excess of loss reinsurance agreement would have been $0 as of December 31, 2016 and 2015.

7. Loss and Loss Adjustment Expenses

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

December 31,		2016		2015
Beginning balance	$	75,053	$	71,309
Reinsurance recoverable		-		-
Beginning net balance		75,053		71,309
Incurred related to:				
Current loss year		46,220		184,535
Prior loss years		(7,595)		(5,649)
Losses and loss adjustment expense incurred		38,625		178,886
Paid related to:				
Current loss year		(37,597)		(159,315)
Prior loss years		(22,622)		(15,827)
Paid losses and loss adjustment expense		(60,219)		(175,142)
Ending net balance		53,459		75,053
Reinsurance recoverable		43		-
Ending balance	$	53,502	$	75,053

Current year changes in estimates of the cost of prior year losses and Loss Adjustment Expense ("LAE") affect the current year statutory statements of income. Increases in those estimates increase current year expense and are referred to as unfavorable development or prior year reserve shortages. Decreases in those estimates decrease current year expense and are referred to as favorable development or prior year reserve redundancies. Current year losses and LAE reflected on the statutory statements of income of approximately $38,625 are lower by approximately $7,595 due to favorable development of prior year estimates. The favorable development is related primarily to a net decrease in the ultimate losses and LAE from accident year 2015. The decrease in losses and LAE incurred from 2015 to 2016 was primarily related to frequent and substantial storm activity in 2015 whereas 2016 had less storm activity. 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, 2016 and 2015 make a reasonable provision for the Association's claim liabilities.

8. Statutory Fund

In 1993, the Texas legislature created the CRTF. 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 CRTF 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 CRTF.

When an occurrence or series of occurrences in a catastrophe area occurs, 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 CRTF in accordance with Tex. Ins. Code, Chapter 2210. All money, including investment income, deposited in the CRTF, 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, 2016 and 2015, statutory fund costs were approximately $147,015 and $92,713, respectively.

For the years ending December 31, 2016 and 2015, the Trust Fund held $587,860 and $487,170, respectively.

(Amounts in Thousands)

9. Employee Benefit Plans

Defined Benefit Plan. The Association has a defined pension benefit plan (the "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, 2016 and 2015, 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,		**2016**		2015
Change in Projected Benefit Obligations (PBO) (Underfunded):				
Benefit obligation at beginning of year	**$**	**17,464**	$	16,020
Service cost		**1,417**		1,309
Interest cost		**778**		676
Actuarial loss (gain)		**470**		(603)
Benefits paid		**(511)**		(427)
Plan amendments		**-**		489
Projected benefit obligation at end of year		**19,618**		17,464
Change in Plan Assets:				
Fair value of plan assets at beginning of year		**11,403**		11,087
Actual gain (loss) return on plan assets		**795**		(188)
Employer contributions		**1,024**		931
Benefits paid		**(511)**		(427)
Fair value of plan assets at end of year		**12,711**		11,403
Funded status	**$**	**(6,907)**	$	(6,061)

(Amounts in Thousands)

December 31,		**2016**		2015
Funded Status:				
Assets (non-admitted):				
Prepaid benefit costs	**$**	**-**	$	-
Total assets (non-admitted)		**-**		-
Liabilities recognized:				
Accrued benefit costs		**2,564**		1,798
Liability for pension benefits		**4,343**		4,263
Total liabilities recognized		**6,907**		6,061
Unrecognized liabilities as a component of net periodic benefit cost		**-**		-
Funded status	**$**	**(6,907)**	$	(6,061)
Accumulated benefit obligation	**$**	**17,547**	$	15,806

Years ended December 31,		**2016**		2015
Components of Net Periodic Benefit Costs:				
Service costs	**$**	**1,417**	$	1,309
Interest costs		**778**		676
Expected return on plan assets		**(638)**		(681)
Loss amortization		**189**		207
Prior service cost or (credit)		**44**		-
Total net periodic benefit cost	**$**	**1,790**	$	1,511

(Amounts in Thousands)

Years ended December 31,		2016		2015
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	$	4,263	$	3,715
Net transition asset or obligation recognized		-		-
Net prior service cost or credit arising during the period		-		489
Net prior service cost or credit recognized		(44)		-
Net loss arising during the period		313		266
Net gain recognized		(189)		(207)
Items not yet recognized as a component of net periodic cost – current year	$	4,343	$	4,263

Years ended December 31,		2016		2015
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	$	44	$	44
Net recognized gains and losses	$	179	$	184

Years ended December 31,		2016		2015
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	$	444	$	489
Net recognized gains and losses	$	3,898	$	3,774

(Amounts in Thousands)

Pension Assumptions:

December 31,	**2016**	2015
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	**4.50%**	4.25%
Rate of compensation increase	**2.50%**	2.50%
Expected long-term rate of return of plan assets	**5.50%**	6.00%
Weighted-average assumptions used to determine projected benefit obligations:		
Weighted-average discount rate	**4.25%**	4.50%
Rate of compensation increase	**2.50%**	2.50%

The amount of accumulated benefit obligation for defined benefit pension plans was approximately \$17,547 and \$15,806 as of December 31, 2016 and 2015, respectively.

Measurement Date

A measurement date of December 31, 2016 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,	**2016**	2015
Equity securities	**42.5%**	40.1%
Debt securities	**57.2%**	58.7%
Real estate	**0.0%**	0.0%
Other	**0.3%**	1.2%
	100.0%	100.0%

(Amounts in Thousands)

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 is to increase the percentage of fixed income investments depending on market conditions. 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
2017	$	541
2018		594
2019		654
2020		699
2021		767
2022 and thereafter		5,050

Planned Contributions

The Association expects to make contributions of $1,594 during 2017.

(Amounts in Thousands)

Fair value measurements of Plan Assets as of December 31, 2016 and 2015:

	Fair Value Measurements at December 31, 2016			
	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	$ -	$ 61	$ -	$ 61
Large cap equity	3,244	-	-	3,244
Small cap equity	609	-	-	609
Mid cap equity	1,075	-	-	1,075
International equity	-	1,497	-	1,497
Fixed income	-	6,219	-	6,219
Limited partnerships	-	-	6	6
Total plan assets	$ 4,928	$ 7,777	$ 6	$ 12,711

	Fair Value Measurements in Level 3 at December 31, 2016			
	January 1, 2016	Sales	Return on Assets Still Held	December 31, 2016
Limited partnerships	$ 5	$ -	$ 1	$ 6
Total plan assets	$ 5	$ -	$ 1	$ 6

	Fair Value Measurements at December 31, 2015			
	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	$ -	$ 95	$ -	$ 95
Large cap equity	2,977	-	-	2,977
Small cap equity	1,450	-	-	1,450
International equity	-	1,128	-	1,128
Fixed income	-	5,748	-	5,748
Limited partnerships	-	-	5	5
Total plan assets	$ 4,427	$ 6,971	$ 5	$ 11,403

(Amounts in Thousands)

	Fair Value Measurements in Level 3 at December 31, 2015			
	January 1, 2015	Sales	Return on Assets Still Held	December 31, 2015
Limited partnerships	$ 5	$ -	$ -	$ 5
Total plan assets	$ 5	$ -	$ -	$ 5

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 $673 and $666 for the years ended December 31, 2016 and 2015, respectively.

10. 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, 2016:

Years ending December 31,	Amount
2017	$ 957
2018	983
2019	1,009
2020	1,036
2021 and thereafter	2,150
	$ 6,135

Rental expense under the non-cancelable operating lease was approximately $1,413 and $1,386 for the years ended December 31, 2016 and 2015, respectively.

11. Governance

Pursuant to SB 900 signed into law during 2015, the Board of Directors composition changed and now consists of nine members: three industry representatives from companies actively writing and renewing windstorm and hail insurance in the first tier coastal counties, three public members residing in the first tier coastal counties, and three non-coastal representatives who live more than 100 miles from the Texas coast. One of the public members must also be a property and casualty agent who is licensed under this code and is not a captive agent.

12. Service Contract with Texas Fair Plan Association

During 2002, the Association entered into a service contract with the Texas Fair Plan Association ("TFPA") 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 TFPA. During 2016 and 2015 the Association paid expenses for TFPA under its management contract and was reimbursed $10,534 and $9,506, respectively. As of December 31, 2016 and 2015, the Association incurred or paid expenses for which it has not been reimbursed of $1,261 and $1,055, respectively, on behalf of TFPA. These amounts are recognized in the statutory statements of admitted assets, liabilities, surplus and other funds as a receivable from TFPA.

13. Borrowed Money – Bonds Payable

The Texas Public Finance Authority (the "Authority" or the "Issuer") has issued the Texas Public Finance Authority Class 1 Revenue Bonds (Texas Windstorm Insurance Association Program), Taxable Series 2014 (the "Bonds") on behalf of the Association for the purposes of financing future costs in the amount of $500,000. The Bonds are issued pursuant to a master resolution adopted by the Board of Directors of the Authority on September 24, 2014 (the "Master Resolution"), and a first supplemental resolution adopted by the Board of Directors of the Authority on September 24, 2014 (the "First Supplemental Resolution", and together with the Master Resolution, the "Resolutions"). The Bonds 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 has pledged the Class 1 Pledged Revenues to the Authority pursuant to a Financing and Pledge Agreement dated as of September 1, 2014 between the Authority and the Association.

The secured Bonds were issued on September 30, 2014 for $500,000 of which $458,400 and $500,000 was outstanding as of December 31, 2016 and 2015, respectively. The bonds mature July 1, 2024 and can be called by the Issuer beginning January 1, 2020. The Bonds bear interest from 5.25% to 8.25% with an effective interest rate of 8.03%. Interest is payable semi-annually on January 1 and July 1 with the first payment made January 1, 2015. The Bonds are secured by the Association's net premium and other revenue which is used to fund the Debt Service and related accounts held by the Texas Treasury Safekeeping Trust Company.

There are various general and special covenants. The primary covenant, which exists as long as there are outstanding Class 1 Public Securities and Administrative Expenses are incurred, states that the Association will take actions that produce Projected net Coverage Revenues in an amount not less than 1.25 times the Obligations due in the next calendar year and 1.25 times the estimated amount of Administrative Expenses due in the next calendar year. Another covenant, which exists as long as the Bonds are outstanding, states that the Association will maintain the Operating bank account subject to a deposit account control agreement to maintain a perfected security interest in the Net Premiums and Other Revenue held for the benefit of the Bondholders. The deposit account control agreement is activated upon default of certain debt covenants. As of December 31, 2016 and 2015, the Association is not in violation of these or any of the other various covenants.

The 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 prior to July 1, 2019 at a redemption price equal to the greater of (i) 100% of the principal amount of the Bonds to be redeemed or (ii) the sum of the present values of the remaining schedule payments of principal and interest on the Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semi-annual 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 Bonds being redeemed to the date fixed for redemption.

The 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 Bonds to be redeemed plus accrued interest to the date of redemption.

As of December 31, 2016 and 2015, the Bonds had no unamortized premium or discount. Bond issuance costs are expensed as incurred.

Interest expense incurred is recorded as an investment expense and was approximately $37,596 and $38,688 for the years ending December 31, 2016 and 2015, respectively, and is included in net investment loss in the statutory statements of income. Interest expense of $38,688 and $29,123 was paid for the years ended December 31, 2016 and 2015, respectively. Interest payable was $18,252 and $19,344 as of December 31, 2016 and 2015, respectively, and is included in borrowed money – bonds and interest payable in the statutory statements of admitted assets, liabilities, surplus and other funds.

(Amounts in Thousands)

Changes in borrowed money - bonds payable for the year ending December 31, 2016 is as follows:

Description	Bonds Outstanding January 1, 2016	Bonds Issued	Bonds Matured	Bonds Outstanding December 31, 2016
Taxable Series 2014	**$ 500,000**	**$ -**	**$ 41,600**	**$ 458,400**

Changes in borrowed money - bonds payable for the year ending December 31, 2015 is as follows:

Description	Bonds Outstanding January 1, 2015	Bonds Issued	Bonds Matured	Bonds Outstanding December 31, 2015
Taxable Series 2014	$ 500,000	$ -	$ -	$ 500,000

The aggregate maturities for the next five years and thereafter is as follows:

Years Ended December 31,	Amount
2017	$ 43,800
2018	46,100
2019	49,900
2020	54,000
2021	58,500
2022 and thereafter	206,100
On Demand	-
	$ 458,400

14. Depopulation

Pursuant to measures introduced in the 84th Texas Legislature in 2015, the Association implemented the Assumption Reinsurance Depopulation Program ("Assumption Program") effective December 1, 2016. The agent review period concluded 18,074 policies were approved by agents for possible transfer from the Association to four participating private market insurers. The Assumption Program is the first depopulation program to have been implemented in Texas. Policies will automatically transfer to participating companies on June 1, 2017. Policyholders may choose to remain with the Association by opting out of the program by May 31, 2017. In connection with this program, a 100% quota share reinsurance agreement was entered with the four insurance companies. Funds-held by the Association under the Assumption Program as of December 31, 2016 will be settled at the end of the treaty period, June 1, 2017. As of December 31, 2016 and 2015, funds-held by company under reinsurance treaties was $1,819 and $0, respectively, and is included in the statutory statements of admitted assets, liabilities, surplus and other funds.

During 2016 and 2015, the Association recognized ceded written premiums of $2,395 and $0, respectively, as a result of the Assumption Program.

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 $81,000,000 and $83,000,000 of insurance exposure as of December 31, 2016 and 2015, respectively.

(Amounts in Thousands)

17. Nonadmitted Assets

Nonadmitted assets consisted of the following:

December 31,		2016		2015
Cash, cash equivalents, and short-term investments	$	59,160	$	15,092
Prepaid expenses and receivables		458		1,244
Furniture and equipment		4,656		7,563
Total nonadmitted assets	$	64,274	$	23,899

18. Fair Value Measurements

The following table reflects the fair values and admitted assets and liabilities that are financial instruments. The fair values are also categorized into the three-level fair value hierarchy. Cash, cash equivalents and short-term investments are the only financial instruments held by the Association in which carrying value and fair value are the same.

	Fair Value Measurements at December 31, 2016 Using:				
	Aggregate Fair Value	**Admitted Assets**	**Level 1**	**Level 2**	**Level 3**
Cash, cash equivalents and short-term investments	**$ 1,029,690**	**$ 970,530**	**$ 1,029,690**	**$ -**	**$ -**
	$ 1,029,690	**$ 970,530**	**$ 1,029,690**	**$ -**	**$ -**

	Fair Value Measurements at December 31, 2015 Using:				
	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Cash, cash equivalents and short-term investments	$ 1,006,709	$ 991,617	$ 1,006,709	$ -	$ -
	$ 1,006,709	$ 991,617	$ 1,006,709	$ -	$ -

19. Reconciliation with Annual Statement

There were no differences between the 2016 annual statement and 2015 amended annual statement as filed with the Texas Department of Insurance and the 2016 and 2015 audited statutory financial statements.

20. Subsequent Events

The Association has evaluated subsequent events occurring after December 31, 2016, the date of the most recent statutory statements of admitted assets, liabilities, surplus, and other funds through April 14, 2017, the date the statutory 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, 2016
(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 information.

Texas Windstorm Insurance Association

Summary Investment Schedule
December 31, 2016
(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	1,029,690	100.00	970,530	100.00
Other invested assets	-	-	-	-
Total invested assets	$ 1,029,690	100.00	$ 970,530	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, 2016.*

See accompanying independent auditors' report on supplemental information.

(Amounts in Thousands)

1) Reporting entity's total admitted assets as reported in the accompanying financial statements. $ 972,708

Questions 2 through 11 are not applicable

12) Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.

Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes [ ] No [X]

		Amount	Percentage of Total Admitted Assets
12.02)	Aggregate statement value of investments with contractual sales restrictions	$ 116,521	11.979%

Largest three investments with contractual sales restrictions:

		Amount	Percentage of Total Admitted Assets
12.03)	Citi Minimum Maturity Time Deposit (31 days stated maturity)	$ 90,425	9.296%
12.04)	Bank of America BlackRock Money Market Fund	$ 26,096	2.683%

Questions 13 through 19 are not applicable

20) Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year-End		At End of Each Quarter		
	Amount	Percentage of Total Admitted Assets	1st Qtr	2nd Qtr	3rd Qtr
Reverse repurchase agreements	$ 476,642	49.002%	$ 509,471	$ 519,340	$ 467,521

Questions 21 through 23 are not applicable

See accompanying independent auditors' report on supplemental information.

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 information.

(Amounts in Thousands)

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	$ 972,708	$ -	$ 972,708
Liabilities	972,708	29,316	943,392
Surplus as regards to policyholders	-	(29,316)	29,316
Income before taxes	40,455	(122,076)	162,531

See accompanying independent auditors' report on supplemental information.

(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, 2016, the reinsurance program 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 the aggregate in respect of losses occurring during the term of this contract of 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of \$2,700,000, subject to a limit of liability to the Reinsurer of \$2,200,000.

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, together with the Texas Department of Insurance, evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

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 31 of SSAP No. 62R, 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]

See accompanying independent auditors' report on supplemental information.

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 information.