OFFICIAL STATEMENT
DATED JULY 30, 2012

NEW ISSUE – BOOK-ENTRY-ONLY **UNRATED**

In the opinion of Winstead PC and Shelton & Valadez, P.C., Co-Bond Counsel, under existing law, interest on the Notes is includable in gross income for federal tax purposes. See "TAX MATTERS" herein for a discussion of the opinion of Co-Bond Counsel.

$500,000,000
TEXAS PUBLIC FINANCE AUTHORITY
CLASS 1 REVENUE NOTES
(TEXAS WINDSTORM INSURANCE ASSOCIATION PROGRAM),
TAXABLE SERIES 2012
CUSIP No. 882756 V89

Interest to Accrue from Delivery Date Mandatory Tender Date: February 1, 2013 Stated Maturity Date: August 1, 2015

The Texas Public Finance Authority (the "Authority" or the "Issuer") is issuing the Texas Public Finance Authority Class 1 Revenue Notes (Texas Windstorm Insurance Association Program), Taxable Series 2012 (the "Notes") on behalf of the Texas Windstorm Insurance Association (the "Association") for the purposes described below. The Notes are 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 (as defined herein) of the Authority secured by and payable from the Class 1 Pledged Revenues (as defined herein) 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 July 1, 2012 between the Authority and the Association.

The Notes will bear interest initially at the per annum rate of 1.00% from the Delivery Date through and including the 60th day following the Delivery Date. In the event that the Authority does not within 60 days of the Delivery Date (i) receive long-term ratings on the Notes equivalent to the "A" category or better by two nationally recognized rating agencies (each, a "Rating Agency") or (ii) receive the highest short-term ratings by two Rating Agencies, then the Notes will bear interest at the per annum rate of 2.50% from the 61st day following the Delivery Date to but not including February 1, 2013 (the "Tender Date") and will be payable on the Tender Date.

The Notes will be subject to mandatory tender on the Tender Date. Notes not paid on the Tender Date will continue to be held by the Owners thereof and such failure to prepay such Notes will not be an event of default under the Resolutions. In the event that the Authority receives long-term ratings on the Notes equivalent to the "A" category or better by two Rating Agencies on or before the Tender Date, then from the Tender Date through and including the Stated Maturity Date shown above (the "Term Rate Period"), the Notes will bear interest at the per annum rate of 8.00% calculated and payable semiannually on each February 1 and August 1, commencing August 1, 2013. If the Notes do not meet the rating requirement described above, the Notes will bear interest during the Term Rate Period at the per annum rate of 10.00%. See "THE NOTES – General" and "—Rate Periods".

THE NOTES 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 NOTES, 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 NOTES.

The Notes will mature on the Stated Maturity Date shown above and are subject to optional redemption prior to maturity, in whole or in part, as described herein. See "THE NOTES – Optional Redemption". The Notes are also subject to Special Mandatory Redemption following their conversion into Term Rate Notes, if any, on the Tender Date. See "THE NOTES – Special Mandatory Redemption".

The proceeds from the sale of the Notes will be used for the purpose of financing future costs of the Association Program (as defined herein). See "PLAN OF FINANCING – Purpose".

An investment in the Notes involves a certain 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. A prospective investor is advised to read "SECURITY FOR THE NOTES" and "RISK FACTORS" herein for a discussion of certain risk factors that should be considered in connection with an investment in the Notes.

The Notes will be issued in principal denominations of $1,000,000 or any integral multiple of $5,000 in excess of $1,000,000. The Notes 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 Notes may be acquired in denominations of $1,000,000 or integral multiples of $5,000 in excess thereof. No physical delivery of the Notes will be made to the initial purchaser named below (the "Underwriter") or the beneficial owners of the Notes. Principal of and interest on the Notes 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 Notes. See "THE NOTES – Book-Entry-Only System".

The Notes are offered for delivery when, as, and if issued and accepted by the Underwriter, and subject to approval of legality by the Attorney General of the State of Texas and the opinion of Winstead PC and Shelton & Valadez, P.C., Co-Bond Counsel. Certain legal matters will be passed upon for the Association by its Vice President – Legal. Certain legal matters will be passed upon for the Authority by its General Counsel. 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 Underwriter by Bracewell & Giuliani LLP, counsel for the Underwriter. See "LEGAL MATTERS". The Notes are expected to be available for delivery through the facilities of DTC on or about August 1, 2012.

BofA Merrill Lynch

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 Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has 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 Underwriter does 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 Notes 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 Authority's and the Association's respective undertakings to provide certain information on a continuing basis.

Marketability

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

THE NOTES 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 Notes 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 Notes have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Notes 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 Notes under the securities laws of any jurisdiction in which the Notes may be offered, sold or otherwise transferred. This disclaimer of

responsibility for registration or qualification for sale or other disposition of the Notes 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.

TEXAS PUBLIC FINANCE AUTHORITY

Board of Directors

Name	Term Expiration (February 1)
D. Joseph Meister – Chair	2013
Ruth C. Schiermeyer – Vice-Chair	2013
Gerald Alley – Secretary	2013
Billy M. Atkinson, Jr. – Member	2017
Mark W. Eidman – Member	2015
Rodney K. Moore – Member	2015
Robert T. Roddy, Jr. – Member	2017

Certain Appointed Officials

Name	Title
Robert P. Coalter	Executive Director
Susan K. Durso	General Counsel
John Hernandez	Deputy Director

TEXAS WINDSTORM INSURANCE ASSOCIATION

Board of Directors

Name	Position	Term Expiration (March)
Michael Gerik	Chairman, Member of the Insurance Industry	2013
Georgia R. Neblett	Vice-Chairman, Public Member from Tier 1 County	2014
Alice H. Gannon	Secretary/Treasurer, Member of the Insurance Industry	2015
Ron Lawson	Member of the Insurance Industry	2014
Michael O'Malley	Member of the Insurance Industry	2014
Edward James Sherlock III	Public Member & Agent from Tier 1 County	2015
Steven Lawrence Elbert	Public Member & Agent from Tier 1 County	2015
Gene Seamen	Public Member & Agent from Tier 1 County	2015
Richard Clifton Craig	Public Member from Non-Seacoast Territory	2013
William David Franklin, Sr.	Non-voting Member, Licensed Engineer	2013

Certain Appointed Officials

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

Consultants and Advisors

Financial Advisor..... First Southwest Company

Co-Bond Counsel.....Winstead PC
Shelton & Valadez, P.C.

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

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OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the detailed information appearing elsewhere in this Official Statement, reference to which is made for all purposes. No person is authorized to detach this Official Statement Summary from this Official Statement or to otherwise use it without this entire Official Statement (including the appendices).

The Issuer	The Texas Public Finance Authority (the "Authority" or the "Issuer") is authorized to issue the Notes (as defined below) on behalf of the Texas Windstorm Insurance Association (the "Association"), following the receipt of a request from the Association and approval of the Commissioner of Insurance, pursuant to Chapter 2210, Texas Insurance Code, as amended, Subchapter E of Chapter 5 of Part I of Title 28 of the Texas Administrative Code, as amended, and Chapters 1201 and 1232, Texas Government Code, as amended (collectively, the "Authorizing Law"), 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"). See "THE AUTHORITY".
The Association	The Association is an association of insurers created by the State of Texas (the "State") by statute to provide basic wind and hail insurance coverage for gulf coast property owners who might otherwise be left uninsured. The Association is intended to serve as a residual insurer of last resort in its coverage area. See "THE ASSOCIATION".
The Notes	The $500,000,000 Texas Public Finance Authority Class 1 Revenue Notes (Texas Windstorm Insurance Association Program), Taxable Series 2012 (the "Notes") are scheduled to mature on the Stated Maturity Date shown on the cover page hereof.
Rate Periods and Mandatory Tender	The Notes will bear interest initially at the per annum rate of 1.00% from the Delivery Date through and including the 60th day following the Delivery Date. In the event that the Authority does not within 60 days of the Delivery Date (i) receive long-term ratings on the Notes equivalent to the "A" category or better by two nationally-recognized rating agencies (each, a "Rating Agency") or (ii) receive the highest short-term ratings by two Rating Agencies, then the Notes will bear interest at the per annum rate of 2.50% from the 61st day following the Delivery Date to but not including February 1, 2013 (the "Tender Date") and will be payable on the Tender Date.

The Notes will be subject to mandatory tender on the Tender Date. Notes not prepaid on the Tender Date will continue to be held by the Owners thereof and such failure to prepay such Notes will not be an event of default under the Resolutions. In the event that the Authority receives long-term ratings on the Notes equivalent to the "A" category or better by two Rating Agencies on or before the Tender Date, then from the Tender Date through and including the Stated Maturity Date shown above (the "Term Rate Period"), the Notes will bear interest at the per annum rate of 8.00% calculated and payable semiannually on each February 1 and August 1, commencing August 1, 2013. If the Notes do not meet the rating requirement described above, the Notes will bear interest during the Term Rate Period at the per annum rate of 10.00% calculated and payable semiannually. See "THE NOTES – General" and "—Rate Periods".

Source of Payment ..... The Notes constitute special limited obligations of the Authority and are secured by and payable solely from the Class 1 Pledged Revenues (as defined herein) irrevocably pledged under the Resolutions.

If a Catastrophic Event (as defined herein) does not occur by December 15, 2012, the Authority will apply the proceeds of the Notes along with Class 1 Pledged Revenues to prepay the Notes on the Tender Date.

If a Catastrophic Event does occur and proceeds of the Notes are needed to pay costs of the Association Program, the Authority will use Unencumbered Proceeds (as defined herein) to prepay Notes on the Tender Date and will use its best efforts to issue Post-Event Class 1 Public Securities (as defined herein) and apply the proceeds of such securities to first refund that portion of the Notes not prepaid with Unencumbered Proceeds. The Texas Commissioner of Insurance has approved the issuance of up to $1 billion in Post-Event Class 1 Public Securities, and the Authority has authorized the issuance of up to $600 million of such Post-Event Class 1 Public Securities to refund the Notes pursuant to a Second Supplemental Resolution adopted on July 9, 2012. See "RISK FACTORS – Refunding Bonds".

Any Notes not repaid on the Tender Date will continue to be held by the Owners thereof and the interest rate on such Notes will change as described above.

THE NOTES 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 NOTES, 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 NOTES.

Optional Redemption ..... The Notes are subject to optional redemption prior to maturity on or after the Tender Date as described herein at par plus accrued interest to the date of redemption. See "THE NOTES – Optional Redemption".

Special Mandatory Redemption ..... The Term Rate Notes are subject to Special Mandatory Redemption as further described herein. See "THE NOTES – Special Mandatory Redemption".

Use of Proceeds..... Proceeds from the sale of the Notes will be used for the purpose of financing future costs of the Association Program. See "PLAN OF FINANCING – Purpose".

Ratings ..... The Notes will initially be unrated. See "RATINGS".

Legality ..... The issuance of the Notes is subject to the approval of the Attorney General of the State and the opinion of Winstead PC and Shelton & Valadez, P.C., Co-Bond Counsel, as to the validity of the issuance of the Notes under the Constitution and laws of the State. See "LEGAL MATTERS".

Book-Entry-Only System ..... The Notes are initially issuable only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to a book-entry-only system. No physical delivery of the Notes will be made to the beneficial owners of the Notes. Interest on and principal of the Notes will be paid to Cede & Co., which will distribute the payments to the participating members of DTC for remittance to the beneficial owners of the Notes. See "THE NOTES – Book-Entry-Only System".

OFFICIAL STATEMENT

relating to

$500,000,000
TEXAS PUBLIC FINANCE AUTHORITY
CLASS 1 REVENUE NOTES
(TEXAS WINDSTORM INSURANCE ASSOCIATION PROGRAM),
TAXABLE SERIES 2012

INTRODUCTION

This Official Statement, including the cover page and the Appendices hereto, provides certain information regarding the issuance 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 Class 1 Revenue Notes (Texas Windstorm Insurance Association Program), Taxable Series 2012 (the "Notes"). The Notes, together with any Additional Obligations (as hereinafter defined), are payable from and secured by a lien on the Authority's right, title and interest in Class 1 Pledged Revenues (as defined herein). See "SECURITY FOR THE NOTES". The Authority is authorized to issue the Notes 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— EXCERPTS OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – Definitions".

This Official Statement contains summaries and descriptions of the plan of financing, the Notes, 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.

An investment in the Notes involves a certain 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. A prospective investor is advised to read "SECURITY FOR THE NOTES" and "RISK FACTORS" herein for a discussion of certain risk factors that should be considered in connection with an investment in the Notes.

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 Underwriter 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 Authority's and the Association's respective undertakings to provide certain information on a continuing basis.

TEXAS WINDSTORM INSURANCE ASSOCIATION PROGRAM

General

The Association, established pursuant to Chapter 2210, Texas Insurance Code ("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) (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 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. 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, 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"). 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 "CRTF") established pursuant to Chapter 2210. Notwithstanding the above, the proceeds of Class 1 Public Securities issued as Pre-Event Class 1 Public Securities, such as the Notes, may not be used to purchase reinsurance.

Public Securities

The Authority is issuing the Notes 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 Notes have been authorized in the amount of $500 million. The Commissioner has also approved the issuance of up to $1 billion in Post-Event Class 1 Public Securities for 2012 (or in the following year if such public securities cannot reasonably be issued in 2012), of which the Authority, at the request of the Association, has authorized up to $600 million in Post-Event Class 1 Public Securities. The Authority intends to use the proceeds of such Post-Event Class 1 Public Securities, if necessary, to refund the Notes.

The Association is also authorized to issue Class 2 Public Securities in a maximum amount of $1 billion per calendar year following a Catastrophic Event. If issued, 30% of the costs of Class 2 Public Securities must be paid by assessments on the Association's members and the remaining 70% of the costs must be paid by non-refundable premium surcharges on policies insuring property in the catastrophe area. The Commissioner has approved the issuance of up to $1 billion in Class 2 Public Securities for 2012 (or in the following year if such public securities cannot reasonably be issued in 2012), but the Authority has taken no action to authorize the issuance of any Class 2 Public Securities. The Association is also authorized to issue Class 3 Public Securities in a maximum amount of $500 million per calendar year following a Catastrophic Event. 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 2012 (or in the following year if such public securities cannot reasonably be issued in 2012), but the Authority has taken no action to authorize the issuance of any Class 3 Public Securities.

Catastrophe Reserve Trust Fund

The CRTF 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 CRTF, 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 CRTF. The CRTF is a State fund held by the Comptroller outside the State Treasury on behalf of, and with legal title in, the Texas Department of Insurance ("TDI"). The CRTF is designed to fund losses in excess of the Association premiums and other Association revenue. The CRTF may be terminated only by law. If the CRTF is terminated by law, all assets of the CRTF revert to the State to provide funding for a mitigation and preparedness plan.

As of July 1, 2012, the balance of the CRTF was approximately $174 million. The balance of the CRTF typically declines if a Catastrophic Event impacts the Coverage Area. For example, in September 2005, $65 million was withdrawn from the CRTF to pay excess losses resulting from Hurricane Rita; $30 million was returned to the CRTF prior to the end of 2005. On June 30, 2008, the balance of the CRTF was approximately $468 million; $100 million of the CRTF 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 CRTF in 2008. Since 2008, no Catastrophic Event has occurred.

Potential Claim Funding for 2012

In the event a Catastrophic Event occurs in the Coverage Area in 2012, the Association will fund the payment of claims from a number of sources in the following order of priority: (i) up to $300 million from available premium and the CRTF; (ii) up to $1 billion from the proceeds of Class 1 Public

Securities, including $500 million from the proceeds of the Notes; (iii) up to $1 billion from the proceeds of Class 2 Public Securities; (iv) up to $850 million from payments from reinsurance and (v) up to $500 million from Class 3 Public Securities. No source of payment has been identified for potential claims in excess of $3.65 billion. Based on industry standard modeling, $3.65 billion is the estimated amount of the liability that would result from a 60-year storm; i.e., a storm of such magnitude that it would be expected to occur once in each 60-year period. 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. 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 Notes are being issued in accordance with the Constitution and general laws of the State, including Chapter 2210; Subchapter E of Chapter 5 of Part I of Title 28 of the Texas Administrative Code, as amended; 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 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"), excerpts of which are attached hereto as APPENDIX B.

Pursuant to the Resolutions and the Authorizing Law, the Authority has the exclusive authority to issue, upon the request of the Association, 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 Class 1 Pledged Revenues irrevocably pledged by the Authority under the Resolutions and by the Association under the Financing and Pledge Agreement (the "Financing and Pledge Agreement") between the Authority and the Association. The Association's requests for the issuance of Class 1 Public Securities must be approved by the Commissioner. The Commissioner has approved the issuance of up to $1 billion in Class 1 Public Securities for 2012 (or in the following year if such public securities cannot reasonably be issued in 2012) to pay costs of the Association Program following a Catastrophic Event occurring in 2012, 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 Notes in the aggregate principal amount of $500 million as Pre-Event Class 1 Public Securities and the issuance of up to $600 million in Post-Event Class 1 Public Securities to prepay and refund the Notes.

Purpose

Pursuant to the Resolutions and the Financing and Pledge Agreement, proceeds of the Notes will be deposited to the Class 1 Program Pre-Event Program Account and be used for the purposes of financing future costs of the Association Program.

Sources and Uses of Proceeds

The proceeds of the Notes will be applied as follows:

Sources:	
Principal Amount	$500,000,000
Uses:	
Deposit to Class 1 Pre-Event Program Account	$500,000,000

The Association will pay from its available funds the costs of issuance of the Notes in the estimated amount of $2.1 million, which includes compensation to the Underwriter in the amount of $100,000.

THE NOTES

General

The Notes will be issued only as fully registered notes, without coupons. Interest on the Notes will accrue and be payable as described in "–Rate Periods" below. The Notes are issued as a single term note scheduled to mature on the Stated Maturity Date shown on the cover page hereof. The Notes will be issued in principal denominations of $1,000,000 or any integral multiple of $5,000 in excess of $1,000,000.

If the specified date for any payment of principal of or interest on the Notes 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.

Rate Periods

The Notes will bear interest initially at the per annum rate of 1.00% from the Delivery Date through and including the 60th day following the Delivery Date. In the event that the Authority does not within 60 days of the Delivery Date (i) receive long-term ratings on the Notes equivalent to the "A" category or better by two nationally-recognized rating agencies (each, a "Rating Agency") or (ii) receive the highest short-term ratings by two Rating Agencies, then the Notes will bear interest at the per annum rate of 2.50% from the 61st day following the Delivery Date to but not including February 1, 2013 (the "Tender Date") and will be payable on the Tender Date.

The Notes will be subject to mandatory tender on the Tender Date. Notes not prepaid on the Tender Date will continue to be held by the Owners thereof and such failure to prepay such Notes will not be an event of default under the Resolutions. In the event that the Authority receives long-term ratings on the Notes equivalent to the "A" category or better by two Rating Agencies on or before the Tender Date, then from the Tender Date through and including the Stated Maturity Date shown above (the "Term Rate Period"), the Notes will bear interest at the per annum rate of 8.00% calculated and payable semiannually on each February 1 and August 1, commencing August 1, 2013. If the Notes do not meet the rating requirement described above, the Notes will bear interest during the Term Rate Period at the per annum rate of 10.00%.

Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Mandatory Tender

The Notes will be subject to mandatory tender on the Tender Date at the purchase price of par plus accrued interest to but not including the Tender Date. If a Catastrophic Event does not occur by December 15, 2012, the Authority will apply the proceeds of the Notes along with Class 1 Pledged Revenues to prepay the Notes on the Tender Date.

If a Catastrophic Event does occur and proceeds of the Notes are needed to pay costs of the Association Program, the Authority will use Unencumbered Proceeds (as defined herein) to prepay Notes on the Tender Date and will use its best efforts to issue Post-Event Class 1 Public Securities and apply the proceeds to refund that portion of the Notes not prepaid with Unencumbered Proceeds. The Commissioner has approved the issuance of up to $1 billion in Post-Event Class 1 Public Securities, and the Authority has authorized the issuance of up to $600 million of such Post-Event Class 1 Public Securities to refund the Notes pursuant to a Second Supplemental Resolution adopted on July 9, 2012. See "RISK FACTORS – Refunding Bonds".

Any Notes not repaid on the Tender Date will continue to be held by the Owners thereof. See "RISK FACTORS – Refunding Bonds".

If the Owner of any Note fails to deliver such Note to the Paying Agent/Registrar on the Tender Date, such Note will be deemed tendered, and (i) if the Paying Agent/Registrar is in receipt of the Purchase Price therefor, such Note will nevertheless be deemed prepaid on the Tender Date, and such Owner of an undelivered Note will have no further right thereunder except the right to receive the Purchase Price thereof upon presentation and surrender of said Note to the Paying Agent/Registrar; or (ii) if the Paying Agent/Registrar is not in receipt of the Purchase Price therefor, such Note will continue to be held by the Owner and will convert on the Tender Date to a Term Rate Note.

Optional Redemption

The Notes will be subject to redemption prior to maturity:

(a) in whole or in part, on the Tender Date; and

(b) in whole or in part, on any date after the Tender Date at the redemption price of par plus accrued interest to the date of redemption; provided that any principal amount of Term Rate Notes optionally redeemed shall be applied to the Mandatory Sinking Fund Payments in inverse order of the scheduled Mandatory Sinking Fund Payment Dates.

Special Mandatory Redemption

During the Term Rate Period, the Notes will be subject to special mandatory redemption. The Notes will be redeemed through the payment of the Mandatory Sinking Fund Payments out of money available for such purpose in the Class 1 Debt Service Account on each Mandatory Sinking Fund Payment Date in accordance with the schedule below.

Date	Principal Amount	Date	Principal Amount
August 1, 2013	$150,000,000	February 1, 2015	$92,000,000
February1, 2014	83,000,000	August 1, 2015	92,000,000
August 1, 2014	83,000,000		

The Notes that are subject to special mandatory redemption on each Mandatory Sinking Fund Payment Date will be treated by The Depository Trust Company ("DTC"), in accordance with its rules and procedures, as a "Pro Rata Pass-Through Distribution of Principal" and redeemed at a price equal to the principal amount thereof, plus accrued interest to the date of redemption, out of money available for such purpose in the Class 1 Debt Service Account, on each Mandatory Sinking Fund Payment Date.

Selection of Notes for Redemption

If less than all of the Notes are to be redeemed, the Notes to be redeemed will be treated by DTC, in accordance with its rules and procedures, as a "Pro Rata Pass-Through Distribution of Principal".

Notice of Redemption

The Paying Agent/Registrar shall give notice of any redemption of the Notes by sending notice by first class United States mail, postage prepaid, not less than 20 days before the date fixed for redemption, to the Owner of each Note (or part thereof) to be redeemed, at the address shown on the Register. The notice shall state the redemption date, the redemption price, the place at which the Notes are to be surrendered for payment, and, if less than all the Notes outstanding are to be redeemed, an identification of the Notes or portions thereof to be redeemed. Any notice given as provided in the Resolutions 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 the Notes, or any defect therein, shall not affect the validity of any proceedings for the redemption of any Notes 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 Notes 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 shall be of no effect if such moneys 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 Notes 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.

Paying Agent/Registrar

The Authority will be the initial Paying Agent/Registrar for the Notes, and will perform all the duties and functions required to be performed with respect to the Notes under the Resolutions by the Paying Agent/Registrar; provided, however, that the Authority may appoint a third party Paying Agent/Registrar if the Notes cease to be Book-Entry Public Securities. 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 Notes (the "Register") at its principal office. A transfer of a Note is not effective until entered in the Register. The transfer of a Note will be made by the Paying Agent/Registrar upon the surrender to the Paying Agent/Registrar of the Note 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 Note or Notes (each in an authorized denomination) of the same tenor and aggregate principal amount and interest rate as the Note or Notes surrendered for transfer. A transfer of a Note 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 Note(s) may be exchanged for a new Note or Notes (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 Note(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 Note or Notes in exchange for the surrendered Note(s). A Owner exchanging any Note(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 Note: (i) between a Record Date and the related Interest Payment Date; (ii) during the 30-day period preceding the maturity date of such Note; or (iii) which has been selected for redemption in whole or in part.

Book-Entry-Only System

The Notes, 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 Notes, until DTC resigns or is discharged. The Notes will be available to purchasers only in book-entry form. For as long as Cede & Co. is the exclusive registered owner of the Notes, the principal of and interest on the Notes 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 Notes. The purchasers of the Notes will not receive certificates representing their beneficial ownership interests therein. For additional information regarding DTC, see APPENDIX D—DEPOSITORY TRUST COMPANY.

Discharge and Defeasance

The benefits of the Resolutions, and the covenants of the Authority contained in the Resolutions in support of any Class 1 Public Securities Obligations, 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 Notes will be deemed redeemed and discharged with respect to the Notes when the following requirements have been satisfied: (i) the payment of the Class 1 Public Securities Obligations with respect to the Notes has been provided for by irrevocably depositing Sufficient Assets into the respective subaccount of the Class 1 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 Class 1 Public Securities Obligations; (ii) the Authority has received a Favorable Opinion of Bond Counsel to the effect that such deposit of Sufficient Assets complies with State law, and all conditions precedent to such Class 1 Public Securities Obligations being deemed discharged have been satisfied; (iii) all amounts of money (other than Class 1 Public Securities Obligations) due, or reasonably estimated by the Paying Agent/Registrar to become due, under

the Resolutions with respect to the Notes 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; (iv) the Paying Agent/Registrar has received its compensation and such other documentation and assurance as the Paying Agent/Registrar reasonably may request; and (v) the Authority has received written confirmation from any Rating Agency then rating any Class 1 Public Securities that the rating on any Class 1 Public Securities then Outstanding has not been reduced, withdrawn, or suspended.

If a deposit of Sufficient Assets pursuant to the paragraph above is to provide for the payment of Class 1 Public Securities Obligations on less than all of the Notes, the particular maturity or maturities of the Notes (or, if less than all of a particular maturity, the principal amounts) will be as specified by the Authority, and the particular Notes 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 Class 1 Public Securities affected by such amendment. See "APPENDIX B—EXCERPTS OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – The Master Resolution – Section 6.01. 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 pledges for the benefit and protection of financing parties, 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, Texas Insurance Code, a writ of mandamus and any other legal and equitable remedies are available to a party at interest to require the Association or another party to fulfill an agreement and to perform functions and duties under: (i) Subchapter M, Chapter 2210, Texas Insurance Code; (ii) the Texas Constitution; or (iii) a relevant public security resolution.

SECURITY FOR THE NOTES

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 B, 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–EXCERPTS OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS".

Pledge of Class 1 Pledged Revenues by the Association

In the Financing and Pledge Agreement, the Association has irrevocably pledged and assigned to the Authority the Class 1 Pledged Revenues and acknowledges and agrees and authorizes the Authority to pledge and assign the Class 1 Pledged Revenues to secure the payment of the Class 1 Public Securities Obligations (including those related to the Notes) and the Class 1 Administrative Expenses.

Pledge of Class 1 Pledged Revenues by the Authority

In the Resolutions, the Authority has pledged as the sole security and sole source of payment for the Class 1 Public Securities (including the Notes) and Class 1 Administrative Expenses, all of the Authority's right, title, and interest in and to the Financing and Pledge Agreement, the Funds Management Agreement, and the Class 1 Pledged Revenues. Such pledge is a first and exclusive lien on such Class 1 Pledged Revenues for the payment of the Class 1 Public Securities Obligations (including those related to the Notes) and Class 1 Administrative Expenses in accordance with the terms of the Resolutions.

The pledge of the Authority's right, title, and interest in and to the Class 1 Pledged Revenues will be effective as of the date of delivery of the Notes. Chapter 1208, Texas Government Code, as amended, applies to the issuance of the Class 1 Public Securities (including the Notes) and the pledge of the Class 1 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 Notes are Outstanding such that the pledge of the Class 1 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 Notes 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 Class 1 Pledged Revenues to occur. Notwithstanding the foregoing, the Authority shall make certain UCC filings with respect to various agreements, including the Financing and Pledge Agreement and the Funds Management Agreement.

Proceeds of Notes

The proceeds of the Notes will be deposited to and held in the Class 1 Program Pre-Event Program Account. If a Catastrophic Event does not occur by December 15, 2012, the Authority will apply the proceeds of the Notes along with Class 1 Pledged Revenues to prepay the Notes on the Tender Date.

If a Catastrophic Event does occur and proceeds of the Notes are needed to pay costs of the Association Program, the Authority will use Unencumbered Proceeds (as defined herein) to prepay Notes on the Tender Date and will use its best efforts to issue Post-Event Class 1 Public Securities and apply the proceeds to refund that portion of the Notes not prepaid with Unencumbered Proceeds. The Authority has covenanted to use the proceeds of any Post-Event Class 1 Public Securities to refund or prepay the Notes prior to their uses for another purpose. The Commissioner has approved the issuance of up to $1 billion in Post-Event Class 1 Public Securities, and the Authority has authorized the issuance of up to $600 million of such Post-Event Class 1 Public Securities to refund the Notes pursuant to a Second Supplemental Resolution adopted on July 9, 2012. See "RISK FACTORS – Refunding Bonds".

Limited Obligations

THE NOTES 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 NOTES, 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 NOTES.

Locked Account Agreement and Deposit Account Control Agreement

The Authority and the Association will enter into a Locked Account Agreement (the "Locked Account Agreement"). The Association has agreed in the Financing and Pledge Agreement that it will maintain the Locked Account with Bank of America, N.A., a depository bank for the Association (the "Depository Bank") and that it will deposit lawfully available revenues in the amount of $95,850,000 (the "Deposit Amount"), and thereafter will maintain a required balance equal to the Deposit Amount in the Locked Account pursuant to the terms of the Locked Account Agreement. See "APPENDIX B—EXCERPTS OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – Locked Account Agreement".

Pursuant to the Locked Account Agreement, the Association has agreed that it will promptly deposit all Gross Premium and Other Revenue that it receives into its Operating Account held with the Depository Bank. The Association has agreed that it will, on or before the fourth Business Day of each calendar month, calculate the amount of Net Premium and Other Revenue available to the Association and deliver written notice by electronic transmission of such amount to the Authority. Additionally, the Association has covenanted to maintain the balance of the Locked Account equal to the Deposit Amount. To the extent that balance of the Locked Account in any given month is below the Deposit Amount, the Association is required to replenish and restore the balance in the Locked Account to the Deposit Amount prior to the first Business Day of the succeeding month following any withdrawal from the Locked Account.

Pursuant to the Financing and Pledge Agreement, the Association has granted a security interest to the Authority in the Net Premium and Other Revenue. The Association has also granted a security interest to the Authority for the benefit of the Owners in the amounts on deposit in the Locked Account representing Net Premium and Other Revenue of the Association. The Authority, the Association and the Depository Bank will also enter into a Deposit Account Control Agreement (the "Deposit Account Control Agreement") to evidence the Authority's security interest in the Net Premium and Other Revenue in the Locked Account and to provide for the disposition of funds deposited to the Locked Account. See "APPENDIX B—EXCERPTS OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – Deposit Account Control Agreement".

Flow of Funds

On the fifth Business Day of each month (each, a "Date of Calculation"), the Association will instruct the Depository Bank to transfer an amount equal to the Net Premium and Other Revenue on deposit in the Operating Account to the Texas Treasury Safekeeping Trust Company (the "Trust Company") for deposit into the Class 1 Premium Revenue Account within the Obligation Revenue Fund held by the Trust Company. If the Association fails to transfer such amount to the Trust Company by the Date of Calculation, the Authority is authorized under the Locked Account Agreement, the Deposit Account Control Agreement and the Financing and Pledge Agreement to and will direct the Depository Bank to cause the transfer of the amount calculated to be Net Premium and Other Revenue from the Locked Account to the Trust Company for deposit into the Class 1 Premium Revenue Account within the Obligation Revenue Fund held by the Trust Company.

On each Date of Calculation and at such other times as required by the Financing and Pledge Agreement or as specified in a Supplemental Resolution, the Authority shall direct the Trust Company to transfer and deposit Class 1 Pledged Revenues on deposit in the Class 1 Premium Revenue Account within the Obligation Revenue Fund to the following funds and accounts in the following order of priority:

First, there shall be deposited to the Class 1 Debt Service Account within the Obligation Revenue Fund, amounts which, when added to other amounts in the Class 1 Debt Service Account, equal the

amount required to pay Class 1 Public Securities Obligations on the Class 1 Public Securities (including the Notes) as follows:

(a) With respect to the Notes:

(i) Prior to the Tender Date, 1/5th of the estimated interest to be due and payable on the Notes on the Tender Date, calculated assuming an interest rate of 1.00% per annum for the first 60 days after the initial date of delivery of the Notes and, if applicable, at a rate of 2.50% per annum thereafter through the Tender Date. Deposits for and payment of principal will commence following the Tender Date;

(ii) Following the Tender Date (A) 1/6th of any interest to become due and payable on the Notes on the Interest Payment Date next following the Date of Calculation; and

(B) 1/6th of the principal of the Outstanding Notes due and payable on the Mandatory Sinking Fund Payment Date next following the Date of Calculation;

(iii) If the Notes are due and payable (either at maturity or mandatory redemption) and there are not sufficient funds in the Class 1 Debt Service Account, the Class 1 Premium Revenue Account and the Class 1 Redemption Account to pay the Notes, the Authority will make a written direction to the Association to deposit any money legally available under the Act into the Class 1 Debt Service Account in an amount sufficient to timely pay the Notes.

(b) With respect to additional Class 1 Public Securities:

(i) 1/12th of any interest to be come due and payable on such Outstanding Class 1 Public Securities on any Interest Payment Dates occurring within 12 months of the Date of Calculation, unless a greater amount is required under any Supplemental Resolution;

(ii) 1/12th of any principal scheduled to become due and payable on such Outstanding Class 1 Public Securities occurring within 12 months of the Date of Calculation, unless a greater amount is required under any Supplemental Resolution; and

(iii) 1/12th of any amounts due on Credit Agreements, excluding any termination payments arising under any such Credit Agreements, occurring within 12 months of the Date of Calculation (collectively, the "Required Monthly Debt Service Deposit").

To the extent sufficient Class 1 Pledged Revenues are not available on any Interest Payment Date, at any Stated Maturity Date, or upon mandatory redemption to make such payments, the Authority covenants to promptly exercise any and all rights under the Financing and Pledge Agreement to cause the transfer of the following additional amounts until such Class 1 Debt Service Account attains a balance equal to the Required Monthly Debt Service Deposits: *first*, from the Class 1 Pledged Revenues deposited to the Class 1 Premium Revenue Account, and *second,* from the Class 1 Debt Service Reserve Account.

Second, there shall be deposited to the Class 1 Administrative Expenses Account within the Obligation Revenue Fund from Class 1 Pledged Revenues after the payment and transfers above, 1/12th of the amount of Class 1 Pledged Revenues representing the amount needed to pay Class 1 Administrative Expenses occurring within 12 months of the Date of Calculation;

No Debt Service Reserve Requirement, no Class 2 Repayment Obligations and no Operation Reserve Fund Requirement will exist at the time of issuance of the Notes. After the payments and

transfers in First and Second above, amounts remaining in the Class 1 Premium Revenue Account are expected to be immediately transferred to the Association as described in Sixth below.

Third, there shall be deposited to the Class 1 Debt Service Reserve Account within the Obligation Revenue Fund from Class 1 Pledged Revenues after the payment and transfers above, the amount of Class 1 Pledged Revenues necessary to fund or replenish in equal month installments within 24 months the Class 1 Debt Service Reserve Requirement;

Fourth, after the payment and transfers above, to the payment of principal, interest, reserve fund requirements, obligations under any credit agreement, or Class 2 Repayment Obligations, for any obligations which hereafter may be issued by the Authority on behalf of the Association that are payable from and secured by a lien on and pledge of the Class 1 Pledged Revenues which is subordinate to the liens thereon securing the Class 1 Public Securities issued hereunder when and in the amounts required by any resolution or order authorizing the issuance of such subordinate lien obligations;

Fifth, after the payment and transfers above, to the Operating Reserve Fund in an amount necessary to satisfy any Operating Reserve Fund Requirement as may be required by a Supplemental Resolution; and

Sixth, after the payment and transfers above, to the Association to be used for the payment of Budgeted Operating Expenses and Scheduled Policy Claims, to purchase reinsurance (at the discretion of the Board of Directors of the Association) or for any other lawful purpose, including but not limited to (i) transfer to the Class 1 Redemption Account to be used by the Authority to purchase, defease, retire, and cancel Outstanding Class 1 Public Securities, (ii) prepayment of Class 2 Repayment Obligations, or (iii) payment to the CRTF.

Other Covenants of the Association

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

(a) it will maintain an Operating Account and the Locked Account with the Depository Bank and deposit, withdraw, and transfer Gross Premium, Net Premium, Unearned Premium, and Other Revenues pursuant to the terms of the Locked Account Agreement.

(b) during each calendar year (or more often as necessary) it will review its rate structure for premiums for its policies and confirm that it has established, or it will endeavor to establish, rates sufficient to collect Class 1 Pledged Revenues adequate to pay the Class 1 Public Securities Obligations, any Contractual Coverage Amount, and any Class 1 Administrative Expenses during such calendar year;

(c) it will charge premium according to the requirements of the Act at rates that will provide Class 1 Pledge Revenues in an amount not less than:

(i) 1.50 times the amount of Class 1 Public Securities Obligations due in the next calendar year; and

(ii) 1.50 times the estimated amount of Class 1 Administrative Expenses due in the next calendar year.

(d) annually, or more often as necessary, in its rate filing made to the Department pursuant to the Subchapter H of the Act, the Association will request any rate increase necessary to provide projected

Class 1 Pledged Revenues in an amount sufficient to meet the coverage requirements in subsection (c) above;

(e) not later than 90 days after the end of each calendar year, commencing with the calendar year ending on December 31, 2012, it will file with the Authority a certificate of the Association Representative demonstrating that the Class 1 Pledged Revenues for the prior calendar year (set forth in such certificate) were not less than 150% of the Class 1 Public Securities Obligations and Class 1 Administrative Expenses that became due and payable in such calendar year on Class 1 Public Securities; if the coverage is less than 150%, the Association will take such action or actions during the current calendar year as it may deem necessary to redeem Class 1 Public Securities in order to increase the coverage to 150% or greater as of the end of the current calendar year; and

(f) to keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Class 1 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 its representative authorized in writing).

Additional Class 1 Public Securities

Subject to the requirements of the Master Resolution 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 Class 1 Public Securities for the purpose of financing, in whole or in part, the Association Program as authorized by the Act, or for the purpose of refunding any outstanding obligations which are Class 1 Public Securities ("Additional Obligations"). Pursuant to the First Supplemental Resolution, the Authority has covenanted to apply the proceeds of any such Class 1 Public Securities first to refund that portion of the Notes that are not prepaid from Unencumbered Proceeds on deposit in the Class 1 Pre-Event Program Account.

Class 1 Public Securities (other than the Notes) may be issued as Short-Term Public Securities, Interim Public Securities or Long-Term Public Securities. Such Class 1 Public Securities, when issued, and the interest thereon will be equally and ratably secured by and payable from a first lien on and pledge of Class 1 Pledged Revenues, in the same manner and to the same extent as any other Class 1 Public Securities at the time Outstanding, and such Class 1 Public Securities, when issued, and the interest thereon, will be on a parity and in all respects of equal dignity with each other Class 1 Public Securities. Additional Class 1 Public Securities will be issued and delivered only upon the satisfaction of certain requirements, including but not limited to:

(i) the Commissioner executes and delivers written approval of the Request for Financing for the issuance of the Class 1 Public Securities and the authorized principal amount thereof;

(ii) the Authority Representative signs a written certificate (which may rely on certificates and other documentation delivered by its Financial Advisor or the Association Representative) to the effect that the Financing and Pledge Agreement (as the same may be amended) will provide Class 1 Pledged Revenues that will be sufficient to pay Class 1 Public Securities Obligations and Class 1 Administrative Expenses on all then Outstanding Class 1 Public Securities (including the Notes), including the Class 1 Public Securities then proposed to be issued, stating:

(A) the principal and interest to be due on the Outstanding Class 1 Public Securities after giving effect to the proposed Class 1 Public Securities; and

(B) the Class 1 Coverage Test described below will be met with respect to the issuance of the proposed Class 1 Public Securities;

The Class 1 Coverage Test is calculated as follows:

(i) the ratio of (A) Class 1 Pledged Revenues for the most recently ended calendar year to (B) Maximum Annual Class 1 Public Securities Obligations on the Outstanding Class 1 Public Securities, including the proposed Class 1 Public Securities, and the projected Maximum Annual Class 1 Administrative Expenses, calculated as of the date of sale of such proposed Class 1 Public Securities will not be less than 1.50:1.00; or

(ii) the ratio of (A) projected Class 1 Pledged Revenues for the current calendar year and projected Class 1 Pledged Revenues for the next calendar year (including in such projected Class 1 Pledged Revenues for each such calendar year amounts projected to be received from any adopted policyholder rate increases), to (B) Maximum Annual Class 1 Public Securities Obligations on the Outstanding Class 1 Public Securities, including the proposed Class 1 Public Securities, and projected Maximum Annual Class 1 Administrative Expenses, calculated as of the date of sale of such proposed Class 1 Public Securities will not be less than 1.50:1.00.

In addition to the foregoing, Class 1 Public Securities may be issued to refund or refinance one or more series of Outstanding Class 1 Public Securities.

See "APPENDIX B—EXCERPTS OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – The Master Resolution – Section 2.05. Issuance of Class 1 Public Securities" for a complete description of the conditions to issuance.

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DEBT SERVICE AND COVERAGE SCHEDULES

Estimated Debt Service Schedule for the Notes

The following table sets forth the annual debt service schedule for the Notes, including redemption from Mandatory Sinking Fund Payments. The table assumes (i) an interest rate of 1.00% per annum from August 1, 2012 through September 30, 2012, (ii) an interest rate of 2.50% per annum from October 1, 2012 to but not including February 1, 2013, and (iii) an interest rate of 10.00% per annum from February 1, 2013 through August 1, 2015, the scheduled maturity date. The first payment of interest is on February 1, 2013, and interest is payable thereafter on August 1, 2013 and on each February 1 and August 1 thereafter.

Estimated Debt Service Schedule
($ in thousands)

Year	Principal	Interest	Total Debt Service
2012	$ -	$ -	$ -
2013	150,000,000	41,687,500	191,687,500
2014	166,000,000	25,316,667	191,316,667
2015	184,000,000	7,666,667	191,666,667
	$500,000,000	$74,670,833	$574,670,833

Pro Forma Debt Service Coverage

The following table sets forth, for the fiscal years ended December 31, 2010 and 2011, the extent to which Net Premium and Other Revenue would provide coverage for pro forma maximum annual debt service on the Notes. 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.

Pro Forma Debt Service Coverage
($ in thousands)

	2010	2011
Net Premium and Other Revenue[(1)]	$383,751	$385,291
Maximum Pro Forma Annual Debt Service Requirements on the Notes	$191,688	$191,688
Maximum Pro Forma Coverage of Maximum Pro Forma Annual Debt Service Requirements on the Notes	2.00x	2.01x

(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".

[*Remainder of page intentionally left blank*]

THE FUNDS MANAGEMENT AGREEMENT

The Authority and the Comptroller will enter into a Funds Management Agreement with respect to the Notes. *The following is a summary of certain provisions of the Funds Management Agreement providing for the administration of the proceeds of the Notes 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 Note proceeds into the Class 1 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 Class 1 Debt Service Account is required to be transmitted for the payment of Class 1 Public Securities Obligations and the Class 1 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 Class 1 Debt Service Account) to pay such Class 1 Public Securities Obligations, at such time as will permit such Class 1 Public Securities 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 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 Comptroller 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 TPFA Act, the Authority's power is limited to financing and refinancing project costs for State agencies and other entities and does not affect the power of the relevant State agency or other institution to carry out its statutory authority, including its authority to construct buildings. The TPFA Act directs State agencies and other entities to carry out their authority regarding projects financed by the Authority as if the projects were financed by legislative appropriation.

Pursuant to the TPFA Act and Chapters 1401 and 1403, Texas Government Code, as amended, the Authority issues general obligation bonds and revenue bonds for designated State agencies (including certain institutions of higher education) and other entities as directed by the Legislature. The Authority also currently administers five commercial paper programs, namely: the Master Lease Purchase Program, which is primarily for financing equipment acquisitions; two general obligation commercial paper programs for certain general State government construction projects; a general obligation commercial paper program for the Colonia Roadway program; and a general obligation commercial paper program for the Cancer Prevention and Research Institute of Texas (the "CPRIT"). In 2010, the Authority established a commercial paper note program for the Association to provide for the issuance of Post-Event Class 1 Public Securities with liquidity provided by the Comptroller, but no notes were ever issued under such program. There is currently no liquidity in place for such program, and the Authority currently has no

plans to issue any such notes. In addition, the Authority has 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 State Preservation Board, the Texas Department of Criminal Justice, the Texas Health & Human Services Commission, the Texas Department of Agriculture, the Texas Department of State Health Services, the Texas Workforce Commission, the Texas State Technical College System, the Texas Military Facilities Commission, the Texas Historical Commission, Midwestern State University, Texas Southern University and the Stephen F. Austin State University. 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 Youth 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 Adjutant General's Department, the Texas Department of Transportation, the Texas Juvenile Probation Commission, and the 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 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 TPFA 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.

Authority Board of Directors and 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 set forth on page iii herein.

The Authority is authorized to employ 14 employees, including an Executive Director, a General Counsel and a Deputy Director. The Executive Director is charged with managing the affairs of the Authority, subject to and under the direction of the Board.

Robert P. Coalter, Executive Director. Mr. Coalter began serving as the Authority's Executive Director in March 2012. Previously, Mr. Coalter served as Assistant Director of Treasury Operations for the Comptroller of Public Accounts for 16 years. He has been employed in various positions within state government working with senior officials in the legislative and executive branches as well as their staffs, and has been responsible for some major accomplishments in State government for over 20 years. Mr. Coalter holds an MBA in Finance and has been accountable for the issuance, payment, and compliance of over $84 billion in various municipal instruments during his career.

Susan K. Durso, General Counsel. Susan K. Durso, a native of Port Arthur, Texas, graduated from the University of Texas at Austin with a BA in Government and from the University of South Carolina with a J.D. and Masters of Public Administration. She has worked as an attorney for over 20 years. Ms. Durso has served the State as legal counsel in a variety of positions, including as the General Counsel for the Public Utility Commission, the General Counsel for the Texas Residential Construction Commission, and

since September 2009, as the General Counsel for the Authority. From July 7, 2011, to March 19, 2012, Ms. Durso served as Interim Executive Director of the Authority, in addition to her role as General Counsel.

John Hernandez, Deputy Director. Mr. Hernandez has served as a Deputy Director since 1999. He 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.

Sunset Review

In 1977, the Legislature enacted the Texas Sunset Act (Chapter 325, Texas Government Code, as amended), 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 regular session of the Legislature in 2023.

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 Notes and in all other obligations, including lease, contract and other written obligations of the Authority. The designated State agency would provide payment from (a) the sources of payment of the Notes in accordance with the terms of the Notes, (b) 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 such obligations, including the Notes and any lease, contract and other written obligations, are performed and paid in full. Pursuant to the State Constitution and Section 2210.616, Texas Insurance Code, the revenue pledge securing the payment of principal of and interest on the Notes would remain in full force and effect.

Relationship with the Association

The Authority's power is limited to financing 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 Association Program. Accordingly, the Authority will not be responsible for supervising the on-going administration of the Association Program. The Authority will, however, pursuant to the Financing and Pledge Agreement, be responsible for making debt service payments due on the Notes from Class 1 Pledged Revenues and for monitoring federal tax and securities law compliance.

Payments on the Notes are expected to be made solely from the Class 1 Pledged Revenues. See "SECURITY FOR THE NOTES". Any default in payments on the Notes will not affect the payment of any other obligations of the Authority.

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 Notes 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 separate letters dated July 19, 2012, the Bond Review Board approved the Notes and any Class 1 Public Securities necessary to refund the Notes if a Catastrophic Event does occur and Unencumbered Proceeds are insufficient to prepay the Notes.

State General Revenues

The Class 1 Pledged Revenues are not general revenue appropriations and the Obligation Revenue Fund in which Class 1 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 Notes. Any potential State revenue shortfall would not directly affect the Notes 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 Notes or to impair the rights or remedies of the Owners of the Notes.

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 2011 represented 83.73% of total participation in the Association. The top five insurers that were members of the Association in 2011 (State Farm Group, Allstate Insurance Group, Farmers Insurance group, USAA Group and Travelers Group) represented 50.546% 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 sequence for funding catastrophe losses in excess of premium and other revenue are as follows: (i) payments from available reserves and the CRTF; (ii) payments from the proceeds of Class 1 Public Securities issued in an amount not to exceed $1 billion per 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 year to be repaid from non-recoupable member assessments (30% of the cost) and a non-refundable surcharge collected by every property and casualty insurer and assessed on all policy holders who reside in or have operations in or whose property is located in the Coverage Area (70% of the cost); (iii) payments from reinsurance; and (iv) payments from the proceeds of Class 3 Public Securities issued in an amount not to exceed $500 million per year to be repaid through non-recoupable member assessments. 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 iii hereof.

The Association employs 178 employees as of June 30, 2012, 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, Vice President – Actuary, FCAS, MAAA. Mr. Murphy currently serves as Vice President – Actuary 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, Controller. Mr. Gise was named Controller of the Association in December 2011. 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 the Texas Department of Insurance ("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 exercises broad authority 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, including the ability of TDI to request submission and prior approval by TDI of certain expenditures of the Association; submission and approval of the Association contracts with outside vendors; submission and approval of all senior or executive level personnel decisions made by the Association; and requiring the submission of regular communications to the Association's Board of Directors by the Association staff. As administrative oversight has evolved, TDI has reduced or eliminated some specific authority over the Association operations and increased that authority in other areas, such as, review of legal settlements on claims litigation. 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".

In February 2011, TDI issued a Request for Proposal ("RFP") to hire a consultant to explore options for restructuring the Association. With this RFP, TDI was seeking assistance in identifying, evaluating and implementing restructuring options to reduce the Association's exposure and improve service to

policyholders. Alvarez & Marsal Insurance Advisory Services ("AMIAS") was selected to examine these options. On May 15, 2012, TDI solicited participants for a technical advisory working group (the "Advisory Group") to assist AMIAS with its development and evaluation of proposals to reduce the Association's net exposure and improve policyholder service. On June 4, 2012, the Commissioner appointed members to the Advisory Group. It is not possible to predict how any recommendations made by AMIAS will impact the Association.

In addition to being under the administrative oversight of TDI, the Association must file annually with TDI and the State Auditor's office a statement covering periods designated by TDI that summarizes the transactions, conditions, operations, and affairs of the association during the preceding year. The Association is also subject to audit by the State Auditor, who is in the process of conducting an audit of the Association's financial processes, expense management, claims and information technology. See "RISK FACTORS – State Auditor".

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 Windstorm Insurance Legislative Oversight Board (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".

Legislative Interim Study Committee

In 2011, the Legislature created an interim study committee (the "Coastal Commission") to study alternative ways of providing insurance to the seacoast territory of the State. The Coastal Commission is composed of 12 members, four members of the Texas Senate appointed by the Lieutenant Governor, four members of the Texas House of Representatives appointed by the Speaker of the Texas House of Representatives and four public members, two of whom are appointed by the Lieutenant Governor and two of whom are appointed by the Speaker.

The Coastal Commission is required to examine alternative ways of providing insurance to the seacoast territory of the State, including through a quasi-governmental entity or providing insurance coverage through a system by which insurers in the State provide insurance in the seacoast territory in proportion to the percentage of insurance coverage provided in geographic areas of the State other than the seacoast

territory; study residual markets for windstorm and hail insurance in other states; study windstorm-related building codes and mitigation strategies; and submit a report and make recommendations to the Governor and Legislature by December 1, 2012.

Sunset Review

The Association is subject to sunset review under Chapter 325, Texas Government Code during the same period as state agencies scheduled to be abolished in 2015. However, the Association is not subject to abolishment under Chapter 325.

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.

Fraud Investigation

In February 2011, the Travis County District Attorney commenced an investigation into possible fraud claims involving the handling of claims in the aftermath of Hurricane Ike. The Association understands that the investigation is ongoing and may involve both former and current employees. The Travis County District Attorney has assured the Association that the Association and the current members of the board of directors of the Association are not targets or suspects in the ongoing investigation. The Association has no information on the specifics of the investigation and cannot predict what, if any, charges might be brought in the future.

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 by TDI when setting rates.

General Rate Requirements

Required Standards. Under Section 2210.355, Texas Insurance Code, the Association and TDI must consider the following when setting 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. A 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.

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. After the filing has been made, TDI in writing must approve or disapprove the filing within 30 days or it is considered approved. 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. 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 within 30 days of 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 within 30 days of 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. Texas Administrative Code § 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.

Deductible Options

Residential Risks: Deductible options of $100, $250 or 1% are available unless an optional large deductible is selected. Adjustment percentages must be applied to calculate the rate for $100 and $250 deductibles. Optional large deductibles of 1½%, 2%, 2 ½%, 3%, 4% or 5% are available and are subject to the appropriate premium credits.

Commercial Risks and Public Buildings: A per occurrence deductible of 1% per item applies, unless an optional 2% or 5% deductible is selected and the deductible percentages are subject to the appropriate premium credits.

Applicant Requirements

An applicant for new or renewal coverage on a structure must comply with various requirements including inspection process regulations, or a certificate of compliance approval program, or a certificate of compliance transition program, or an alternative eligibility program. 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.

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 debt service on such Class 2 Public Securities and 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.

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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 May 31, 2012.

Table 1: Direct Insurance in Force by County

County	Residential	Commercial	Governmental	Total
Aransas	$ 1,755,958,762	$ 316,698,519	$ 21,056,298	$ 2,093,713,579
Brazoria	12,885,854,912	1,037,085,265	199,850,279	14,122,790,457
Calhoun	762,876,043	144,316,210	26,764,945	933,957,198
Cameron	2,948,619,398	1,526,848,983	254,799,962	4,730,268,343
Chambers	1,574,655,575	99,464,628	32,094,935	1,706,215,138
Galveston	18,193,091,082	2,973,274,902	798,011,065	21,964,377,049
Harris[1]	894,827,199	103,557,169	361,669	998,746,037
Jefferson	7,098,072,397	1,205,617,329	85,719,269	8,389,408,995
Kenedy	5,956,557	40,000	6,041,765	12,038,322
Kleberg	236,636,640	71,077,114	38,738,074	346,451,828
Matagorda	992,942,040	153,321,514	39,078,576	1,185,342,130
Nueces	9,862,052,889	2,824,674,449	133,875,333	12,820,602,671
Refugio	77,450,949	26,191,172	7,204,166	110,846,287
San Patricio	1,852,129,824	290,751,882	64,735,102	2,207,616,808
Willacy	93,858,823	29,631,194	16,784,670	140,274,687
Total	$59,234,983,090	$10,802,550,330	$1,725,116,110	$71,762,649,529[2]

(1) Includes only those portions of Harris County designated as a Coverage Area.
(2) This figure represents approximately 4.3% of the property insurance market in the State and 62% in the 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 years 2007 through and including 2011. 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	2007	2008	2009	2010	2011
Aransas	82%	82%	81%	81%	81%
Brazoria	53	54	59	61	63
Calhoun	72	71	74	75	75
Cameron	32	29	30	32	31
Chambers	45	48	51	56	59
Galveston	76	76	78	79	77
Harris[1]	52	48	48	51	52
Jefferson	41	40	43	47	55
Kenedy	16	14	13	14	19
Kleberg	23	22	25	29	27
Matagorda	43	42	44	51	58
Nueces	62	62	65	66	65
Refugio	26	23	25	27	27
San Patricio	62	61	65	65	65
Willacy	24	24	24	29	28
Total Coverage Area	57%	56%	59%	61%	62%

(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, 2012. See "THE ASSOCIATION – Rate Structure".

Table 3: Rate Change History

Effective Date of Rate Change	Residential	Commercial
2002	0.0%	5.0%
1/1/2003	0.0	10.0
1/1/2004	9.6	10.0
1/1/2005	0.0	10.0
1/1/2006	0.0	5.0
7/1/2006	3.1	8.0
1/1/2007	4.2	3.7
2/1/2008	8.2	5.4
2/1/2009[1]	12.3	15.6
2010	0.0	0.0
1/1/2011	5.0	5.0
1/1/2012	5.0	5.0

[1] 2009 - 10% cap removed due to catastrophes.

Source: Association.

Table 4: Historical Insurance Data

The following table shows the liability in force at year end, gross written premiums, policy counts, incurred loss and loss adjustment expense and expenses of the Association for the years ended December 31, 2002 through 2011 and for the three months ended March 31, 2012.

Table 4: Historical Insurance Data

($ in thousands)

Year	Liability In Force Year End[1][4]	Gross Written Premiums	Policy Count[4]	Incurred Loss[2]	Expenses (including commercial)
2002	$16,003,045	$ 72,968	85,688	$ 32,359	$ 16,151
2003	18,824,457	87,987	96,420	24,955	19,682
2004	20,796,656	102,384	103,503	6,115	21,911
2005	23,263,934	113,928	109,693	178,370	25,277
2006	38,313,022	196,833	143,999	5,188	37,138
2007	58,641,546	315,139	216,008	17,985	51,768
2008	58,585,060	331,049	215,537	1,117,123	53,759
2009	61,700,891	382,342	230,545	(183,974)	87,899
2010	67,452,357	385,550	242,644	252,685	85,598
2011	71,083,333	403,748	255,945	202,539	81,665
2012[3]	72,048,864	87,782	259,051	5,043	21,449

[1] Includes buildings and contents.

[2] Includes actual payments and reserves. 2009 Incurred Loss reflects a reduction in Hurricane Ike net loss estimate of approximately $193 million. 2010 Incurred Loss reflects an increase in Hurricane Ike net loss estimate of approximately $201 million.

[3] As of March 31, 2012.

[4] 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 based on two hurricane modeling methodologies. See also "RISK FACTORS – Limitations of Loss Modeling Analysis".

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

Probability	Return Period	AIR v12.0 As of 12/31/10	AIR v13.0 As of 12/31/11	Percent Change
90.0%	10	$ 468,650,227	$ 466,569,098	0%
95.0%	20	1,157,574,766	1,163,110,765	0
98.0%	50	2,681,494,151	2,748,470,286	2
99.0%	100	4,686,780,333	4,866,537,954	4
99.6%	250	7,237,639,785	7,510,595,288	4
99.8%	500	9,989,985,705	10,498,306,185	5
99.9%	1,000	12,663,509,357	12,886,240,211	2
Average Annual Loss		243,560,944	249,106,219	2
Modeled Limits		$ 73,305,403,246	$ 77,814,205,436	6

Table 5B: Hurricane Occurrence Loss Estimates–RMS[3]

Probability	Return Period	RMS v11.0 As of 12/31/10	RMS v11 SP2b As of 12/31/11	Percent Change
90.0%	10	$ 581,666,158	$ 599,317,122	3%
95.0%	20	1,222,518,899	1,266,735,138	4
98.0%	50	2,580,143,361	2,688,639,083	4
99.0%	100	3,926,659,417	4,097,482,427	4
99.6%	250	6,159,707,276	6,461,052,711	5
99.8%	500	8,560,827,049	8,970,506,199	5
99.9%	1,000	11,232,613,362	11,784,340,989	5
Average Annual Loss		253,915,832	263,569,446	4
Modeled Limits		$ 73,305,403,246	$ 77,814,205,436	6

(1) All models assume stochastic event rates, exclude storm surge, and include demand surge (loss amplification).
(2) Estimates derived using AIR Worldwide Atlantic Tropical Cyclone Model.
(3) Estimates derived using the Risk Management Solutions, Inc. RiskLink U.S. Hurricane Model.
Source: Association.

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Table 6: Reinsurance Program

The Association has a reinsurance program in place, effective June 1, 2012 through May 31, 2013, that provides up to $850 million in coverage for losses above $2.3 billion. The reinsurance program consists of two layers, $650 million in excess of $2.3 billion and $200 million in excess of $2.95 billion. The following table shows the individual reinsurer's participation in the program, including ratings and total line amounts signed. All reinsurers listed below participate on a pro rata basis within the respective layers.

Table 6: Participating Reinsurers

Reinsurer Name	AM Best Rating	S&P Rating	Total Line Amount Signed
North America			
Everest Reinsurance Company	A+g	A+	$ 35,025,000
Odyssey Reinsurance Company	A	A-	21,970,000
Paladin Catastrophe Management o/b/o Protective Insurance Company	A+		780,000
QBE Reinsurance Corporation	A	A+	2,990,000
Swiss Re Underwriter Agency, Inc. o/b/o Swiss Reinsurance America Corporation	A+g	AA-	9,750,000
Transatlantic Reinsurance Company	A	A+	7,475,000
North America			**$77,990,000**
Bermuda			
Ace Tempest Reinsurance Ltd.	A+	AA-	$28,990,000
Allianz Risk Transfer AG (Bermuda)	A u	AA-	30,030,000
Alterra Bermuda Limited	A	A	34,970,000
Arch Reinsurance Ltd	A+	A+	4,030,000
Ariel Re Bermuda Limited obo Lloyd's	A	A+	22,425,000
Aspen Bermuda Limited Formerly Aspen	A g	A	8,970,000
AXIS Specialty Limited	A	A+	44,980,000
Catlin Insurance Company Ltd.	A	A	10,985,000
DaVinci Reins thru Renaissance U/W	A	A+	41,015,000
Hannover Rückversicherung AG	A	AA-	2,470,000
Hiscox Insurance Company (Bermuda)	A		28,990,000
Montplier Reinsurance Ltd	A	A-	18,980,000
Partner Reinsurance Company Ltd.	A+	A+	30,030,000
Platinum Underwriter Bermuda Limited	A	A-	2,015,000
Poseidon Re Ltd[1]			150,000,000
Renaissance Reinsurance Ltd.	A+	AA-	60,970,000
Sirius International Insurance Corporation	A	A-	5,005,000
Tokio Millennium Reinsurance Limited	A++	AA-	10,010,000
Validus Reinsurance, Ltd.	A	A-	10,985,000
XL Re Ltd	A g	A	15,015,000
Bermuda			**$560,865,000**
Continental Europe			
Flagstone Réassurance Suisse SA	A-		$15,015,000
Continental Europe			**$15,015,000**
Other Foreign			
Solidum Re Dom IC Limited[1]			$35,000,000
Other Foreign			**$35,000,000**
Asia			
Korean Reinsurance Company	A	A-	$2,470,000
Asia			**$2,470,000**

Reinsurer Name	AM Best Rating	S&P Rating	Total Line Amount Signed
Lloyd's Markets			
Lloyd's Underwriter Syndicate No. 0033	A s	A+	$ 27,820,000
Lloyd's Underwriter Syndicate No. 0566	A	A+	1,495,000
Lloyd's Underwriter Syndicate No. 0609	A s	A+	520,000
Lloyd's Underwriter Syndicate No. 0623	A s	A+	455,000
Lloyd's Underwriter Syndicate No. 0626	A	A+	2,470,000
Lloyd's Underwriter Syndicate No. 1084	A	A+	2,470,000
Lloyd's Underwriter Syndicate No. 1225	A s	A+	520,000
Lloyd's Underwriter Syndicate No. 1274	A	A+	2,015,000
Lloyd's Underwriter Syndicate No. 1414	NR	A+	27,820,000
Lloyd's Underwriter Syndicate No. 1458	A	A+	2,990,000
Lloyd's Underwriter Syndicate No. 1955	A	A+	3,495,000
Lloyd's Underwriter Syndicate No. 2001	A+ s	A+	32,835,000
Lloyd's Underwriter Syndicate No. 2003	A s	A+	10,010,000
Lloyd's Underwriter Syndicate No. 2007	NR	A+	2,015,000
Lloyd's Underwriter Syndicate No. 2623	A s	A+	2,015,000
Lloyd's Underwriter Syndicate No. 2791	A	A+	10,010,000
Lloyd's Underwriter Syndicate No. 2987	A	A+	1,625,000
Lloyd's Underwriter Syndicate No. 3902	A	A+	2,470,000
Lloyd's Underwriter Syndicate No. 4020	A	A+	2,470,000
Lloyd's Markets			**$135,520,000**
Guy Carpenter & Company Limited			
Amlin Bermuda branch of Amlin AG,	A	A	$ 14,820,000
SCOR Global P&C S.E. – Lirma S7300	A	A+	8,320,000
Guy Carpenter & Company Limited			**23,140,000**
Total			**$850,000,000**

(1) 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.

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Table 7: Summary of Financial Results

The following table presents summary statement of financial results of the Association for the fiscal years ended December 31, 2007 through 2011. 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, 2010 and 2011 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 7: Summary of Financial Results

($ in thousands)

	2007	2008	2009	2010	2011
Premiums Written	$315,139	$331,049	$382,342	$385,549	$403,748
Premiums Earned	264,890	321,937	357,906	383,424	385,000
Reinsurance Ceded	(129,047)	(460,497)	31,694	(31,694)	(63,219)
Net Premiums Earned	135,843	(138,560)	389,600	351,730	321,781
Loss/LAE Incurred	17,985	1,117,123	(183,974)	252,685	202,539
Commissions	33,692	32,821	61,148	60,158	54,731
Premium/Maintenance Taxes	5,894	6,195	7,035	7,609	7,826
General Expenses	12,183	14,742	19,716	17,831	19,108
Total Deductions	69,754	1,170,881	(96,075)	338,283	284,204
Net Underwriting (Loss)/Gain	66,089	(1,309,441)	485,675	13,447	37,577
Investment Income/Other Income	8,861	6,006	700	759	500
Assessment Income	0	530,000	909	(1,681)	(37)
CRTF Income	0	469,281	0	0	0
Total Investment/Other Income	8,861	1,005,287	1,609	(922)	463
Net (Loss) Income Before CRTF/FIT	74,950	(304,154)	487,284	12,525	38,040
CRTF Expense	74,336	0	120,414	16,808	20,587
FIT Expense (Benefit)	610	(4,141)	57,000	(57,926)	25
Net (Loss) Income	$ 4	$(300,013)	$309,870	$ 53,643	$ 17,428

Notes: Total may not add due to rounding.
Source: Association.

The financial statements for the years ended December 31, 2010 were restated to adjust the allocation of paid loss adjustment expenses as it related to Hurricane Ike and the related reinsurance agreements. See "APPENDIX A-1; Note 15" and "APPENDIX A-2; Note 19" for a description of the effect of such restatement for the year ended December 31, 2010.

Texas Department of Insurance Rules

The Legislature authorized the Commissioner to issue any order and to adopt rules that the Commissioner considers reasonable and necessary to implement the Act. The Act provides that certain actions cannot be taken without the Commissioner's approval. To implement these powers and describe the parameters of the approvals, TDI has submitted proposed rules relating to the issuance and repayment of Class 1, 2, and 3 Public Securities (the "Rules") to the Texas Secretary of State, which were published in the Texas

Register on June 22, 2012. The time period for submitting written comments on the proposed rules expired on July 23, 2012. The Rules will become effective 20 days after the order adopting the Rules is filed with the Texas Secretary of State.

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 – Statements – Texas Windstorm Insurance Association Financial Statements – Note 9 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.

RISK FACTORS

Set forth below are certain specific risk factors associated with an investment in the Notes that should be carefully considered by prospective investors. The following enumeration of risk factors is not intended to be, and is not, exhaustive. Prospective investors should consider carefully the following factors relating to the Association and the security for the Notes, in addition to the other information contained in this Official Statement, before purchasing the Notes.

Refunding Bonds

In the event a Catastrophic Event occurs prior to the Tender Date, or if no Catastrophic Event occurs and the proceeds of the Notes are not sufficient to repay the Notes on the Tender Date, the Authority has agreed to use its best efforts to issue additional Class 1 Public Securities to refund the Notes. The issuance of such Class 1 Revenue Refunding Bonds is subject to a number of conditions, including events affecting the marketability of such Class 1 Revenue Refunding Bonds, approval by the Attorney General of the State and the possible impact of claims made in the aftermath of a Catastrophic Event. If such Class 1 Revenue Refunding Bonds are not issued, Owners of the Notes will be required to retain their Notes on the Tender Date, and no assurance can be given that the Notes will be repaid other than on Mandatory Sinking Payment Dates and the Scheduled Maturity Date.

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. Coastal development in recent years has significantly changed the risk profile of hurricane prone coastal areas.

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.

Association losses in excess of premium and other revenue are paid from the CRTF, available reinsurance and other obligations, such as the Notes.

Actuarial Adequacy of Rates

The Association Program has several layers of coverage, including available premium and funds from the CRTF, the proceeds of public securities and payments on reinsurance for claims made. These levels of coverage total $3.65 billion for 2012. See "TEXAS WINDSTORM INSURANCE ASSOCIATION PROGRAM – Potential Claim Funding for 2012".

The Association has performed internal studies and commissioned an external study to determine the premium rate level necessary for actuarial soundness. The studies done by the Association show a required increase of 22% for residential rates and 29% for commercial rates in order to achieve this goal. Both 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 neither study will reflect what actually happens in the future.

The Association is required to review rate adequacy at least annually and make a filing with TDI. The Association has approved a 5% rate increase for 2013 as an incremental step to meeting the actuarial goal. The rate increase application will be filed with TDI on or before August 15, 2012, to be effective on January 1, 2013.

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. The assumptions and/or methodologies used 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 Notes 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 distributions generated by the model.

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. 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.

Texas Department of Insurance Administrative Oversight

The Association is currently under administrative oversight by TDI. The term "administrative oversight" is a regulatory tool under which the Commissioner exercises broad authority 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. As administrative oversight has evolved, TDI has reduced or eliminated some specific authority over the Association operations and increased that authority in other areas, such as, review of legal settlements on claims litigation. As part of such administrative oversight, the Commissioner has retained a consultant to assist in identifying, evaluating and implementing restructuring options to reduce the Association's exposure and improve service to policyholders. While administrative oversight by TDI has not adversely affected the operations of the Association or its ability to collect the Class 1 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 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 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. While legislative oversight has not resulted in legislation that adversely affects the operations of the Association or its ability to collect the Class 1 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. There can be no assurance that the Legislature would not attempt to grant relief to policyholders in the aftermath of such a catastrophe. In addition, the Legislature may consider changes in the structure of the Association including its assessment and rate structure. 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 determines the rates to be charged by the Association and the Association is unable to appeal such determination. 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.

State Auditor

The Association is subject to audit by the State Auditor. During the first half of 2012 the State Auditor conducted an audit of the Association's financial processes, expense management, claims and information technology. The final report of the State Auditor is expected at the beginning of August, 2012. While no

assurances can be given, the Association believes that such report will not identify material weaknesses in the areas subject to the audit.

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 Authority. 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.

Lack of Marketability for the Notes

The Notes are not rated. When any Owner attempts to resell Notes, 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 Notes 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 Notes 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 Notes, 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 United States Bankruptcy Act 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 Notes will be

qualified to the extent that the enforceability of certain legal rights related to the Notes 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 6,700 lawsuits have been filed against the Association resulting from Hurricanes Dolly and Ike. As of July 1, 2012, the Association had less than 200 lawsuits remaining from Hurricanes Dolly and Ike. The Association expects additional lawsuits to be filed before the expiration of any applicable statute of limitations and cannot reasonably predict the number of lawsuits that will be filed. The Association believes it has adequate reserves for the current lawsuits filed and a reasonable provision for future lawsuits, however additional lawsuits may require the Association to post additional reserves. Four class actions currently are active against the Association. The Association's current strategy is to resolve all pending class actions for nominal amounts but the resolution could affect the Association's finances.

It is possible that additional litigation will develop based on normal claims activity since 2009 and the Association cannot reasonably determine how many lawsuits may be filed. At this time, the Association has less than 35 non-Dolly and non-Ike lawsuits. House Bill 3, enacted by the Texas Legislature in 2011 changed the processes for Association claim disputes, and it is unknown what impact these changes will have on lawsuits filed against the Association.

Investment Risk

Moneys credited to the accounts and subaccounts for the Notes under the Resolutions will be invested in certain investments. See "APPENDIX B—EXCERPTS OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – Section 4.07 Investment of Funds". Earnings on moneys and investments in the Class 1 Pre-Event Program Account are expected to be used to pay a portion of interest on the Notes. 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 Notes.

LEGAL MATTERS

General

The delivery of the Notes is subject to the Authority furnishing the Underwriter a complete transcript of proceedings incident to the authorization and issuance of the Notes and the approving opinions of the Attorney General of Texas to the effect that the Notes are valid and legally binding obligations of the Authority, and the legal opinion of Winstead PC and Shelton & Valadez, P.C., Co-Bond Counsel, to the effect that the Notes, 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 C. Co-Bond Counsel was engaged by, and only represents, the Authority and the Authority acting on behalf of the Association. 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 NOTES" (other than under the subheading "Book-Entry-Only System"), "SECURITY FOR THE NOTES," "THE FUNDS MANAGEMENT AGREEMENT," "TAX MATTERS," "LEGAL INVESTMENTS IN TEXAS," "REGISTRATION AND QUALIFICATION OF NOTES FOR SALE," "CONTINUING DISCLOSURE OF INFORMATION" (other than under the subheading "Compliance with Prior Agreements") and in "APPENDIX B", 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 Notes, the Resolutions, the Financing and Pledge Agreement and the Funds Management Agreement and are correct as to matters of law. Winstead PC represents the Underwriter from time to time on matters not related to the Notes. 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 Notes. McCall, Parkhurst & Horton L.L.P. represents the Underwriter from time to time on matters not related to the Notes. Certain legal matters will be passed upon for the Underwriter by their counsel, Bracewell & Giuliani LLP, whose legal fees are contingent on the sale and delivery of the Notes. Bracewell & Giuliani LLP represents the Authority from time to time on matters not related to the Notes.

The various legal opinions to be delivered concurrently with the delivery of the Notes 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.

TAX MATTERS

General

The following is a general summary of United States federal income tax consequences of the purchase and ownership of the Notes. 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 Notes 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 Notes). The summary is therefore limited to certain issues relating to initial investors who will hold the Notes as "capital assets" within the meaning of section 1221 of the Code, and acquire such Notes for investment and not as a dealer or for resale. 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, the discussion below is not binding on the IRS, and no assurance can be given that the IRS will not take contrary positions.

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 NOTES.

Internal Revenue Service Circular 230 Notice

Purchasers of the Notes should be aware that:

(i) the discussion with respect to United States federal tax matters in this Official Statement was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer;

(ii) such discussion was written to support the promotion or marketing (within the meaning of IRS Circular 230) of the transactions or matters addressed in this Official Statement; and

(iii) each taxpayer should seek advice based on his or her particular circumstances from an independent tax advisor.

This notice is given solely for purposes of ensuring compliance with IRS Circular 230.

Stated Interest on the Notes

The stated interest on the Notes will be included in the gross income, as defined in section 61 of the Code, of the beneficial owners thereof and be subject to U.S. federal income taxation when received or accrued, depending on the tax accounting method applicable to the beneficial owners thereof.

Original Issue Discount

If a substantial amount of Notes of any stated maturity is purchased at original issuance for a purchase price (the "Issue Price") that is less than their face amount by more than one quarter of one percent times

the number of complete years to maturity, the Notes of such maturity will be treated as being issued with "original issue discount." The amount of the original issue discount will equal the excess of the principal amount payable on such Notes at maturity over their Issue Price, and the amount of the original issue discount on such Notes will be amortized over the life of such Notes using the "constant yield method" provided in the Treasury Regulations. As the original issue discount accrues under the constant yield method, the beneficial owners of such Notes, regardless of their regular method of accounting, will be required to include such accrued amount in their gross income as interest. This can result in taxable income to the beneficial owners of the Notes that exceeds actual cash distributions to the beneficial owners in a taxable year.

The amount of any original issue discount that accrues on the Notes each year will be reported annually to the IRS and to the beneficial owners. The portion of the original issue discount included in each beneficial owner's gross income while the beneficial owner holds the Notes will increase the adjusted tax basis of the Notes in the hands of such beneficial owner.

Disposition of Notes and Market Discount

A beneficial owner of Notes will generally recognize gain or loss on the redemption, sale or exchange of a Note 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 Note. Generally, the beneficial owner's adjusted tax basis in the Notes will be the beneficial owner's initial cost, increased by the original issue discount previously included in the beneficial owner's income to the date of disposition. 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 Notes.

Under current law, a purchaser of a Note who did not purchase the Notes in the initial public offering (a "subsequent purchaser") generally will be required, on the disposition of the Notes, to recognize as ordinary income a portion of the gain, if any, to the extent of the accrued "market discount." Market discount is the amount by which the price paid for the Notes by a subsequent purchaser is less than the sum of Issue Price and the amount of original issue discount previously accrued on the Notes. The Code also limits the deductibility of interest incurred by a subsequent purchaser on funds borrowed to acquire Notes with market discount. As an alternative to the inclusion of market discount in income upon disposition, a subsequent purchaser may elect to include market discount in income currently as it accrues on all market discount instruments acquired by the subsequent purchaser in that taxable year or thereafter, in which case the interest deferral rule will not apply. The recharacterization of gain as ordinary income on a subsequent disposition of Notes could have a material effect on the market value of the Notes.

Backup Withholding

Under section 3406 of the Code, a beneficial owner of the Notes 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 Notes. This withholding applies if such beneficial owner of Notes: (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 or such beneficial owner's broker with a certified statement, signed under penalty of perjury, that the TIN provided to the payor or broker 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 Notes. Beneficial owners of the Notes 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 by the payor 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 Notes 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 Notes 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 Notes pursuant to a loan agreement entered into in the ordinary course of the bank's trade or business.

Assuming payments on the Notes 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 the Notes 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 Note for U.S. federal income tax purposes.

The preceding discussion of certain United States federal income tax consequences is for general information only and is not tax advice. Accordingly, each investor should consult its own tax advisor as to particular tax consequences to it of purchasing, owning and disposing of the Notes, including the applicability and effect of any state, local or foreign tax laws, and of any proposed changes in applicable laws.

LEGAL INVESTMENTS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Notes 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 Notes 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 Notes are eligible investments for sinking funds or other public funds of such political subdivisions.

No representation is made that the Notes 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 Notes for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Notes for such purposes. Neither the Authority nor the Association have made any review of laws in other states to determine whether the Notes are legal investments for various institutions in those states.

REGISTRATION AND QUALIFICATION OF NOTES FOR SALE

No registration statement relating to the Notes 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 Notes 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 Notes 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 Notes under the securities laws of any jurisdiction in which the Notes may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Notes 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 NOTES ARE NOT RATED. THE AUTHORITY INTENDS TO SEEK A RATING ON THE NOTES AFTER THE INITIAL DELIVERY OF THE NOTES, BUT NO ASSURANCE CAN BE GIVEN THAT ANY SUCH RATINGS WILL BE OBTAINED.

If the Authority does not (i) receive long-term ratings on the Notes equivalent to the "A" category or better by two Rating Agencies or (ii) receive the highest short-term ratings by two Rating Agencies within 60 days after the Delivery Date, then the Notes will bear interest at 2.50% from the 61st day following the Delivery Date to but not including the Tender Date. If the Authority does not receive long-term ratings on the Notes equivalent to the "A" category or better by two Rating Agencies on or before the Tender Date and the Notes convert to Term Rate Notes, the interest rate on such Term Rate Notes will be 10.00% per annum.

CONTINUING DISCLOSURE OF INFORMATION

In the Financing and Pledge Agreement, the Association, as the obligated party on the Notes, has agreed to provide certain updated statistical information and operating data annually, and timely notice of specified events to the Authority, and pursuant to the Financing and Pledge Agreement and the Resolutions, the Authority has agreed to make such information available as described herein. The Association and the Authority have made the following agreement for the benefit of the Authority and the Owners. The Association and the Authority are required to observe their agreement for so long as the Association remains obligated to advance funds to pay the Notes. Under the agreement, the Authority, on behalf of 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.

Annual Reports

Pursuant to the Financing and Pledge Agreement, the Association will provide certain updated statistical information and operating data to the Authority. The information to be updated includes all quantitative statistical information and operating data with respect to the Association of the general type included in this Official Statement under the caption "THE ASSOCIATION". Any statistical information to be provided will be (1) 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 (2) audited, if the Association commissions an audit of such statements. The Association will update and provide this information to the Authority within five months after the end of each Fiscal Year ending in or after 2012 and the Authority will make this information available within six months after the end of each Fiscal Year ending in or after 2012. The Association will provide the updated information to the Authority and the Authority will provide such information to the MSRB through its EMMA system or such other location as may be designated by the MSRB or the SEC. The financial information and operating data to be provided 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) available to the public on the MSRB's Internet Web site or filed with the SEC, as permitted by SEC Rule 15c2-12 (the "Rule").

The Association's current Fiscal Year end is December 31. If the Association changes its Fiscal Year, the Association will notify the Authority and the Authority will then notify the MSRB of the change.

Event Notices

Notice of Occurrence of Certain Events, Whether or Not Material. The Authority, on behalf of the Association, will notify the MSRB through EMMA (in an electronic format as prescribed by the MSRB) within ten business days following the occurrence of any of the following events with respect to the Notes, 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 Class 1 Public Securities, or other events affecting the tax-exempt status of the Notes (provided, however, that interest on the Class 1 Public Securities 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 Authority, on behalf of the Association, also will notify the MSRB through EMMA (in an electronic format as prescribed by the MSRB) within ten

business days following the occurrence of any of the following events with respect to the Notes, 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 Notes; (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 trustee or the change of name of a trustee (herein, the Paying Agent/Registrar).

Availability of Information

The Association and the Authority have 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 and the Authority have agreed to update information and to provide notices of material events only as described above. The Association and the Authority have not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Authority and the Association make no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Notes at any future date. The Association and the Authority disclaim any contractual or tort liability of damages resulting in whole or in part from any breach of their continuing disclosure agreement or from any statement made pursuant to their agreement, although holders of Notes may seek a writ of mandamus to compel the Association or the Authority to comply with this agreement.

The Authority and the Association may amend their continuing disclosure agreement 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 Authority or the Association, but only if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Notes in the offering described herein 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 registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Resolutions that authorizes such an amendment) of the Notes then outstanding consent to the amendment or (b) any person unaffiliated with the Authority (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered owners and beneficial owners of the Notes. If the Association and the Authority so amend the agreement, they have agreed to include with the next statistical information and operating data provided in accordance with the agreement described above under "Annual Reports" an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of statistical information and operating data so provided.

The Authority and the Association may also amend or repeal the provisions of the continuing disclosure agreement if the SEC 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, and the Authority may also amend the provisions in its discretion 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 Notes in the primary offering of the Notes, giving effect to (i) such provisions as so amended and (ii) any amendments or interpretations of the Rule. If the Authority and the Association so amend the provisions of their continuing disclosure agreement, they will include with any amended statistical information or operating data next provided in accordance with this continuing disclosure agreement an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of statistical information or operating data so provided.

Compliance with Prior Agreements

During the last five years, the Authority has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule, except as follows: in certain limited instances, the Authority has agreed to file information provided by State agencies for whom 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 the client agency. The Authority has determined that, during the past five years, information was not provided in a timely manner by two client agencies which resulted in late filings by the Authority; however, neither of such late filings related to a continuing disclosure agreement entered into by the Association. The Authority has since filed the required information and developed procedures to reduce the likelihood of such late filings in the future.

The Association is not currently a party to any continuing disclosure agreement.

FINANCIAL STATEMENTS

The financial statements of the Association as of December 31, 2010 and 2011, 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, 2010 and 2011, 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, as Underwriter, has agreed, subject to certain conditions, for the Underwriter to purchase the Notes from the Authority. The purchase price of the Notes is par. The Underwriter will be obligated to purchase all of the Notes if any Notes are purchased. The Notes to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Notes into investment trusts) at prices lower than the public offering prices of the Notes and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter will receive compensation of $100,000 in connection with the purchase and sale of the Notes.

FINANCIAL ADVISOR

First Southwest Company is acting as Financial Advisor to the Authority in connection with the issuance of the Notes. The Financial Advisor's fee for services rendered with respect to the sale of the Notes is not contingent upon the issuance and delivery of the Notes. 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 Notes, 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 Notes or the validity of the Notes.

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". 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 Notes by the Authority, (ii) to collect the revenues to pay debt service due on the Notes, 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.

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, 2011 and 2010

ctm Calhoun, Thomson+Matza, LLP
Certified Public Accountants

Texas Windstorm Insurance Association

Financial Statements

For the Years Ended December 31, 2011 and 2010

Texas Windstorm Insurance Association

Contents

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Independent Auditors' Report

Governing Board
Texas Windstorm Insurance Association
Austin, Texas

We have audited the accompanying statements of net assets of Texas Windstorm Insurance Association (the "Association") as of December 31, 2011 and 2010 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Association's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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.

As of December 31, 2011, the Association had approximately $78 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 on a statutory basis; any excess surplus has to be paid to the Catastrophe Reserve Trust Fund ("Trust Fund"). As of December 31, 2011, the balance in the Trust Fund is approximately $146.6 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 are estimated to be $2.4 billion by the Association's actuary as of December 31, 2011. If the ultimate loss projection changes in the future it could have a significant 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.

As described in Note 15 to the financial statements, the Association restated its 2010 financial statements at the request of the Texas Department of Insurance. These corrections decreased beginning net assets by $67.4 million, increased the 2010 change in net assets by $63.3 million, and decreased 2010 total net assets by $4.1 million.

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, 2011 and 2010, and the results of its operations and its cash flows for the years ended December 31, 2011 and 2010 in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's discussion and analysis, on pages 5 to 12 and schedule of funding progress of its' Pension Plan, on page 33 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 & Metz, LLP

June 29, 2012

Texas Windstorm Insurance Association

Management's Discussion and Analysis
(Amounts in Thousands)

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, 2011, and 2010. 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.

(Amounts in Thousands)

Financial Summary

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

December 31,		2011		2010 (Restated)
Capital assets	$	4,615	$	782
Other assets		525,899		571,035
	$	530,514	$	571,817
Total liabilities	$	474,635	$	534,344
Net assets:				
Invested in net capital assets		4,615		782
Unrestricted		51,264		36,691
Total net assets		55,879		37,473
	$	530,514	$	571,817

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

Years ended December 31,		2011		2010 (Restated)
Operating revenues	$	321,781	$	351,730
Nonoperating revenues (expenses)		(20,123)		(17,729)
Total revenues		301,658		334,001
Losses and loss adjustment expenses		202,539		252,685
Underwriting expenses		80,689		85,077
Total expenses		283,228		337,762
Increase (decrease) in net assets before federal income tax expense		18,430		(3,761)
Federal income tax expense		25		2,243
Change in net assets		18,405		(6,004)
Net assets at beginning of year		37,474		43,478
Net assets at end of year	$	55,879	$	37,474

ANALYSIS OF FINANCIAL CONDITION

Assets

All funds collected by the Association which are not otherwise required to be expended are invested as short-term investments comprised solely of Governmental Money Market Mutual funds. Short-term investments are recorded at cost, which approximates market value. As of December 31, 2011 cash and short-term investments decreased approximately $30 million from December 31, 2010. As of December 31, 2010 cash and short-term investments increased approximately $153 million from December 31, 2009. This increase from 2009 to 2010 was primarily attributable to reinsurance proceeds received during 2010 associated with losses and loss adjustment expenses ceded associated with Hurricane Ike.

Liabilities

The statutory fund payable account was approximately $24.7 million and $67.7 million on December 31, 2011 and 2010, 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, 2011 direct loss and LAE reserves decreased approximately $36 million from 2010. This decrease in reserves was the net result of settlement of prior year claims from storms IKE and Dolly. Ike's ultimate incurred losses and LAE expenses increased by approximately $53 million, while Dolly's ultimate incurred losses decrease by approximately $5 million. Payment of Ike and Dolly claims were approximately $101 million, decreasing reserves in 2011 by $53 million. The majority of the approximately $108 million of 2011 current accident year incurred losses and loss adjustment expenses relate to a hailstorm in the Robstown, Texas area in January 2011. The Association feels that the loss and LAE reserves as of December 31, 2011 make a reasonable provision for Texas Windstorm Insurance Association's claim liabilities.

(Amounts in Thousands)

Capital and Surplus

Net income of the Association may be 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 from windstorm and hail catastrophe losses in excess of $100 million in any calendar year and for catastrophe mitigation.

During 2011 and 2010, the Association paid approximately $63.6 million and $69.6 million to the Trust Fund representing the 2011 and 2010 net capital and surplus. The Association accrued $20.6 million and $16.8 million of statutory fund costs in the statements of revenues, expenses and changes in net assets for the years ended December 31, 2011 and 2010, respectively.

Cash Flow and Liquidity

The Association considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and short term investments as of December 31, 2011 and 2010, were as follows:

Cash and Short Term Investments		2011		2010
Cash and Cash Equivalents	$	**374,629**	$	293,674
Short Term Investments		**100,064**		211,183
Total Cash and Short Investments	$	**474,693**	$	504,857

Reinsurance

During 2008, the Association entered into a reinsurance agreement. This agreement reduced 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, 2008, the catastrophe excess of loss reinsurance agreement provided the Association with three layers of coverage. The first layer provided 100% participation of $500 million in excess of $600 million. The second layer provided 100% participation of $500 million in excess of $1.1 billion. The third layer provided 100% participation of $500 million in excess of $1.6 billion. This agreement expired on May 31, 2009.

During 2011, the Association entered into a reinsurance agreement. This agreement reduces 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"). During 2010, the Association did not purchase a reinsurance agreement.

Effective June 1, 2011, 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 $1.6 billion each Loss Occurrence, subject to a limit of liability to the Reinsurer of $636 million each Loss Occurrence. Furthermore, the Reinsurer's liability for all Loss Occurrences commencing during the term of this Contract shall not exceed $1.272 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 the reinsurers to honor their obligations could result in losses to the Association. The Association together with the Texas Department of Insurance evaluates the financial conditions of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

(Amounts in Thousands)

The effect on premiums written and earned for the years ended December 31, 2011 and 2010 is as follows:

	2011		2010 (Restated)	
	Written	**Earned**	Written	Earned
Direct	**$ 403,748**	**385,000**	$ 385,550	383,424
Ceded	**(108,375)**	**(63,219)**	(31,694)	(31,694)
Net	**$ 295,373**	**321,781**	$ 353,856	351,730

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

	2011	2010 (Restated)
Gross unearned premiums	**$ 204,744**	$ 185,996
Ceded unearned premiums	**(45,156)**	-
Net unearned premiums	**$ 159,588**	$ 185,996

Commitments and Contingencies

The Association leases office space under a non-cancelable operating lease agreement that expires in 2013. 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, 2011.

The Association also subleases space under a non-cancelable operating lease agreement that expires in 2013.

The minimum aggregate rental commitments are as follows:

Years Ending December 31,	Amount
2012	$ 605
2013	69
	$ 674

Rental expense for 2011 and 2010 was approximately $952 and $701 respectively.

Line of Credit
The Association has a $200 million line of credit with JPMorgan Chase Bank. There were no balances outstanding or drawn against the line of credit for the years ended December 31, 2011 and 2010. 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 2011 and 2010 the Association paid expenses for the Texas Fair Plan Association under its management contract and was reimbursed $6,187 and $5,996 respectively for each year. As of December 31, 2011 and 2010, the Association incurred or paid expenses for which it has not been reimbursed of $2 and $77 respectively, on behalf of the Plan. These amounts are recognized in the statements of net assets as accounts receivable from the Plan.

RESULTS OF OPERATIONS

Revenues

Gross written premium was approximately $403.7 million and $385.5 million for the years ended December 31, 2011, and 2010 respectively. The increase from 2010 to 2011 was primarily due to a rate increase effective in the beginning of 2011.

Net earned premium was approximately $321.8 million and $351.8 million for the years ended December 31, 2011, and 2010 respectively. The decrease from 2010 to 2011 was primarily due to the purchase of the previously mentioned reinsurance treaty effective June 1, 2011.

Net investment income was $291 and $327 for the years ended December 31, 2011 and 2010, respectively.

Net earned premium was approximately $321.8 million and $351.8 million for the years ended December 31, 2011, and 2010 respectively. The decrease from 2010 to 2011 was primarily due to the purchase of the previously mentioned reinsurance treaty effective June 1, 2011.

Net Loss and Loss Adjustment Expenses

Net loss and loss adjustment expenses was approximately $202.5 million and $252.7 million for the years ended December 31, 2011, and 2010 respectively. In 2010, the net loss and loss adjustment expenses included prior year development of approximately $234 million primarily as a result of Hurricane Ike and Dolly. In 2011, prior year development was approximately $94.7 million primarily as a result of Hurricane Ike and Dolly. The majority of the approximately $108 million of 2011 current accident year incurred losses and loss adjustment expenses relate to a hailstorm in the Robstown, Texas area in January 2011.

Underwriting Expenses

Underwriting expenses was approximately $80.1 million and $85.1 million for the years ended December 31, 2011, and 2010 respectively. The decrease from 2010 to 2011 was primarily due to the expense credits received on the purchase of the previously mentioned reinsurance treaty effective June 1, 2011.

Texas Windstorm Insurance Association

Statements of Net Assets
(Amounts in Thousands)

December 31,		2011		2010 (Restated)
Assets				
Cash and cash equivalents	$	**374,629**	$	293,674
Short-term investments		**100,064**		211,183
Amounts recoverable from reinsurers		**16,121**		32,097
Deferred acquisition costs		**33,815**		32,979
Other assets		**5,885**		1,884
	$	**530,514**	$	571,817
Liabilities and Net Assets				
Liabilities				
Losses and loss adjustment expense reserves	$	**248,336**	$	240,939
Unearned premiums		**159,588**		185,996
Ceded reinsurance premiums payable, net of ceding commissions		**26,883**		28,154
Funds held by Company under reinsurance treaties		**-**		8,326
Statutory fund payable		**24,666**		67,668
Other liabilities		**15,162**		3,261
Total liabilities		**474,635**		534,344
Commitments and contingencies (Notes 7, 8, 9, 10, 11, 12 and 13)				
Net assets				
Invested in capital assets, net of related debt		**4,615**		782
Unrestricted		**51,264**		36,691
Total net assets		**55,879**		37,473
	$	**530,514**	$	571,817

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

Texas Windstorm Insurance Association

Statements of Revenues, Expenses and Changes in Net Assets

(Amounts in Thousands)

Years ended December 31,		**2011**		2010 (Restated)
Operating revenues				
Premiums earned	**$**	**385,000**	$	383,424
Premiums ceded		**(63,219)**		(31,694)
Total operating revenues		**321,781**		351,730
Operating expenses				
Losses and loss adjustment expenses		**202,539**		252,685
Underwriting Expenses		**80,689**		85,077
Total operating expenses		**283,228**		337,762
Operating income		**38,553**		13,968
Nonoperating revenues and expenses				
Net investment income earned		**291**		327
Statutory fund expense		**(20,587)**		(16,808)
Other income (expense)		**173**		(1,248)
Total nonoperating expenses		**(20,123)**		(17,729)
Increase (decrease) in net assets before federal income tax expense		**18,430**		(3,761)
Federal income tax expense		**25**		2,243
Change in net assets		**18,405**		(6,004)
Net assets:				
Net assets, beginning of year (as previously stated)		**37,474**		110,916
Prior period adjustment		**-**		(67,438)
Net assets, beginning of year (as restated)		**37,474**		43,478
Change in net assets		**18,405**		(6,004)
Net assets, end of year	**$**	**55,879**	$	37,474

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,	2011	2010 (Restated)
Cash flows from operating activities:		
Premiums collected, net of reinsurance	$ 300,880	$ 314,324
Losses and loss adjustment expense paid	(179,165)	23,894
Underwriting expenses paid	(76,019)	(86,738)
Receivable from affiliate	76	7,528
Net cash provided by operating activities	45,772	259,008
Cash flows from noncapital financing activities:		
Federal income tax paid	(25)	(41,123)
Statutory fund paid	(63,589)	(69,553)
Capital assets	(4,508)	-
Other	(8,090)	4,186
Net cash used by noncapital financing activities	(76,212)	(106,490)
Cash flows from investing activities:		
Sales and maturities of investments	111,119	33,743
Net investment income	276	327
Net cash provided by investing activities	111,395	34,070
Net increase in cash and cash equivalents	80,955	186,588
Cash and cash equivalents, beginning of year	293,674	107,086
Cash and cash equivalents, end of year	$ 374,629	$ 293,674

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,		2011		2010 (Restated)
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$	**81,956**	$	13,968
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization		**675**		755
Changes in assets and liabilities:				
Amounts recoverable from reinsurers		**15,976**		67,328
Deferred acquisition costs		**(835)**		(189)
Losses and loss adjustment expense reserves		**(36,005)**		209,251
Unearned premiums		**(26,408)**		2,125
Ceded reinsurance premiums payable		**(1,271)**		(31,429)
Other liabilities		**11,951**		(2,286)
Other assets		**(267)**		(515)
Net cash provided by operating activities	$	**45,772**	$	259,008

See accompanying summary of significant accounting policies and notes to 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 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.

Summary of Significant Accounting Policies
(Amounts in Thousands)

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 Plan;

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 Plan to be sued on disputed claims;

establish an alternative certification program to maintain coverage with the Plan 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.

Amendments are currently proposed to amend the plan of operation and address these legislative changes for the funding of losses

Summary of Significant Accounting Policies
(Amounts in Thousands)

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 accordance with governmental accounting standards, the Association applies all applicable statements issued by the Governmental Accounting Standards Board (GASB) and only Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

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 are classified as cash equivalents. Cash equivalents are recorded at cost, which approximates fair value.

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

Interest Rate Risk: As means of limiting its exposure to fair value losses resulting from rising interest rates, the Association's primary investment objective is to invest in highly liquid, relatively short-term investment strategies which are reviewed on an annual basis. The Association does not have a formal policy to limit exposure to interest rate risk. As of December 31, 2011 and 2010, the Association's dollar weighted average to maturity of the money market funds does not exceed 60 days.

Credit Risk: The Association's funds are invested in accordance with Section 28 Texas Administrative Code 5.4001, which includes, but is not limited to, interest-bearing time deposits or certificates of deposit in banks doing business in the State of Texas, U.S. treasury notes, money market funds which invest exclusively in obligations that are guaranteed as to principal and interest by the United States of America, and in such other investments as approved by the Texas Commissioner of Insurance. As of December 31, 2011 and 2010, 100% of the Association's investment portfolio consisted of Governmental Money Market Mutual Funds. These funds are rated AAAm by Standard & Poors and Aaa by Moody's Investor Service.

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 2008, 2009, and 2010.

For 2007, the Association has extended the statute of limitations until July 31, 2013.

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 assets 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 Nature of Business pg. 16)

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 assets.

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 assets.

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, 2011 and 2010, unamortized deferred acquisition costs were approximately $33.8 million and $32.9 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.

Reclassifications
Certain prior year amounts have been reclassified to conform to current year financial statement presentation.

(Amounts in Thousands)

1. **Capital assets**

Capital assets consist of the following:

December 31,		**2011**		2010
Furniture and fixtures	**$**	**1,200**	$	1,106
Electronic data processing equipment and software		**7,930**		3,516
		9,130		4,622
Less: accumulated depreciation and amortization		**(4,515)**		(3,840)
	$	**4,615**	$	782

Depreciation and amortization expense was approximately $675 and $755 for the years ended December 31, 2011 and 2010, respectively.

2. **Reinsurance**

During 2008, the Association entered into a reinsurance agreement. This agreement reduced the amount of losses that could arise from claims under a general reinsurance contract known as a catastrophe excess of loss reinsurance agreement ("excess of loss").

Effective June 1, 2008, the catastrophe excess of loss reinsurance agreement provided the Association with three layers of coverage. The first layer provided 100% participation of $500 million in excess of $600 million. The second layer provided 100% participation of $500 million in excess of $1.1 billion. The third layer provided 100% participation of $500 million in excess of $1.6 billion. This agreement expired on May 31, 2009.

During 2011, the Association entered into a reinsurance agreement. This agreement reduces 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, 2011, 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 $1.6 billion each Loss Occurrence, subject to a limit of liability to the Reinsurer of $636 million each Loss Occurrence. Furthermore, the Reinsurer's liability for all Loss Occurrences commencing during the term of this Contract shall not exceed $1.272 billion.

(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, together with the Texas Department of Insurance, 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 is as follows:

	2011		2010 (Restated)	
Years ended December 31,	**Written**	**Earned**	Written	Earned
Direct	**$ 403,748**	**$ 385,000**	$ 385,550	$ 383,424
Ceded	**(108,375)**	**(63,219)**	(31,694)	(31,694
Net	**$ 295,373**	**$ 321,781**	$ 353,856	$ 351,730

During 2011 and during 2010, the Association recovered approximately $228 million and $460 million 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,	**2011**	2010 (Restated)
Ceded reinsurance premiums payable	**$ 29,142**	$ 30,519
Reinsurance ceding commissions receivable	**(2,258)**	(2,365)
	$ 26,883	$ 28,154

4. Unearned Premiums

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

December 31,	**2011**	2010 (Restated)
Gross unearned premiums	**$ 204,744**	$ 185,996
Ceded unearned premiums	**(45,156)**	-
	$ 159,588	$ 185,996

(Amounts in Thousands)

5. Losses and Loss Adjustment Expense Reserves

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

	2011	2010 (Restated)
Beginning balance (net of reinsurance receivable of $228,634 and $386,128)	$ 240,939	$ 31,687
Incurred related to:		
Current loss year	107,743	18,764
Prior loss years	94,796	233,921
Losses and loss adjustment expense incurred	202,539	252,685
Paid related to:		
Current loss year	(88,265)	(13,238)
Prior loss years	(106,877)	(30,195)
Paid losses and loss adjustment expense	(195,142)	(43,433)
Ending balance (net of reinsurance receivable of $0 and $228,634)	$ 248,336	$ 240,939

The December 31, 2011 direct loss and LAE reserves increased approximately $7.4 million from 2010. This increase in reserves was the net result of settlement of prior year claims from storms IKE and Dolly and 2011 current year activity. Ike's ultimate incurred losses and LAE expenses increased by approximately $97 million, while Dolly's ultimate incurred losses decrease by approximately $5 million. Payment of Ike and Dolly claims were approximately $101 million, decreasing reserves in 2011 by $4 million. The majority of the approximately $108 million of 2011 current accident year incurred losses and loss adjustment expenses relate to a hailstorm in the Robstown, Texas area in January 2011. The Association feels that the loss and LAE reserves as of December 31, 2011 make a reasonable provision for Texas Windstorm Insurance Association's claim liabilities.

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 2011 and 2010 the Association paid expenses for the Texas Fair Plan Association under its management contract and was reimbursed $6,187 and $5,996 respectively for each year. As of December 31, 2011 and 2010, the Association incurred or paid expenses for which it has not been reimbursed of $2 and $77, respectively, on behalf of the Plan. These amounts are recognized in the statements of net assets as a receivable from TFPA.

8. 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.

The Association accrued $20.6 million and $16.8 million of statutory fund costs for the year ended December 31, 2011 and 2010, respectively.

(Amounts in Thousands)

9. **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.

Funding Policy. 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 8.1 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.

Annual Pension Cost and Net Pension Obligation. The Association's annual pension cost and net pension obligation to the PPIO for the current year were as follows:

December 31,		**2011**		2010 (Restated)
Annual required contribution (ARC)	$	**669**	$	705
Interest on net pension obligations		**(5)**		-
Adjustment to ARC		**7**		-
Annual pension cost		**671**		705
Contributions made		**1,138**		760
Increase in net pension obligation (asset)		**(467)**		(54)
Net pension obligation (asset) beginning of year		**(54)**		-
Net pension obligation (asset) end of year	$	**(521)**	$	(54)

(Amounts in Thousands)

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
December 31, 2009	n/a	n/a	n/a
December 31, 2010	705	107.70%	(54)
December 31, 2011	$ 671	169.48%	$ (521)

n/a – information not available

Funded Status and Funding Progress. As of January 1, 2011, the most recent actuarial valuation date, the plan was 76.75 percent funded. The actuarial accrued liability for benefits was $7,880, and the actuarial value of assets was $6,048, resulting in an unfunded actuarial accrued liability (UAAL) of $1,831. The covered payroll (annual payroll of active employees covered by the plan) was 9,441, and the ratio of UAAL to the covered payroll was 19.39 percent.

Actuarial Methods and Assumptions. In the January 1, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included (a) 8.0 percent investment rate of return and (b) projected salary increases of 4.0 percent per year. Both (a) and (b) included an inflation component of 3.0 percent. The assumptions did not include postretirement benefit increases, which are funded by the Association when granted. The actuarial value of assets is the market value of assets as allocated to the Association based on the PPIO funding policy. There is no smoothing of the effects of short-term volatility in the actuarial value of assets. The UAAL is being amortized as a level dollar percentage of projected payrolls. The remaining amortization period at January 1, 2011 was 10 years.

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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 $317 and $288 for the years ended December 31, 2011 and 2010 respectively.

10. Line of Credit

The Association has a $200 million line of credit with a bank. There were no balances outstanding as of December 31, 2011 and 2010 or drawn against the line of credit for the years then ended. This agreement was cancelled on May 18, 2012.

(Amounts in Thousands)

11. Lease Commitments

The Association leases office space under a non-cancellable operating lease agreement which expires in 2013. 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, 2010:

Years ending December 31,		Amount
2012	$	605
2013		69
	$	674

Rental expense under the non-cancelable operating lease was approximately $952 and $701 for the years ended December 31, 2011 and 2010, respectively.

12. 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.

13. 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 $78 billion and $74 billion of insurance exposure as of December 31, 2011 and 2010, respectively.

14. Fair Value of Financial Instruments

The estimated fair values and carrying values of the Association's financial instruments are as follows:

	2011		2010	
December 31,	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Cash and cash equivalents	**$ 374,629**	**$ 374,629**	$ 293,674	$ 293,674
Short-term investments	**100,064**	**100,064**	211,183	211,183

15. Correction of an Error

The accompanying financial statements for the year ended December 31, 2010 have been restated to adjust the allocation of paid loss adjustment expenses as it relates to hurricane Ike and the related reinsurance agreements which effected the following statements of net assets accounts: amounts recoverable from reinsurers, loss and loss adjustment expense reserves, ceded reinsurance premiums payable, funds held by company under reinsurance treaties, and statutory funds payable. Subsequent to the audit of the 2009 financial statements, management provided additional information regarding the collateral for unauthorized reinsurance and a revised calculation of aged reinsurance recoverables. Consequently, the provision for reinsurance was overstated based on this revised information. The effect of the restatement decreased beginning net assets by $67.4 million, increased the 2010 change in net assets by $63.3 million, and decreased 2010 total net assets by $4.1 million.

16. Subsequent Events

The Association has evaluated subsequent events occurring after December 31, 2011, the date of the most recent balance sheet date, through June 29, 2012, 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.

Required Supplementary Information

Texas Windstorm Insurance Association

Schedules of Funding Progress – Pension Plan
(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c)
12/31/2009	n/a	n/a	n/a	n/a	n/a	n/a
12/31/2010	$ 4,853	$ 6,146	$ 1,293	78.96%	$ 9,416	13.74%
12/31/2011	$ 6,048	$ 7,880	$ 1,831	76.75%	$ 9,441	19.40%

n/a – information not available

See accompanying independent auditors' report.

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, 2011 and 2010

ctm Calhoun, Thomson+Matza, LLP
Certified Public Accountants

Texas Windstorm Insurance Association

Statutory Financial Statements and Supplemental Information

Years Ended December 31, 2011 and 2010

Texas Windstorm Insurance Association

Contents

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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, 2011 and 2010, and have issued our report thereon dated June 29, 2012. 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 Board of Public Accountancy.

b. The engagement partner and engagement manager, who are certified public accountants, have 14 years and 7 years, respectively, of experience in public accounting and are 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 2011, 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 partner has served in that capacity with respect to the Association since 2009, is licensed by the Texas 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 & Metza, LLP

June 29, 2012

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, 2011 and 2010 and the related statutory statements of income and changes in surplus and other funds, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in the Summary of Significant Accounting Policies – "Basis of Accounting", these financial statements were prepared in conformity with accounting practices prescribed or permitted by the Texas Department of Insurance, which practices differ from 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, 2011 and 2010 deferred acquisition costs was understated by $33.8 million and $32.9 million and the provision for reinsurance was overstated by $15.1 million and $1.3 million, respectively. The departures identified above reduced total net assets as of December 31, 2011 and 2010 by $48.9 million and $34.2 million, respectively. The effects on net income for the years ended December 31, 2011 and 2010 were immaterial.

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, 2011 and 2010, 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, 2011 and 2010, 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".

As of December 31, 2011, the Association had approximately $78 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 the December 31, 2011, the balance in the Trust Fund is approximately $146.6 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 are estimated to be $2.4 billion by the Association's actuary as of December 31, 2011. If the ultimate loss projection changes in the future it could have a significant 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.

As described in Note 19 to the statutory financial statements, the Association restated its 2010 statutory financial statements at the request of the Texas Department of Insurance. These corrections had a zero impact to surplus.

Calhan, Thomson & Matza, LLP

June 29, 2012

Texas Windstorm Insurance Association

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

(Amounts in Thousands)

December 31,		**2011**		2010 (Restated)
Admitted Assets				
Cash and short-term investments	**$**	**474,693**	$	504,857
Amounts recoverable from reinsurers		**16,121**		32,097
Other		**630**		761
	$	**491,444**	$	537,715
Liabilities, Surplus and Other Funds				
Liabilities:				
Loss and loss adjustment expenses	**$**	**248,336**	$	240,939
Underwriting expenses payable		**4,215**		2,034
Unearned premiums		**159,588**		185,996
Ceded reinsurance premiums payable, net of ceding commissions		**26,883**		28,154
Funds held by Company under reinsurance treaties		**-**		8,326
Provision for reinsurance		**15,055**		1,266
Statutory fund payable		**24,666**		67,668
Other liabilities		**12,701**		3,332
Total liabilities		**491,444**		537,715
Commitments and contingencies (Notes 7, 8, 9, 13, 14 and 15)				
Surplus and other funds:				
Unassigned surplus		**-**		-
	$	**491,444**	$	537,715

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,	**2011**	2010 (Restated)
Underwriting income:		
Premiums earned	**$ 385,000**	$ 383,424
Premiums ceded	**(63,219)**	(31,694)
Net premiums earned	**321,781**	351,730
Deductions:		
Losses and loss expenses incurred	**202,539**	252,685
Underwriting expenses incurred	**81,665**	85,598
Total underwriting deductions	**284,204**	338,283
Net underwriting gain	**37,577**	13,447
Investment income:		
Net investment income earned	**291**	327
Other income (loss):		
Other income (loss)	**173**	(1,249)
Net income before statutory fund cost and federal income tax expense (benefit)	**38,041**	12,525
Statutory fund cost	**20,587**	16,808
Net income (loss) before federal income tax expense (benefit)	**17,454**	(4,283)
Federal income tax expense (benefit)	**25**	(57,927)
Net income	**$ 17,429**	$ 53,644

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, 2010	$ -
Net income	53,644
Change in deferred income taxes	230,895
Change in nonadmitted assets	(283,453)
Change in provision for reinsurance	(804)
Other	(282)
Balance at December 31, 2010 (Restated)	-
Net income	17,429
Change in deferred income taxes	21,204
Change in nonadmitted assets	(24,870)
Change in provision for reinsurance	(13,788)
Other	25
Balance at December 31, 2011	$ -

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,	**2011**	2010 (Restated)
Cash from operations:		
Premiums collected, net of reinsurance	**$ 296,965**	$ 313,570
Net investment income	**276**	327
Miscellaneous income	**210**	452
Benefit and loss related payments	**(157,294)**	(26,154)
Commissions, expenses paid and aggregate write-ins for deductions	**(164,944)**	(160,027)
Federal income taxes paid	**(25)**	(41,124)
Net cash from operations	**(24,812)**	139,353
Cash from financing and miscellaneous sources:		
Other cash applied	**(5,352)**	13,491
Net cash from financing and miscellaneous sources	**(5,352)**	13,491
Net change in cash and short-term investments	**(30,164)**	152,844
Cash and short-term investments, beginning of year	**504,857**	352,013
Cash and short-term investments, end of year	**$ 474,693**	$ 504,857

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 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.

Texas Windstorm Insurance Association

Summary of Significant Accounting Policies
(Amounts in Thousands)

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 Plan;

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 Plan to be sued on disputed claims;

establish an alternative certification program to maintain coverage with the Plan 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.

Amendments are currently proposed to amend the plan of operation and address these legislative changes for the funding of losses

Texas Windstorm Insurance Association

Summary of Significant Accounting Policies
(Amounts in Thousands)

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.

The Association has a catastrophe excess of loss reinsurance agreement and pursuant to NAIC statutory accounting practices, the Association is required to recognize reinsurance premium according to the terms of the agreement. The Association received a permitted practice from the Texas Department of Insurance which allowed the Association to recognize the reinsurance premium over the one year term of the reinsurance agreement and set up an unearned ceded premium for the unrecognized portion. The impact to Unassigned Surplus on the Association due to the permitted practice is an increase of $7.4 million.

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) Defined pension liability excludes non-vested employees' rather than including vested and non-vested employee obligations.

e) 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.

f) 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.

Texas Windstorm Insurance Association

Summary of Significant Accounting Policies
(Amounts in Thousands)

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 2008, 2009, and 2010.

For 2007, the Association has extended the statute of limitations until July 31, 2013.

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.

Texas Windstorm Insurance Association

Summary of Significant Accounting Policies
(Amounts in Thousands)

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
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.

Reclassification
Certain prior year amounts have been reclassified to conform to current year presentation.

(Amounts in Thousands)

1. Cash and Short-Term Investments

Cash and short-term investments are as follows:

December 31,		2011		2010
Cash	$	**374,629**	$	293,674
Short-term investments		**100,064**		211,183
	$	**474,693**	$	504,857

2. Furniture and Equipment

Furniture and equipment consist of the following:

December 31,		2011		2010
Furniture and equipment	$	**1,200**	$	1,106
Electronic data processing equipment and software		**7,930**		3,516
		9,130		4,622
Less: accumulated depreciation		**(4,515)**		(3,840)
		4,615		782
Less: non-admitted furniture and equipment		**(4,615)**		(782)
	$	**-**	$	-

Depreciation expense was approximately $675 and $755 for the years ended December 31, 2011 and 2010, respectively.

3. Reinsurance

During 2008, the Association entered into a reinsurance agreement. This agreement reduced 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, 2008, the catastrophe excess of loss reinsurance agreement provided the Association with three layers of coverage. The first layer provided 100% participation of $500 million in excess of $600 million. The second layer provided 100% participation of $500 million in excess of $1.1 billion. The third layer provided 100% participation of $500 million in excess of $1.6 billion. This agreement expired on May 31, 2009.

During 2011, the Association entered into a reinsurance agreement. This agreement reduces 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").

(Amounts in Thousands)

Effective June 1, 2011, 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 $1.6 billion each Loss Occurrence, subject to a limit of liability to the Reinsurer of $636 million each Loss Occurrence. Furthermore, the Reinsurer's liability for all Loss Occurrences commencing during the term of this Contract shall not exceed $1.272 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, together with the TDI, 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, 2011 and 2010:

	Name of reinsurer	2011	2010 (Restated)
13-4924125	Munich Reinsurance America, Incorporated	$ *	$ 13,459
AA-1127414	Lloyd's Underwriter Syndicate No. 1414 RTH	*	3,826
AA-3190686	Partner Reinsurance Company Ltd	**2,597**	985
25-1149494	Lexington Insurance Company, Pembroke	*	3,589
AA-1126435	Lloyd's Underwriter Syndicate No. 0435 FDY	*	2,019
AA-3190339	Renaissance Reinsurance Ltd	**1,880**	*
AA-1126006	Liberty Syndicate Paris	*	2,692
AA-1120083	Lloyd's Underwriter Syndicate No. 1910 ARW	*	1,393
AA-3194139	Axis Capital Holdings Limited	**1,410**	*
AA-3194122	DaVinci Reins. thru Underwriters Managers	**1,253**	*
AA-1840000	Mapfe Compania de Reaseguros S.A.	*	1,009
AA-3190829	Alterra Bermuda Ltd	**1,098**	*
AA-1129000	Lloyd's Underwriter Syndicate No. 3000 MLK	*	957
AA-1126318	Lloyd's Underwriter Syndicate No. 0318 MSP	*	957
AA-1127400	Lloyd's Underwriter Syndicate No. 1400 DRE	*	957
AA-1126780	Lloyd's Underwriter Syndicate No. 0780 ADV	*	949
AA-1128001	Lloyd's Underwriter Syndicate No. 2001 AML	**940**	1,908
AA-3190770	Ace Tempest Reinsurance Limited	**909**	*

(Amounts in Thousands)

AA-1126033	Lloyd's Underwriter Syndicate No. 0033 HIS	**877**	1,908
AA-1127414	Lloyd's Underwriter Syndicate No. 1414 ASC	**877**	*
AA-3190875	Hiscox Ltd	**862**	*
22-2005057	Everest Reinsurance Company	**783**	7,188
AA-3190873	Ariel Reinsurance Company Ltd	**705**	*
AA-1464104	Allianz Risk Transfer AG	**705**	*
47-0698507	Odyssey America Reinsurance Corporation	**689**	3,028
AA-3194129	Montpellier Reinsurance Ltd.	**549**	*
AA-1460006	Flagstone Reinsurance Limited	**470**	*
AA-1460019	Amin Bermuda Ltd	**470**	*
AA-3190757	XL Capital Limited	**470**	*
AA-1126004	Lloyd's Underwriter Syndicate No. 4444 CNP	*	380
AA-1128010	Lloyd's Underwriter Syndicate No. 2010 MMX	*	331
13-1675535	Swiss Re Underwriters Agency, Inc.	**313**	4,038
AA-1128003	Lloyd's Underwriter Syndicate No. 2003 SJC	**313**	1,908
AA-1128791	Lloyd's Underwriter Syndicate No. 2791 MAP	**313**	1,908
AA-3194161	Catlin Insurance Company Ltd	**313**	*
AA-3190870	Validus Holdings Limited	**313**	279
AA-3190838	Tokio Millennium Re Ltd	**313**	*
AA-3194168	Aspen Insurance Ltd	**282**	*
AA-1464100	Marsh (Scor)	**267**	*
13-5616275	Transatlantic Reinsurance Company	**235**	4,486
AA-1127301	Lloyd's Underwriter Syndicate No. 1301 BGT	*	190
AA-1440076	Sirus International Corporation	**157**	2,019
AA-3194126	Arch Reinsurance Ltd	**125**	*
23-1641984	QBE Reinsurance Company	**94**	1,009
AA-1120102	Lloyd's Underwriter Syndicate No. 1458 RNR	**94**	*
AA-3190972	Torus Insurance Ltd	**89**	*
AA-1126727	Lloyd's Underwriter Syndicate No. 0727 SAM	**79**	287
AA-1127084	Lloyd's Underwriter Syndicate No. 1084 CSL	**79**	1,141
AA-1120075	Lloyd's Underwriter Syndicate No. 4020 ARK	**79**	*
AA-5420050	Korean Reinsurance Company	**79**	*
AA-1340125	Hannover Ruckversicherung	**79**	*
AA-1126626	Lloyd's Underwriter Syndicate No. 0626 IRK	**79**	*
AA-1120116	Lloyd's Underwriter Syndicate No. 3902 NOA	**79**	*
AA-1128623	Lloyd's Underwriter Syndicate No. 2623 AFB	**64**	1,544
AA-1120085	Lloyd's Underwriter Syndicate No. 1274 AUL	**63**	1,433
AA-1120071	Lloyd's Underwriter Syndicate No. 2007 NVA	**63**	*
35-6021485	Paladin Catastrophe Management O/b/p Protect	**23**	*
AA-1126570	Lloyd's Underwriter Syndicate No. 0570 ATR	**15**	*

(Amounts in Thousands)

AA-1126623	Lloyd's Underwriter Syndicate No. 0623 AFB	**15**		363
AA-1127225	Lloyd's Underwriter Syndicate No. 1225 AES	**15**		*
AA-1126807	Lloyd's Underwriter Syndicate No. 0807SDM	**13**		*
Total		**$ 21,589**	$	68,140

The effect of reinsurance on premiums written and earned for the years ended December 31, 2011 and 2010 is as follows:

	2011		2010 (Restated)	
	Written	**Earned**	Written	Earned
Direct	**$ 403,748**	**$ 385,000**	$ 385,550	$ 383,424
Ceded	**(108,375)**	**(63,219)**	(31,694)	(31,694)
Net	**$ 295,373**	**$ 321,781**	$ 353,856	$ 351,730

During 2011 and 2010, the Association recovered approximately $228 million and $460 million, respectively, of paid losses and loss adjustment expenses relating to reinsurance contracts.

4. Ceded Reinsurance Premiums Payable

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

December 31,		**2011**		2010 (Restated)
Ceded reinsurance premiums payable	**$**	**29,142**	$	30,519
Reinsurance ceding commissions receivable		**(2,259)**		(2,365)
	$	**26,883**	$	28,154

5. Unearned Premiums

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

December 31,		**2011**		2010
Gross unearned premiums	**$**	**204,744**	$	185,996
Ceded unearned premiums		**(45,156)**		-
	$	**159,588**	$	185,996

(Amounts in Thousands)

6. Loss and Loss Adjustment Expenses

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

	2011	2010 (Restated)
Beginning balance (net of reinsurance receivable of $228,634 and $386,128)	$ **240,939**	$ 31,687
Incurred related to:		
Current loss year	**107,743**	18,764
Prior loss years	**94,796**	233,921
Losses and loss adjustment expense incurred	**202,539**	252,685
Paid related to:		
Current loss year	**(88,265)**	(13,238)
Prior loss years	**(106,877)**	(30,195)
Paid losses and loss adjustment expense	**(195,142)**	(43,433)
Ending balance (net of reinsurance receivable of $0 and $228,634)	$ **248,336**	$ 240,939

The December 31, 2011 direct loss and LAE reserves increased approximately $7.4 million from 2010. This increase in reserves was the net result of settlement of prior year claims from storms IKE and Dolly and 2011 current year activity. Ike's ultimate incurred losses and LAE expenses increased by approximately $97 million, while Dolly's ultimate incurred losses decrease by approximately $5 million. Payment of Ike and Dolly claims were approximately $101 million, decreasing reserves in 2011 by $4 million. The majority of the approximately $108 million of 2011 current accident year incurred losses and loss adjustment expenses relate to a hailstorm in the Robstown, Texas area in January 2011. The Association feels that the loss and LAE reserves as of December 31, 2011 make a reasonable provision for Texas Windstorm Insurance Association's claim liabilities.

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.

The Association accrued $20.6 million and $16.8 million of statutory fund costs for the year ended December 31, 2011 and 2010, respectively.

(Amounts in Thousands)

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.

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,		**2011**		2010
Change in Projected Benefit Obligations for Vested Participants:				
Benefit obligation at beginning of year	**$**	**8,061**	$	6,132
Service cost		**711**		781
Interest cost		**416**		387
Actuarial(gain) loss		**(55)**		848
Benefits paid		**(92)**		(87)
Projected benefit obligation at end of year		**9,041**		8,061
Change in Plan Assets				
Fair value of plan assets at beginning of year		**4,853**		3,610
Actual return on plan assets		**149**		570
Employer contributions		**1,138**		760
Benefits paid		**(92)**		(87)
Fair value of plan assets at end of year		**6,048**		4,853
Funded Status				
Unrecognized net loss		**(2,678)**		(2,568)
Accrued benefit obligation for vested employees	**$**	**(315)**	$	(641)
Accumulated Benefit Obligation for Vested Participants	**$**	**7,488**	$	6,318
Benefit Obligation for Non-Vested Employees				
Projected benefit obligation	**$**	**614**	$	469

(Amounts in Thousands)

Years ended December 31,		**2011**		2010
Components of Net Periodic Benefit Costs				
Service costs	**$**	**711**	$	781
Interest costs		**415**		387
Expected return on plan assets		**(425)**		(316)
Amount of loss recognized		**111**		185
Total net periodic benefit cost	**$**	**812**	$	1,037

Minimum Pension Liability

Accrual is required when actuarial present value of accumulated benefits exceeds plan assets and accrued pension liabilities. Minimum liability adjustment is reported as an adjustment to unassigned funds. At December 31, 2011 and 2010, additional minimum liability of $1,440 and $1,465 was required, respectively.

Pension Assumptions

December 31,	**2011**	2010
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	**5.75%**	6.00%
Rate of compensation increase	**4.00%**	4.00%
Expected long-term rate of return of plan assets	**8.00%**	8.00%
Weighted-average assumptions used to determine projected benefit obligations:		
Weighted-average discount rate	**5.25%**	6.00%
Rate of compensation increase	**4.00%**	4.00%

Measurement Date

A measurement date of December 31, 2011 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,	**2011**	2010
Equity securities	**50.8%**	55.6%
Debt securities	**46.7%**	42.5%
Real estate	**0.0%**	0.0%
Other	**2.5%**	1.9%
	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 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
2012	$	203
2013		262
2014		296
2015		345
2016		401
2017 - 2021		3,067

Planned Contributions

The Association expects to make contributions of $1,154 during the year ending December 31, 2012,

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 $317 and $288 for the years ended December 31, 2011 and 2010, respectively.

(Amounts in Thousands)

9. Lease Commitments

The Association leases office space under a non-cancellable operating lease agreement which expires in 2013. 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, 2011:

Years ending December 31,		Amount
2012	$	605
2013		69
2014		-
2015		-
2016 and thereafter		-
	$	674

Rental expense under the non-cancelable operating lease was approximately $952 and $701 for the years ended December 31, 2011 and 2010, respectively.

10. Federal Income Taxes

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

December 31, 2011	Ordinary	Capital	Total
Gross deferred tax assets	$ **266,039**	$ -	$ **266,039**
Statutory valuation allowance adjustment	-	-	-
Adjusted gross deferred tax assets	**266,039**	-	**266,039**
Deferred tax liabilities	-	-	-
Net deferred tax asset	**266,039**	-	**266,039**
Deferred tax assets nonadmitted	**266,039**	-	**266,039**
Net admitted deferred tax assets	$ -	$ -	$ -

December 31, 2010	Ordinary	Capital	Total
Gross deferred tax assets	$ 244,835	$ -	$ 244,835
Statutory valuation allowance adjustment	-	-	
Adjusted gross deferred tax assets	244,835	-	244,835
Deferred tax liabilities	-	-	
Net deferred tax asset	244,835	-	244,835
Deferred tax assets nonadmitted	244,835	-	244,835
Net admitted deferred tax assets	$ -	$ -	$ -

Change	Ordinary	Capital	Total
Gross deferred tax assets	$ 21,204	$ -	$ 21,204
Statutory valuation allowance adjustment	-	-	-
Adjusted gross deferred tax assets	21,204	-	21,204
Deferred tax liabilities	-	-	-
Net deferred tax asset	21,204	-	21,204
Deferred tax assets nonadmitted	21,204	-	21,204
Net admitted deferred tax assets	$ -	$ -	$ -

The Association has not elected to admit additional DTAs pursuant to SSAP 10R, paragraph 10(e).

The amount of each result or component of the calculation, by tax character, of paragraphs 10a, 10bi, 10bii, and 10c:

December 31, 2011	Ordinary	Capital	Total
Recovered through loss carrybacks (10a)	$ -	$ -	$ -
Lesser of 10bi or 10bii:			
Expected to be recognized within 1 year (10bi)	-	-	-
10% of adjusted capital and surplus (10bii)	XXX	XXX	-
Adjusted gross DTAs offset against existing DTLs (10c)	-	-	-
Total	$ -	$ -	$ -
Total adjusted capital			$ -
Authorized control level			$ -

(Amounts in Thousands)

December 31, 2010	Ordinary	Capital	Total
Recovered through loss carrybacks (10a)	$ -	$ -	$ -
Lesser of 10bi or 10bii:			
Expected to be recognized within 1 year (10bi)	-	-	-
10% of adjusted capital and surplus (10bii)	XXX	XXX	-
Adjusted gross DTAs offset against existing DTLs (10c)	-	-	-
Total	$ -	$ -	$ -
Total adjusted capital			$ -
Authorized control level			$ -

The following amounts resulting from the calculation in paragraphs 10a, 10b, and 10c:

December 31,	**2011**	2010 (Restated)
Admitted deferred tax assets	**$ -**	$ -
Admitted assets	**$ 491,444**	$ 537,715
Adjusted statutory surplus as stated in most recently filed statement	**$ -**	$ -
Total adjusted capital from DTAs	**$ -**	$ -

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,	**2011**	2010	Change
Federal	**$ 25**	$ (57,926)	$ 57,951
Foreign	**-**	-	-
Realized capital gains	**-**	-	-
Federal and foreign income taxes incurred	**$ 25**	$ (57,926)	$ 57,951

(Amounts in Thousands)

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,	**2011**	2010	Change
Deferred tax assets:			
Ordinary:			
Discount on unpaid losses and LAE	**$ 3,082**	$ 2,699	$ 383
Pension accrual	**489**	498	(9)
Net operating loss carry-forward	**262,468**	241,638	20,830
Total ordinary deferred tax assets	**266,039**	244,835	21,204
Nonadmitted deferred tax assets	**266,039**	244,835	21,204
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,	**2011**	2010
Provision computed at statutory rate	**$ 5,934**	$ (22,998)
Section 115(1) income	**(109,563)**	(116,787)
Accrual adjustments – prior year Section 115(1) income	**82,809**	(134,338)
Other	**(359)**	(14,698)
Total statutory income taxes	**$ (21,179)**	$ (288,821)

Years ended December 31,	**2011**	
Federal and foreign income taxes incurred	**$ 25**	$ (57,926)
Realized capital gains tax	**-**	-
Change in net deferred income taxes	**(21,204)**	(230,895)
Total statutory income taxes	**$ (21,179)**	$ (288,821)

(Amounts in Thousands)

At December 31, 2011, the Association has the following unused operating loss carryforwards available to offset against future taxable income:

Year		Amount
2011	$	306,410
2010		403,191
2009		-
2008	$	63,949

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, 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.

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 2011 and 2010 the Association paid expenses for the Texas Fair Plan Association under its management contract and was reimbursed $6,187 and $5,996 respectively for each year. As of December 31, 2011 and 2010, the Association incurred or paid expenses for which it has not been reimbursed of $2 and $77, respectively, on behalf of the Plan. These amounts are recognized in the statements of net assets as a receivable from TFPA.

13. Line of Credit

The Association has a $200 million line of credit with a bank. There were no balances outstanding as of December 31, 2011 or drawn against the line of credit for the years ended December 31, 2011 and 2010. This agreement was cancelled on May 18, 2012

(Amounts in Thousands)

14. 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.

15. 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 $78 billion, and $74 billion of insurance exposure as of December 31, 2011 and 2010, respectively.

16. Nonadmitted Assets

Nonadmitted assets consisted of the following:

December 31,	**2011**	2010
Premiums and other receivables	**$ 120**	$ 287
Federal income tax recoverable	**60,169**	60,169
Deferred tax asset	**266,039**	244,835
Furniture and equipment	**4,615**	782
Total nonadmitted assets	**$ 330,943**	$ 306,073

17. Fair Value Measurements

The estimated fair values and carrying values of the Association's financial instruments are as follows:

	2011		2010	
December 31,	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Cash and short-term investments	**$ 474,693**	**$ 474,693**	$ 504,857	$ 504,857

18. Reconciliation with Annual Statement

There were no differences between the 2011 amended annual statement and 2010 amended annual statement as filed with the Texas Department of Insurance and the 2011 and 2010 audited statutory financial statements.

19. Correction of an Error

The accompanying statutory financial statements for the year ended December 31, 2010 have been restated to adjust the allocation of paid loss adjustment expenses as it relates to hurricane Ike and the related reinsurance agreements which effected the following statutory statements of admitted assets, liabilities, surplus and other funds accounts: amounts recoverable from reinsurers, loss and loss adjustment expense reserves, ceded reinsurance premiums payable, funds held by company under reinsurance treaties, provision for reinsurance and statutory funds payable. Subsequent to the audit of the 2009 statutory financial statements, management provided additional information regarding the collateral for unauthorized reinsurance and a revised calculation of aged reinsurance recoverables. Consequently, the provision for reinsurance was overstated based on this revised information. The effect of this revised information on the 2010 restatement increased net income by approximately $63.3 million. The Association's unassigned surplus remained at $0.

20. Subsequent Events

The Association has evaluated subsequent events occurring after December 31, 2011, the date of the most recent balance sheet date, through June 29, 2012, 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.

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Independent Auditors' Report on Supplemental Material

Our audits of the statutory financial statements included in the preceding section of this report were performed for the purpose of forming an opinion on those statements taken as a whole. The supplemental material presented in the following section of this report is presented to comply with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and Texas State law. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors and the management of Texas Windstorm Insurance Association and for filing with the Texas Department of Insurance and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Calhoun, Thomson + Matza, LLP
Certified Public Accountants

June 29, 2012
Austin, Texas

Texas Windstorm Insurance Association

Summary Investment Schedule
December 31, 2011
(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, 2011
(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 cstate 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	474,693	100.0%	474,693	100.0%
Other invested assets	-	-	-	-
Total invested assets	$ 474,693	100.0%	$ 474,693	100.0%

**Gross investment holdings as valued in compliance with the NAIC Accounting Procedures Manual*

*** The Association has no securities lending reinvested collateral at December 31, 2011.*

See accompanying independent auditors' report on supplemental material.

Texas Windstorm Insurance Association

Supplemental Investment Risk Interrogatories

December 31, 2011

(Amounts in Thousands)

1)	Reporting entity's total admitted assets as reported in the accompanying financial statements.	$ 491,444

Questions 2 through 23 are not applicable.

See accompanying independent auditors' report on supplemental material.

Texas Windstorm Insurance Association

Reinsurance Interrogatories
December 31, 2011
(Amounts in Thousands)

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.

Texas Windstorm Insurance Association

Reinsurance Interrogatories
December 31, 2011
(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	$ 491,444	$ (16,121)	$ 475,323
Liabilities	491,444	3,218	494,662
Surplus as regards to policyholders	-	19,340	19,340
Income before taxes	17,454	54,115	71,569

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, 2008, the Association entered into a catastrophe excess of loss reinsurance agreement which provided the Association with three layers of coverage. The first layer provided 100% participation of $500 million in excess of $600 million. The second layer provided 100% participation of $500 million in excess of $1.1 billion. The third layer provided 100% participation of $500 million in excess of $1.6 billion. This agreement expired on May 31, 2010.

Effective June 1, 2011, 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 $1.6 billion each Loss Occurrence, subject to a limit of liability to the Reinsurer of $636 million each Loss Occurrence. Furthermore, the Reinsurer's liability for all Loss Occurrences commencing during the term of this Contract shall not exceed $1.272 billion.

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.

See accompanying independent auditors' report on supplemental material.

Texas Windstorm Insurance Association

Reinsurance Interrogatories
December 31, 2011
(Amounts in Thousands)

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.

APPENDIX B

EXCERPTS OF PROVISIONS OF PRINCIPAL DOCUMENTS

TABLE OF CONTENTS

Page

FIRST SUPPLEMENTAL RESOLUTION

FINANCING AND PLEDGE AGREEMENT

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, Locked Account Agreement and 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, Locked Account Agreement and 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 411, Austin, Texas 78701, (512) 463-5544.

DEFINITIONS

The following capitalized terms appearing in the Official Statement 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 this Master Resolution or any Supplemental Resolution.

"Act" means Chapter 2210, Texas Insurance Code, particularly Subchapters B-1, H, and M of such chapter, as amended.

"Annual Period" shall mean the calendar year or any consecutive twelve-month period.

"Association" means the Texas Windstorm Insurance Association or any successor thereto.

"Association Program" means the funding of 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 incurred loss claims and operating expenses of the Association;

(b) the payment of reinsurance for the Association;

(c) the payment of Costs of Issuance and Class 1 Administrative Expenses;

(d) the provision of a debt service reserve fund or account;

(e) the payment of capitalized interest on Class 1 Public Securities for a period determined necessary by the Association;

(f) the payment of private financial agreements entered into by the Association as temporary sources of payment of loss claims and operating expenses of the Association; and

(g) the reimbursement of the Association for any cost described by subdivisions (a)-(f) paid by the Association before issuance of public securities.

With respect to purposes identified above, proceeds of the Class 1 Public Securities may only be used to pay for such purposes attributable to or resulting from a Catastrophic Event. Excess proceeds from 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. Notwithstanding (b) of this definition, the proceeds from Pre Event Class 1 Public Securities, including Investment Income, may not be used to purchase reinsurance for the Association.

"Association Representative" means a person at the time designated to act on behalf of the Association for purposes of the Master 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 such individual designated by a written instrument containing the specimen signature of such person and signed on behalf of Authority by the Executive Director.

"Authorizing Law" means 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 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; Chapter 1371, Texas Government Code, as amended (applicable only when the public securities qualify as an "obligation" under such chapter); Subchapter E of Chapter 5 of Part I of Title 28 of the Texas Administrative Code, as amended; and any regulations promulgated by the Texas Public Finance Authority under the TPFA Act.

"Balloon Public Securities" means Long-Term Public Securities, except for the Initial Series of Public Securities, of a particular issue or Series of Class 1 Public Securities of which 25% or more of the principal or maturity amount matures in the same Annual Period and is not required by the documents pursuant to which Class 1 Public Securities were issued to be amortized by payment or redemption prior to that Annual Period; provided, however, that any such public securities will not constitute Balloon Public Securities and will be assumed to amortize in accordance with its stated terms if the Paying Agent/Registrar is provided a certificate of an Authority Representative certifying that such Class 1 Public Securities are not to be treated as Balloon Public Securities.

"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 render services to the Authority as bond counsel.

"Budgeted Operating Expenses" means all expenses associated with the operation of the Association, excluding expenses related to Catastrophic Losses, as budgeted for and approved by the Association's Board of Directors.

"Business Day" means:

(a) any day that is a day on which the Trust Company is open for business and:

(i) while the Authority is the Paying Agent/Registrar, on which the Authority is open for business at its principal business office; or

(ii) 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 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 how insured losses are ultimately paid.

"Catastrophic Event" means an occurrence or a series of occurrences that occurs in a Catastrophe Area during a calendar year and that results in insured losses and operating expenses of the Association in excess of Net Premium and Other Revenue of the Association.

"Catastrophic Losses" means losses resulting from a Catastrophic Event.

"Class 1 Administrative Expenses" means expenses incurred to administer Class 1 Public Securities issued under the Act, including Authority expenses, fees for credit enhancement, paying agents, trustees, and attorneys, and for other professional services.

"Class 1 Administrative Expenses Account" means the "Obligation Revenue Fund Class 1 Administrative Expenses Account" created and designated pursuant to Section 4.01 of the Master Resolution.

"Class 1 Coverage Test" shall have the meaning assigned to such term in Section 2.05(d) of the Master Resolution.

"Class 1 Debt Service Account" means the "Obligation Revenue Fund Class 1 Debt Service Account" created and designated pursuant to Section 4.01 of the Master Resolution.

"Class 1 Debt Service Reserve Account" means the "Obligation Revenue Fund Class 1 Debt Service Reserve Account" created and designated pursuant to Section 4.01 of the Master Resolution.

"Class 1 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 Class 1 Public Securities

and on each date on which a Class 1 Public Securities are paid at maturity or optionally or mandatorily redeemed, to be the Maximum Annual Class 1 Public Securities Obligations.

"Class 1 Pledged Revenues" means:

(a) Net Premium;

(b) Other Revenue;

(c) amounts on deposit in the Funds and Accounts created hereunder and in any Supplemental Resolution for the payment of Class 1 Public Securities Obligations, including Investment Income or earnings, if any, credited to such funds and accounts;

(d) any revenue received pursuant to the exercise of any rights and remedies of the Authority under the Financing and Pledge Agreement and the Funds Management Agreement; and

(e) any additional revenues hereafter designated as Class 1 Pledged Revenues which are lawfully available to pay Class 1 Public Securities Obligations and Class 1 Administrative Expenses.

"Class 1 Post-Event Costs of Issuance Account" means the "Class 1 Program Fund Post-Event Costs of Issuance Account" created and designated pursuant to Section 4.02 of the Master Resolution.

"Class 1 Post-Event Program Account" means the "Class 1 Program Fund Post-Event Program Account" created and designated pursuant to Section 4.02 of the Master Resolution.

"Class 1 Pre-Event Costs of Issuance Account" means the "Class 1 Program Fund Pre-Event Costs of Issuance Account" created and designated pursuant to Section 4.02 of the Master Resolution.

"Class 1 Pre-Event Program Account" means the "Class 1 Program Fund Pre-Event Program Account" created and designated pursuant to Section 4.02 of the Master Resolution.

"Class 1 Premium Revenue Account" means the "Obligation Revenue Fund Class 1 Premium Revenue Account" created and designated in Section 4.01 of the Master Resolution.

"Class 1 Program Fund" means the "Texas Public Finance Authority Texas Windstorm Insurance Association Class 1 Program Fund" created pursuant to Section 4.02 of the Master Resolution.

"Class 1 Public Securities" means Pre-Event Class 1 Public Securities and Post-Event Class 1 Public Securities.

"Class 1 Public Securities Obligations" means, with respect to any particular Annual Period and any Series of Class 1 Public Securities, an amount equal to the sum of:

(a) all interest payable on the Class 1 Public Securities during such period, except to the extent that such interest is to be paid from amounts (including any Investment Income) deposited in the Class 1 Debt Service Account for the respective Class 1 Public Securities for the purpose of providing capitalized interest, plus

(b) that portion of the principal amount of such Class 1 Public Securities 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 Class 1 Public Securities during such period, plus

(d) any amount owed under a Credit Agreement relating to such Class 1 Public Securities;

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 Class 1 Public Securities Obligations or the requirement under Article IV of the Master Resolution relating to the deposit of sufficient Class 1 Pledged Revenues to the Class 1 Debt Service Account to fund anticipated Class 1 Public Securities Obligations during any such calendar year:

(i) Interest and principal for any Series of the Class 1 Public Securities shall be calculated on the assumption that no Class 1 Public Securities 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) Unless otherwise provided for in a supplemental resolution, interest and principal for any Class 1 Public Securities issued as Balloon Public Securities, Interim Public Securities, or Short-Term Public Securities shall be treated as if such Class 1 Public Securities are to be amortized in substantially equal annual installments of principal and interest, over a period of 14 years following the date of issuance of such Class 1 Public Securities; provided, however, during the Annual Period preceding the final Stated Maturity Date of such Balloon Public Securities or Interim Public Securities and, in the case of Short-Term Public Securities in each Annual Period, all of the principal thereof shall be considered to be due on the Stated Maturity Date or due date of such Balloon Public Securities, Interim Public Securities, or Short-Term Public Securities unless the Authority intends to refund such public securities and provides to the Paying Agent/Registrar, prior to the beginning of such Annual Period, a certificate of the Financial Advisor certifying that, in its judgment, the Authority will be able to refund such Balloon Public Securities, Interim Public Securities, or Short-Term Public Securities through the issuance of Long-Term Public Securities, in which event the Balloon Public Securities, Interim Public Securities, or Short-Term Public Securities shall be amortized over the term of such proposed refunding public securities and shall be deemed to bear the interest rate specified in the certificate of the Financial Advisor.

(iii) Interest and principal for any Class 1 Public Securities issued as Short-Term Public Securities in the form of commercial paper or other similar public security shall be calculated on the assumption that all such commercial paper shall be continuously refinanced with other Class 1 Public Securities issued as commercial paper, bearing interest as provided in (v) below, so as to permit approximately equal annual amortization of Class 1 Public Securities Obligations on such commercial paper to be due

and payable over a period of 14 years following the date of issuance of such commercial paper.

(iv) Interest on Class 1 Public Securities that may vary due to the occurrence or nonoccurrence of an future event, such as a rating or rating change, shall be deemed to be the highest rate allowable within the applicable interest rate mode or period.

(v) Except as provided in (vi) below, the Class 1 Public Securities Obligations for any Variable Rate Class 1 Public Securities, or Class 1 Public Securities Obligations that will at some future date, bear interest at a rate or rates to be determined or which will be subject to conversion to an interest rate or interest rate mode such that rates cannot then be ascertained shall be deemed to bear interest at the higher of:

(A) a long-term interest rate estimated by the Authority or its Financial Advisor to be the average rate of interest such Class 1 Public Security would bear if issued as long-term obligations bearing interest at fixed interest rates to be amortized over the remaining term of such Class 1 Public Security;

(B) a short-term interest rate equal to 150% of the average interest rate borne by the Variable Rate Class 1 Public Securities during the 12 month period (or such lesser period if such public securities have not been Outstanding for 12 months) ending within 30 days prior to the Date of Calculation; or

(C) a rate to be determined by the Authority or its Financial Advisor based on current market conditions.

(vi) Amounts payable and/or receivable by the Authority under Credit Agreements may be combined with payments of Class 1 Public Securities Obligations on any Series of Class 1 Public Securities to which the Credit Agreement relates. In such event, the Authority or its Financial Advisor shall prepare a combined calculation of Class 1 Public Securities Obligations with respect to the amounts payable and/or receivable under the Credit Agreement and the amounts of interest payable under the Class 1 Public Securities to which it relates, and in such calculation may offset amounts receivable by the Authority under the Credit Agreement against interest payable on related Class 1 Public Securities. Any remaining (i.e., not offset) payment obligations of the Authority under the Credit Agreement, excluding, however, any termination payments arising under such Credit Agreement, shall be treated as payments of interest for purposes of computing Class 1 Public Securities Obligations and shall be calculated at the rate provided in such Credit Agreement the same as if it were an interest rate on Class 1 Public Securities, and if such rate is variable or otherwise not ascertainable at the time of calculation, shall be estimated by the Authority or its Financial Advisor in the same manner as herein provided for the estimation of Class 1 Public Securities Obligations on Class 1 Public Securities bearing interest at variable rates or rates not ascertainable at the time of calculation. If not combined with payments of Class 1 Public Securities Obligations on Class 1 Public Securities set forth above, amounts payable and/or receivable by the Authority under any Credit Agreements shall include only the net

amount payable and/or receivable for purposes of computing Class 1 Public Securities Obligations.

(vii) Interest accreting on Class 1 Public Securities issued as capital appreciation bonds shall be treated as principal payable at maturity of such Class 1 Public Securities.

(viii) 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).

(ix) 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 Class 1 Debt Service Account, shall reduce Class 1 Public Securities Obligations on Class 1 Public Securities during such calendar year or other period of calculation.

"Class 1 Redemption Account" means the "Obligation Revenue Fund Class 1 Redemption Account" created and designated pursuant to Section 4.01 of the Master Resolution.

"Class 2 Public Securities" means public securities authorized and issued pursuant to Sections 2210.073, 2210.613, and 2210.6136 of the Act.

"Class 2 Repayment Obligations" means repayment obligations for Class 2 Public Securities subject to repayment from Net Premium and Other Revenue under Section 2210.6136(b) 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 of Texas.

"Contractual Coverage Amount" means the minimum amount of Net Premium and Other Revenue over the annual Class 1 Public Securities Obligations that the Association is required to deposit into the Obligation Revenue Fund as security for the payment of Class 1 Public Securities Obligations and Class 1 Administrative Expenses.

"Costs of Issuance" means the items of expense payable or reimbursable directly or indirectly by the Authority and related to the issuance of public securities, which items of expense shall include without limiting the generality of the foregoing: travel expenses; printing costs; costs of reproducing documents; computer fees and expenses; filing and recording fees; initial fees and charges of paying agent/registrars, the Trust Company, any securities depository, tender agents, remarketing agents, and any authenticating agents; initial fees and charges of providers of credit agreements and surety policies, or other parties pursuant to remarketing, indexing, or similar agreements; discounts; legal fees and charges, including bond counsel, disclosure counsel, and underwriters' counsel; consulting fees and charges; auditing fees and expense; credit insurance; financial advisors' fees and charges; costs of credit ratings; insurance premiums; fees and charges for execution, transportation, and safekeeping of public securities; underwriters' compensations; expenses and fees of the Authority associated with the public securities, and

initial fees of any arbitrage consultants; and other costs of issuing and investing the proceeds of the 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 authorized by Chapter 1371, Texas Government Code, as amended, including a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitment to purchase obligations, purchase of sale agreement, interest rate management agreement, or other commitment or agreement authorized by the Board in anticipation of, related to, or in connection with remarketing, or redemption of some or all of the Class 1 Public Securities or interest on such public securities, or both, or as otherwise authorized by Chapter 1371, Texas Government Code, as amended.

"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 Class 1 Public Securities.

"Date of Calculation" means the fifth Business Day of each calendar month and at such other times as may be required by the Financing and Pledge Agreement or in a Supplemental Resolution.

"Department" means the Texas Department of Insurance or any successor thereto.

"Department Agreement" means the Department Agreement among the Department, the Association, and the Authority, as it may be amended and supplemented from time to time.

"Department Rules" means rules promulgated by the Department relating to public securities located in Title 28, Part I, Chapter 5, Subchapter E of the Texas Administrative Code, as amended.

"Deposit Amount" means $95,850,000, which constitutes lawfully available revenue of the Association.

"Depository Bank" means the bank or financial institution 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 Class 1 Program Fund held by the Trust Company.

"DTC" means The Depository Trust Company of New York, New York, or any successor securities depository.

"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.

"Excess Class 1 Pledged Revenues" means the amount of the Class 1 Pledged Revenues that is determined to be available from time to time for deposit into the Class 1 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 Advisor" means the financial advisory or investment banking firm or firms of nationally recognized experience in municipal bonds selected by the Authority to act as the financial advisor to the Authority.

"Financing and Pledge Agreement" means the Financing and Pledge Agreement (Class 1 Public Securities) 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.

"First Supplemental Resolution" means the First Supplemental Resolution, approved by the Board pursuant to the Master Resolution, which authorizes the issuance of the Series 2012 Notes.

"Fitch" means Fitch Ratings, Inc., and its successors and assigns.

"Funds" mean, collectively, the Obligation Revenue Fund and each account created therein, and the Class 1 Program Fund and each account created therein pursuant to the Master Resolution or any Supplemental Resolution.

"Funds Management Agreement" means the Funds Management Agreement between the Authority and the Trust Company providing for the administration of the proceeds of the Class 1 Public Securities and the availability of Class 1 Pledged Revenues for the payment of the Class 1 Public Securities Obligations, as it may be amended and supplemented from time to time by any supplemental funds management agreement relating to the Association Program.

"General Counsel" means the general counsel of the Authority.

"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 received by the Association less premium returned to policyholders for cancelled or reduced policies.

"Initial Rate" means the fixed rate of 1.00% per annum; provided, however, in the event that the Authority does not (i) receive long-term ratings on the Series 2012 Notes equivalent to an "A" category or better by two Rating Agencies or (ii) receive the highest short-term ratings on the Series 2012 Notes by two Rating Agencies, within 60 days of the Issuance Date, then on the 61st day following the Issuance Date, the Initial Rate shall increase to 2.50% per annum.

"Initial Series of Class 1 Public Securities" means the initial Series of Class 1 Public Securities issued and delivered by the Authority under this Master Resolution as authorized pursuant to a Supplemental Resolution.

"Interest Payment Date" means the Tender Date and thereafter semiannually on each August 1 and February 1.

"Interim Public Security" means Class 1 Public Securities, including commercial paper, notes, and similar Class 1 Public Securities (i) for or with respect to which no principal payments are required to be made other than on the Stated Maturity Date thereof, which date shall be no later than five years from the date of delivery of such public securities to their initial purchasers, and (ii) which are authorized by a Supplemental Resolution in which they are designated as "Interim Public Securities" that the Authority, on behalf of the Association, intends to refund, reissue, or refinance in whole or in part prior to the Stated Maturity Date.

"Investment Income" means income received from the investment of funds described herein.

"Issuance Date" means the date of delivery of a Series of Class 1 Public Securities to the initial purchaser or purchasers thereof against payment therefor as provided in a Supplemental Resolution.

"Locked Account Agreement" means the Locked Account Agreement between the Association and the Authority and any successor agreement thereto.

"Locked Account" means the depository account established by the Association at the Depository Bank pursuant to the terms of the Locked Account Agreement into which the Deposit Amount is deposited and maintained by the Association.

"Long-Term Public Securities" means all Obligations that are not Short-Term Public Securities or Interim Public Securities.

"Mandatory Sinking Fund Payment Date" means the date or dates on which the Authority is obligated to redeem all or a portion of the Series 2012 Notes in advance of the Stated Maturity Date in accordance with Section 5.02 of the First Supplemental Resolution.

"Master Resolution" means "A Master Resolution Authorizing the Issuance of Class 1 Public Securities on Behalf of the Texas Windstorm Insurance Association; Establishing the Security Therefor; Authorizing the Execution and Delivery of a Financing and Pledge Agreement, a Funds Management Agreement, and Other Documents in Connection Therewith; and Resolving Related Matters" adopted by the Board on July 9, 2012.

"Maximum Annual Class 1 Public Securities Obligations" means, as of the date of calculation, the greatest amount of Class 1 Public Securities Obligations for the current or any succeeding calendar year.

"Maximum Annual Class 1 Administrative Expenses" means, as of the date of calculation, the greatest amount of projected Class 1 Administrative Expense for the current or any succeeding calendar year.

"Minimum Retained Premium" means, with respect to cancellation of Association insurance coverage, the minimum retained premium specified in Section 2210.204(e) of the Act, currently not less than 90 days.

"Moody's" means Moody's Investors Service, Inc., and its successors and assigns.

"Net Premium" means Gross Premium, less Unearned Premium. Net premium includes Minimum Retained Premium.

"Obligation Revenue Fund" means the "Texas Public Finance Authority Texas Windstorm Insurance Association Obligation Revenue Fund" created and designated pursuant to the Act and Section 4.01 of the Master Resolution.

"Operating Account" means a depository account established by the Association at a Depository Bank.

"Operating Reserve Fund" means the operating reserve fund held by the Association or by the Trust Company on behalf of the Association for the payment of Scheduled Policy Claims and Budgeted Operating Expenses of the Association.

"Operating Reserve Requirement" means an amount required to be maintained in the Operating Reserve Fund, as may be required under a Supplemental Resolution.

"Other Revenue" means revenue of the Association from any other source other than Premium, and includes Investment Income on Association assets; however, Other Revenue does not include premium surcharges and member assessments collected pursuant to Sections 2210.259, 2210.613, 2210.6135, and 2210.6136 of the Act or Investment Income on such amounts.

"Outstanding" means, as of the date of determination, all Class 1 Public Securities delivered under this Master Resolution and any Supplemental Resolution, except:

(a) Class 1 Public Securities canceled and delivered to the Authority or delivered to the Paying Agent/Registrar, as applicable, for cancellation;

(b) Class 1 Public Securities upon transfer of or in exchange for and in lieu of which other Class 1 Public Securities have been delivered; and

(c) Class 1 Public Securities 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 Class 1 Public Securities, such term shall also include any Credit Provider for such Class 1 Public Securities.

"Paying Agent/Registrar" means initially, the Authority for the Class 1 Public Securities, and thereafter, any financial institution appointed by the Authority in accordance with the Master Resolution or any Supplemental Resolution for the Class 1 Public Securities as the paying agent/registrar for any Class 1 Public Security.

"Person" means any individual, partnership, corporation, trust, or unincorporated organization or any governmental entity.

"Plan of Operation" means rules adopted by the Commissioner under the Act providing for the implementation of the Act.

"Post-Event Class 1 Public Securities" means 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.

"Pre-Event Class 1 Public Securities" means public securities authorized and issued prior to the occurrence of a Catastrophic Event pursuant to Sections 2210.072 and 2210.612 of the Act.

"Premium" means amounts received in consideration for the issuance of Association insurance coverage; however, Premium does not include premium surcharges collect by the Association pursuant to Sections 2210.259, 2210.613, and 2210.6136 of the Act.

"Pricing Certificate" means a certificate executed by a Pricing Committee of the Authority pertaining to the issuance of a Series of Class 1 Public Securities.

"Proceeds" means any Sale Proceeds and Investment Proceeds of the 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 the Class 1 Public Securities are sold.

"Purchase Price" means, with respect to each Series 2012 Note (or any portion thereof) tendered for purchase pursuant to Article IV of the First Supplemental Resolution, the par amount thereof, plus accrued but unpaid interest thereon to the date of purchase.

"Purchaser" means Merrill Lynch, Pierce, Fenner & Smith Incorporated, its successors and assignees.

"Rating Agency" means Moody's, S&P, Fitch, or any other nationally recognized rating agency, except that if any such corporations shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Rating Agency" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

"Record Date" means the close of business on the 15th day of the calendar month next preceding an Interest Payment Date.

"Register" means the official registration records for the Class 1 Public Securities maintained by the Paying Agent/Registrar.

"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 Class 1 Public Securities.

"Required Monthly Debt Service Deposit" shall have the meaning assigned to such term in Section 4.04(a) of the Master Resolution.

"Reserve Account Surety Policy" means any reserve fund surety policy or bond, letter of credit, or other instrument, however denominated, provided by a financial institution or bond insurer with a rating equivalent to "AA" or higher by a Rating Agency, pursuant to which the Paying Agent/Registrar may draw to make a required transfer to any debt service account. Any Reserve Account Surety Policy shall be payable on demand of the Paying Agent/Registrar for the benefit of the Owners payable from such Funds.

"Resolution" means the Master Resolution as it may from time to time be amended, modified, or supplemented by a Supplemental Resolution.

"S&P" means Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business, and its successors and assigns.

"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.

"Scheduled Policy Claims" means that portion of the Association's Earned Premium and Other Revenue expected to be paid in connection with the disposition of losses that do not result from a Catastrophic Event.

"Securities Depository" means any Person acting as a securities depository for the Book-Entry Public Securities.

"Series" means any Class 1 Public Securities identified as a separate series in a Pricing Certificate or Supplemental Resolution, which is authenticated and delivered on an Issuance Date, and thereafter authenticated in lieu of or in substitution for such Class 1 Public Securities pursuant to this Master Resolution.

"Series 2012 Note" means any of the Series 2012 Notes.

"Series 2012 Notes" means the "Texas Public Finance Authority Class 1 Revenue Notes (Texas Windstorm Insurance Association Program), Taxable Series 2012" authorized by Section 2.05 of the Master Resolution and Section 3.01 of the First Supplemental Resolution.

"Short-Term Public Securities" means all Class 1 Public Securities that mature in less than 365 days. In the event a Credit Provider has extended a line of credit or the Authority has undertaken a

commercial paper or similar program, only amounts actually borrowed under such line of credit or program and repayable in less than 365 days shall be considered Short-Term Public Securities and the full amount of such commitment or program shall not be treated as Short-Term Public Securities to the extent that such facility remains available but undrawn.

"State" means the State of Texas.

"Stated Maturity Date" means August 1, 2015.

"Sufficient Assets" means any combination of the following:

(a) an amount of money sufficient, without investment, to pay such Class 1 Public Securities 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 Class 1 Public Securities Obligations when due; and

(iii) have been verified by an independent firm of nationally recognized certified public accountants or such other accountant acceptable to the Credit Provider verifying the sufficiency of the Government Obligations.

"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 Class 1 Public Securities, or (ii) any other purposes permitted by Article VI of the Master Resolution.

"Tender Agent" means any tender agent for a Series of Class 1 Public Securities and its successors appointed pursuant to a Supplemental Resolution when and as adopted by the Board.

"Tender Date" means February 1, 2013.

"Term Rate" means, (a) if on or before the Tender Date, the Authority receives long-term ratings on the Series 2012 Notes equivalent to an "A" category or better by two Rating Agencies, the fixed rate of 8.00% per annum or (b) if such ratings are not received on or before the Tender Date, the fixed rate of 10.00% per annum.

"Term Rate Notes" means any of the Series 2012 Notes bearing interest at the Term Rate.

"Term Rate Period" means the period of time from the Tender Date to the Stated Maturity Date.

"Transaction Documents" means collectively, the Master Resolution, and any other document entered into in connection with the issuance of Class 1 Public Securities, including but not limited to, a Supplemental Resolution, a Funds Management Agreement, a Purchase Contract, a Financing and Pledge Agreement, the Department Agreement, the Class 1 Public Securities, and, if applicable, a Remarketing Agreement, a Tender Agent Agreement, a Credit Agreement, and a Paying Agent/Registrar Agreement.

"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 any other purpose related to the Class 1 Public Securities.

"Unearned Premium" means that portion of Gross Premium that has been collected in advance for insurance that has not yet been earned by the Association that is applicable to the unexpired portion of the time for which the insurance policy was in effect.

"Unencumbered Proceeds" means, on or after the occurrence of a Catastrophic Event, proceeds of the Series 2012 Note that will not be used by the Association to pay Catastrophic Losses, which Catastrophic Losses shall be estimated in the General Manager's written statement to the Commissioner not later than January 25, 2013.

"Variable Rate Class 1 Public Securities" means any Class 1 Public Securities issued with variable rates of interest.

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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;

(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, the Association, 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 of a Series of Pre-Event Class 1 Public Securities by the Commissioner, 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 of a Series of Post-Event Class 1 Public Securities by the Commissioner, 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 Class 1 Public Securities. All Class 1 Public Securities issued under this Master Resolution shall be authorized and identified in a Supplemental Resolution. Any Supplemental Resolution shall specify the manner of sale, designations as Long-Term Public Securities or Short-Term Public Securities, mode, the use of proceeds, the form and denomination, and such other details, terms, conditions and provisions of such Class 1 Public Securities, as the Board deems appropriate and as do not conflict with this Master Resolution, the Authorizing Law, or any Credit Agreement then in effect. Class 1 Public Securities 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 Class 1 Public Securities. (a) Pursuant to the Financing and Pledge Agreement, the Association has irrevocably pledged and assigned all rights, title, and interest in the Class 1 Pledged Revenues to the Authority. According to such assignment and the authority granted under the Authorizing Law, for the sole benefit of any Owners, the Authority hereby pledges as the sole security and sole source of payment for the Class 1 Public Securities and Class 1 Administrative Expenses, all of its right, title, and interest in the Financing and Pledge Agreement, the Funds Management Agreement, and the Class 1 Pledged Revenues. Said pledge shall constitute a first and exclusive lien on such Class 1 Pledged Revenues for the payment of the Class 1 Public Securities Obligations and Class 1 Administrative Expenses in accordance with the terms hereof.

(b) THE CLASS 1 PUBLIC SECURITIES 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 CLASS 1 PUBLIC SECURITIES OBLIGATIONS, 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 CLASS 1 PUBLIC SECURITIES.

Section 2.04 Perfected Security Interest. The lien on and pledge of the Authority's right, title, and interest in the Class 1 Pledged Revenues shall be effective as of the date of delivery of the first Series of the Class 1 Public Securities. Chapter 1208, Texas Government Code, as amended, applies to the issuance of the Class 1 Public Securities and the pledge of the Class 1 Pledged Revenues granted by the Authority under this Master Resolution, and such pledge is, therefore, valid, effective, and perfected. If State law is amended at any time while the Class 1 Public Securities are Outstanding such that the pledge of the Class 1 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 Class 1 Public Securities 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 to perfect the security interest in the Class 1 Pledged Revenues to occur.

Section 2.05 Issuance of Class 1 Public Securities. (a) Issuance of Initial Series of Class 1 Public Securities. Subject to the requirements of this subsection, the Authority, on behalf of the Association, shall issue the Initial Series of Class 1 Public Securities for the purpose of financing, in whole or in part, the Association Program as authorized by the Act. Notwithstanding the foregoing, the Initial Series of Class 1 Public Securities shall not be issued and delivered unless:

(i) the Association shall deliver to the Authority a Request for Financing;

(ii) the Commissioner shall execute and deliver written approval of the issuance of the initial Series of Class 1 Public Securities and the authorized maximum principal amount of such Series;

(iii) the Authority shall execute and deliver a Supplemental Resolution authorizing the issuance of the Initial Series of Class 1 Public Securities;

(iv) the Authority and the Association shall execute and deliver a Financing and Pledge Agreement;

(v) the Authority shall execute and deliver a Funds Management Agreement;

(vi) the Authority Representative signs a written certificate (which may rely on certificates and other documentation delivered by the Financial Advisor or the Association Representative) to the effect that the Financing and Pledge Agreement (as the same may be

amended) will provide Class 1 Pledged Revenues which will be sufficient to pay Class 1 Public Securities Obligations and Class 1 Administrative Expenses on the Initial Series of Class 1 Public Securities including a statement of the principal and interest to be due on the Initial Series of Class 1 Public Securities; and

(vii) 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 Class 1 Public Securities 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 the Association; and that upon the delivery of such Class 1 Public Securities the aggregate principal amount of the Class 1 Public Securities then Outstanding will not exceed the amount permitted by the Authorizing Law and this Master Resolution.

(b) Issuance of Additional Class 1 Public Securities. Following the issuance of the Initial Series of Class 1 Public Securities for so long as the Financing and Pledge Agreement is in effect, and subject to the requirements of this subsection and the provisions of any Supplemental Resolutions imposing any additional restriction thereon, the Authority, on behalf of the Association, shall issue one or more Series of Class 1 Public Securities for the purpose of financing, in whole or in part, the Association Program as authorized by the Act, or for the purpose of refunding and defeasing any outstanding obligations which are Class 1 Public Securities. Class 1 Public Securities may be issued as Short-Term Public Securities, Interim Public Securities, or Long-Term Public Securities. Such Class 1 Public Securities, when issued, and the interest thereon shall be equally and ratably secured by and payable from a first lien on and pledge of Class 1 Pledged Revenues, in the same manner and to the same extent as the Class 1 Public Securities Outstanding at the time, and such Class 1 Public Securities, when issued, and the interest thereon, shall be on a parity and in all respects of equal dignity with each other Class 1 Public Securities. Notwithstanding the foregoing, no installment, series, or issue of Class 1 Public Securities shall be issued and delivered unless:

(i) the Association delivers to the Authority a Request for Financing;

(ii) the Commissioner shall execute and deliver written approval of the issuance of the Series of Class 1 Public Securities and the authorized maximum principal amount of such Series;

(iii) the Authority shall execute and deliver a Supplemental Resolution authorizing the issuance of the Series of Class 1 Public Securities;

(iv) the Chair of the Board signs a written certificate to the effect that the Authority is not in default, or as of the date of issuance and delivery of any Class 1 Public Securities then being issued will not be in default, as to any of its covenants, conditions, or obligations set forth in the Transaction Documents;

(v) the Association Representative signs a certificate to the effect that the Association is not in default as to any of its covenants, conditions, or obligations set forth in the Financing and Pledge Agreement;

(vi) the Trust Company Representative signs a certificate to the effect that the Trust Company is not in default as to any covenants, conditions or obligations set forth in the Funds Management Agreement;

(vii) the Credit Provider under any Credit Agreement, if any, signs a certificate to the effect that such credit provider is not in default as to any covenants, conditions, or obligations set forth in any Credit Agreement;

(viii) the Authority Representative signs a written certificate (which may rely on certificates and other documentation delivered by the Financial Advisor or the Association Representative) to the effect that the Financing and Pledge Agreement (as the same may be amended) will provide Class 1 Pledged Revenues sufficient to pay Class 1 Public Securities Obligations and Class 1 Administrative Expenses on all then Outstanding Class 1 Public Securities, including the Class 1 Public Securities then proposed to be issued, stating:

(A) the principal and interest to be due on the Outstanding Class 1 Public Securities after giving effect to the proposed Class 1 Public Securities; and

(B) that the Class 1 Coverage Test will be met with respect to the issuance of the proposed Class 1 Public Securities;

However, that the certification required in (B) of this paragraph (vii) shall not be required in connection with the issuance, authentication and delivery of Interim Public Securities. However, such certification shall be required in connection with the issuance of Class 1 Public Securities for the purpose of refunding or refinancing the Interim Public Securities that are not themselves designated as Interim Public Securities, 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 Class 1 Public Securities when duly executed by the Authority and authenticated by the Paying Agent/Registrar, will be valid and binding obligations of the Authority and the Association; and that upon the delivery of such Class 1 Public Security the aggregate principal amount of the Class 1 Public Securities then Outstanding will not exceed the amount permitted by the Authorizing Law and this Master Resolution.

(c) Refunding Class 1 Public Securities. Class 1 Public Securities may be issued to refund or refinance one or more Series of Outstanding Class 1 Public Securities.

(d) Class 1 Coverage Test. Prior to the issuance of any Class 1 Public Securities, other than for Interim Public Securities, the Authority Representative shall provide a written certificate (which may rely upon certificates or other documentation delivered by the Financial Advisor and the Association Representative) demonstrating that the following Class 1 Coverage Test will be met with respect to the issuance of such public securities:

(i) the ratio of (A) Class 1 Pledged Revenues for the most recently ended calendar year to (B) Maximum Annual Class 1 Public Securities Obligations on the Outstanding Class 1 Public Securities, including the proposed Class 1 Public Securities, and the projected Maximum Annual

Class 1 Administrative Expenses, calculated as of the date of sale of such proposed Class 1 Public Securities will not be less than 1.50:1.00; or

(ii) the ratio of (A) projected Class 1 Pledged Revenues for the current calendar year and projected Class 1 Pledged Revenues for the next calendar year (in projecting the Class 1 Pledged Revenues for each such calendar year, the Authority Representative may use amounts projected to be received from any adopted policyholder rate increases), to (B) Maximum Annual Class 1 Public Securities Obligations on the Outstanding Class 1 Public Securities, including the proposed Class 1 Public Securities, and projected Maximum Annual Class 1 Administrative Expenses, calculated as of the date of sale of such proposed Class 1 Public Securities will not be less than 1.50:1.00.

Section 2.06 Approval of Certain Transaction Documents. (a) The Financing and Pledge Agreement, substantially in the form attached to the Master Resolution, 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 and the General Counsel 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 and the General Counsel to be appropriate and necessary to carry out the intent of this Master Resolution and any Supplemental Resolution.

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 Class 1 Public Securities. The Authority may include covenants relating to a municipal bond insurance policy in the Supplemental Resolution authorizing the issuance of such Series of Class 1 Public Securities.

Section 2.08 Subordinate Debt. The Authority hereby reserves the right to issue any public securities, including any bonds, notes, or other obligations representing Class 1 Public Securities or enter into Class 2 Repayment Obligations that are secured with a pledge junior and subordinate to the pledge of the Class 1 Pledged Revenues securing Class 1 Public Securities issued under this Master Resolution.

Section 2.09 No Additional Encumbrance. The Authority shall not incur additional debt secured by the Class 1 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 Class 1 Public Securities on parity with or subordinate to any Outstanding Class 1 Public Securities to refund any Class 1 Public Securities.

ARTICLE III. GENERAL PROVISIONS

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Section 3.12 Payment of Class 1 Public Securities Obligations. (a) The Authority shall pay or cause to be paid all Class 1 Public Securities Obligations on the Class 1 Public Securities as provided in this Master Resolution or any Supplemental Resolution.

(b) The Paying Agent/Registrar shall calculate the amount of Class 1 Public Securities Obligations from time to time payable on each Class 1 Public Security and make timely payment of the Class 1 Public Securities Obligations thereon from the funds available therefor under this Master Resolution. The payment of Class 1 Public Securities Obligations with respect to Book-Entry Public Securities 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 Class 1 Public Security 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 Class 1 Public Securities 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. In order to cause the timely and proper payment of Class 1 Public Securities Obligations to Owners, the Authority is authorized to create accounts within the Obligation Revenue Fund to facilitate the payment of Class 1 Public Securities Obligations and the Class 1 Administrative Expenses Account relating thereto. Accordingly, there shall be created and designated within the Obligation Revenue Fund, the following accounts:

(i) the Obligation Revenue Fund Class 1 Premium Revenue Account (the "Class 1 Premium Revenue Account");

(ii) the Obligation Revenue Fund Class 1 Debt Service Account (the "Class 1 Debt Service Account");

(iii) the Obligation Revenue Fund Class 1 Administrative Expenses Account (the "Class 1 Administrative Expenses Account");

(iv) the Obligation Revenue Fund Class 1 Debt Service Reserve Account (the "Class 1 Debt Service Reserve Account"); and

(v) the Obligation Revenue Fund Class 1 Redemption Account (the "Class 1 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 sole benefit of the Owners. 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 Class 1 Pledged Revenues; provided, however, that such creation of accounts or other actions shall in no way alter the pledge of Class 1 Pledged Revenues to the Class 1 Public Securities.

Section 4.02. Creation and Establishment of Class 1 Program Fund. (a) The "Texas Public Finance Authority Texas Windstorm Insurance Association Class 1 Program Fund" (the "Class 1 Program Fund") is hereby created, established, and within the Class 1 Program Fund there shall be created and designated the following accounts:

(i) the Class 1 Program Fund Pre-Event Program Account (the "Class 1 Pre-Event Program Account");

(ii) the Class 1 Program Fund Post-Event Program Account (the "Class 1 Post-Event Program Account");

(iii) the Class 1 Program Fund Pre-Event Costs of Issuance Account (the "Class 1 Pre-Event Costs of Issuance Account"); and

(iv) the Class 1 Program Fund Post-Event Costs of Issuance Account (the "Class 1 Post-Event Costs of Issuance Account").

(b) As required by the Act, the Class 1 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 Class 1 Public Securities.

Section 4.03. Disposition of Class 1 Public Security Proceeds. The proceeds derived from the sale and delivery of each Series of Class 1 Public Securities shall be deposited as and to the extent directed in an applicable Supplemental Resolution.

Section 4.04. Flow of Funds. On each Date of Calculation and at such other times as required by the Financing and Pledge Agreement or as specified in a Supplemental Resolution, the Authority shall direct the Trust Company to transfer and deposit Class 1 Pledged Revenues on deposit in the Class 1 Premium Revenue Account within the Obligation Revenue Fund, as provided in the Financing and Pledge Agreement, to the following funds and accounts in the following order of priority:

(a) ***First***, there shall be deposited to the Class 1 Debt Service Account within the Obligation Revenue Fund, amounts which, when added to other amounts in the Class 1 Debt Service Account, equal the amount required to pay Class 1 Public Securities Obligations on the Class 1 Public Securities as follows:

(i) $1/12^{th}$ of any interest to be come due and payable on Outstanding Class 1 Public Securities on any Interest Payment Dates occurring within 12 months of the Date of Calculation, unless a greater amount is required under any Supplemental Resolution;

(ii) 1/12th of any principal scheduled to become due and payable on Outstanding Class 1 Public Securities occurring within 12 months of the Date of Calculation, unless a greater amount is required under any Supplemental Resolution; and

(iii) 1/12th of any amounts due on Credit Agreements, excluding any termination payments arising under any such Credit Agreements, occurring within 12 months of the Date of Calculation (the deposits described in subsection (i), (ii), and (iii) are, collectively, the "Required Monthly Debt Service Deposit").

To the extent sufficient Class 1 Pledged Revenues are not available on any Interest Payment Date, at any Stated Maturity Date, or upon mandatory redemption to make such payments, the Authority covenants to promptly exercise any and all rights under the Financing and Pledge Agreement to cause the transfer of the following additional amounts until such Class 1 Debt Service Account attains a balance equal to the Required Monthly Debt Service Deposits: *first*, from the Class 1 Pledged Revenues deposited to the Class 1 Premium Revenue Account, and *second*, from the Class 1 Debt Service Reserve Account.

(b) ***Second***, there shall be deposited to the Class 1 Administrative Expenses Account within the Obligation Revenue Fund from Class 1 Pledged Revenues after the payment and transfers in (a) above, 1/12th of the amount of Class 1 Pledged Revenues representing the amount needed to pay Class 1 Administrative Expenses occurring within 12 months of the Date of Calculation;

(c) ***Third***, there shall be deposited to the Class 1 Debt Service Reserve Account within the Obligation Revenue Fund from Class 1 Pledged Revenues after the payment and transfers in (a) and (b) above, the amount of Class 1 Pledged Revenues necessary to fund or replenish in equal month installments within 24 months the Class 1 Debt Service Reserve Requirement as further provide in Section 4.05 hereof;

(d) ***Fourth***, after payment and transfers in (a) through (c) above, to the payment of principal, interest, reserve fund requirements, obligations under any credit agreement, or Class 2 Repayment Obligations, for any obligations which hereafter may be issued by the Authority on behalf of the Association that are payable from and secured by a lien on and pledge of the Class 1 Pledged Revenues which is subordinate to the liens thereon securing the Class 1 Public Securities issued hereunder when and in the amounts required by any resolution or order authorizing the issuance of such subordinate lien obligations;

(e) ***Fifth***, after deposit, payment, and transfer of the Class 1 Pledged Revenues as provided in subsections (a) through (d) above, to the Operating Reserve Fund in an amount necessary to satisfy any Operating Reserve Fund Requirement as may be required by a Supplemental Resolution; and

(f) ***Sixth***, after deposit, payment, and transfer of Class 1 Pledged Revenues as provided in subsections (a) through (e) above, to the Association to be used for (i) the payment of Budgeted Operating Expenses and Scheduled Policy Claims, (ii) to purchase reinsurance (at the discretion of the Board of Directors of the Association), or (iii) for any other lawful purpose, including but not limited to (i) transfer to the Class 1 Redemption Account to be used by the Authority to purchase, defease, retire, and cancel Outstanding Class 1 Public Securities, (ii) prepayment of Class 2 Repayment Obligations, or (iii) payment to the Catastrophe Fund.

Section 4.05. Application of Accounts within the Obligation Revenue Fund. (a) Class 1 Premium Revenue Account. While any Class 1 Public Securities 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 Class 1 Premium Revenue Account within the Obligation Revenue Fund. Disbursements from the Class 1 Premium Revenue Account shall be made with the priorities specified in Section 4.04 hereof.

(b) Class 1 Debt Service Account. Unless provision for payment has been made with the applicable Paying Agent/Registrar, there shall be paid out of the Class 1 Debt Service Account on or before each Interest Payment Date, the amount required to pay Class 1 Public Securities Obligations on such date. On or before any redemption date for Class 1 Public Securities to be redeemed, there shall also be paid out of the Class 1 Debt Service Account the amount required for the payment of the redemption price of and interest on the Class 1 Public Securities 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 Class 1 Debt Service Account the amounts required to be paid on the Outstanding Class 1 Public Securities and any Credit Agreements on such payment date. The Authority shall apply amounts available in the Class 1 Debt Service Account, or from other Class 1 Pledged Revenues, for the payment of any scheduled mandatory or sinking fund redemptions on Class 1 Public Securities issued as "term bonds" to pay the purchase price (including any brokerage and other charges) for any Class 1 Public Securities 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 Class 1 Public Security shall be delivered to the Paying Agent/Registrar for cancellation and the principal amount of such Class 1 Public Security purchased shall be credited toward the next mandatory redemption or sinking fund installment.

(c) Class 1 Debt Service Reserve Account. Money, investments, or any Debt Service Surety Policy held in the Class 1 Debt Service Reserve Account shall, except as otherwise provided in a Supplemental Resolution, be held and used for the benefit of all Class 1 Public Securities Obligations. If on any Interest Payment Date or date on which principal on any Class 1 Public Security is due, after giving effect to all transfers pursuant to Section 4.04(a), the amount in the Class 1 Debt Service Account shall be less than the amount required to pay the interest on or the principal of Class 1 Public Securities Obligations due and payable on such date, the amount required to pay the interest on or principal amount of the Class 1 Public Securities Obligations maturing on such date or the redemption price of Class 1 Public Securities becoming subject to scheduled mandatory or sinking fund redemption on such date, then the Authority shall apply amounts from the Class 1 Debt Service Reserve Account to the extent necessary to eliminate such deficiency. If at any time, the money, investments, and principal amount of any Debt Service Surety Policy held in the Class 1 Debt Service Reserve Account are less than the Class 1 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 Class 1 Debt Service Reserve Account to the Class 1 Debt Service Reserve Requirement within 24 months of the occurrence of any such deficiency. If at any time the money, investments, and the principal amount of any Debt Service Surety Policy held in the Class 1 Debt Service Reserve Account shall exceed the Class 1 Debt Service Reserve Requirement, the Authority shall direct whether such excess money shall be transferred to the Class 1 Debt Service Account.

In lieu of the deposit of money into the Class 1 Debt Service Reserve Account, the Authority may cause to be provided a Reserve Account Surety Policy or similar financial instrument satisfactory to the Rating Agency or Rating Agencies rating the Class 1 Public Securities (as evidenced by a letter from the Rating Agency or Rating Agencies confirming that the Reserve Account Surety Policy will not result in the rating on any Outstanding Class 1 Public Security Obligations being downgraded) in an amount equal to the difference between the Class 1 Debt Service Account Requirement and the amounts then on deposit in the Class 1 Debt Service Reserve Account. The Reserve Account Surety Policy shall be payable (upon the giving of any notice as may be required thereunder) on any Interest Payment Date, principal payment date, or redemption date on which money will be required to be withdrawn from the Class 1 Debt Service Reserve Account and applied to the payment of Class 1 Public Securities Obligations, unless otherwise provided in a Supplemental Resolution.

If a disbursement is made pursuant to a Reserve Account Surety Policy, the Authority shall be obligated either (i) to cause the reinstatement to the maximum limits of such Reserve Account Surety Policy or (ii) to deposit into the Class 1 Debt Service Reserve Account, funds in the amount of the disbursement made under such Reserve Account Surety Policy, or a combination of such alternatives, as shall provide that the amount credited to the Class 1 Debt Service Reserve Account equals the Class 1 Debt Service Reserve Requirement within 24 months.

(d) Class 1 Administrative Expenses Account. There shall be paid out of the Class 1 Administrative Expenses Account any amounts required to pay Class 1 Administrative Expenses pertaining to the Class 1 Public Securities.

(e) Class 1 Redemption Account. To the extent that excess Class 1 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 Class 1 Redemption Account to be used solely to redeem Class 1 Public Securities. Prior to redemption of any Class 1 Public Securities, the Authority shall transfer the amount required to effect redemption from the Class 1 Redemption Account to the respective subaccount of the Class 1 Debt Service Account.

Section 4.06. Application of Class 1 Program Fund. (a) Subject to the restrictions provided in this Section 4.06 and the Financing and Pledge Agreement, the Class 1 Program Fund and the Accounts created therein shall be applied to pay the costs of the Association Program. All Investment Income on the Class 1 Program Fund shall be available to pay the costs of the Association Program or to be transferred to the Class 1 Debt Service Account for payment of interest on Class 1 Public Securities next coming due; provided, however, that once the Investment Income has been transferred and deposited in the respective subaccount of the Class 1 Debt Service Account, such Investment Income shall accrue therein for the benefit of the Owners; provided further, however, that the amount so transferred shall not exceed the amount of such payment then coming due. The Class 1 Pre-Event Costs of Issuance Account and the Class 1 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 Class 1 Public Securities, all as set forth in the Financing and Pledge Agreement. All Investment Income on the Class 1 Pre-Event Costs of Issuance Account and the Class 1 Post-Event Costs of Issuance Account shall be available to be maintained in the Class 1 Program Account 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 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. The Authority may establish a subaccount relating to a specific Series of Class 1 Public Securities within each Account of the Class 1 Program Fund.

(c) Notwithstanding anything to the contrary herein, if it is determined at any time that the aggregate of all funds on deposit in the Class 1 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 Class 1 Program Fund to the Class 1 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 Class 1 Redemption Account. If there are no Outstanding Class 1 Public Securities and all Class 1 Administrative Expenses have been paid, the Authority shall cause the excess amounts to be transferred to the Catastrophe Fund.

(d) The Class 1 Program Fund and the accounts created therein shall otherwise be applied in accordance with the Funds Management Agreement.

Section 4.07. 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 Class 1 Debt Service Account.

Section 4.08. Unclaimed Payment. (a) Any money held for the payment of any Class 1 Public Securities, 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 Class 1 Public Securities Obligations 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. PARTICULAR REPRESENTATIONS, STIPULATIONS, AND COVENANTS

Section 5.01. 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 5.02. State Not To Impair Class 1 Public Securities Obligations. Pursuant to the Act, if Class 1 Public Securities are Outstanding, the State has pledged for the benefit and protection of the Authority, the Association, and the other parties to the Transaction Documents, that it will not take or permit any action that would in any way impair the rights and remedies of the Owners until the Class 1 Public Securities are fully discharged.

Section 5.03. Effect of Prior Action. Any consent of or other communication from an Owner shall bind every future Owner of the same Class 1 Public Security 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 5.04. Notification of Annual Class 1 Public Securities Obligations and Administrative Expenses. Pursuant to Section 2210.609 of the Act, the Authority shall notify the Association of the amount of Class 1 Pubic Securities Obligations and the estimated amount of Class 1 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 5.05. Enforcement of Obligations. Pursuant to Section 2210.617 of the Act, a writ of mandamus and any other legal and equitable remedies are available to the Owners to require the Authority or the Association to fulfill its obligations under this Resolution, any Supplemental Resolution, and any other Transaction Document.

Section 5.06. 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 5.07. 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 5.08. 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 5.09. 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 VI. SUPPLEMENTS AND AMENDMENTS TO RESOLUTION AND OTHER TRANSACTION DOCUMENTS

Section 6.01. 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 Class 1 Public Securities 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 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 Class 1 Public Securities 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 Class 1 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;

(v) To increase the reserve requirement for any debt service reserve fund or account or to provide for Reserve Account Surety Policies;

(vi) To alter this Master Resolution or any Supplemental Resolution to comply with the requirements of a Rating Agency in order to obtain or maintain a rating on the Class 1 Public

Securities in a long-term debt rating category or in a high-quality, short-term or commercial paper rating category of such Rating Agency, so long as such amendment will not adversely affect the rights of any Owner under the Transaction Documents;

(vii) To designate Paying Agents, Registrars, and other agents for the Class 1 Public Securities of any Series;

(viii) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Master Resolution or any Supplemental Resolution;

(ix) To authorize the issuance of a Series of Class 1 Public Securities, 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;

(x) To modify this Master Resolution or any Supplemental Resolution, which may relate to any or all series of Variable Rate Class 1 Public Securities, to allow changes to interest rate modes for the Variable Rate Class 1 Public Securities at any mandatory purchase date;

(xi) To insert such provisions clarifying matters or questions arising under this Master Resolution or any Supplemental Resolution as are necessary or desirable and are not contrary to or inconsistent with this Master Resolution or any Supplemental Resolution as theretofore in effect, including such changes clarifying remarketing, payment, and related provisions of any Variable Rate Class 1 Public Securities; and

(xii) To modify any of the provisions of this Master Resolution or any Supplemental Resolution in any respect whatsoever; provided, however, that such action shall not adversely affect the interest of the Owners of Outstanding Class 1 Public Securities.

(c) The consent of the Owners of all Outstanding Class 1 Public Securities is required for any proposed amendment to this Master Resolution or any Supplemental Resolution that would:

(i) permit a preference or priority of any Class 1 Public Security over another Class 1 Public Security;

(ii) reduce the percentage of Owners that is required to consent to an amendment of this Master Resolution or any Supplemental Resolution;

(iii) change the time of any regularly scheduled payment of Class 1 Public Securities Obligations, the principal amount of any Class 1 Public Security, the interest rate on any Class 1 Public Security, the currency in which Class 1 Public Securities 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 Class 1 Public Securities Obligations;

(iv) impair the security for any Class 1 Public Security; or

(v) result in a reduction of any then existing rating on the Class 1 Public Securities.

(d) Subject to Subsection (c) of this Section, no Owner consent is required for an amendment to this Master Resolution or any Supplemental Resolution if the amendment, in the opinion of Bond

Counsel, will not adversely affect the rights of any Owner under the Transaction Documents, including without limitation, amendments, changes, or modifications to facilitate the economic and practical utilization of Credit Agreements.

Section 6.02. 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 of any Owner under the Transaction Documents, or the Owners of at least a majority in aggregate principal amount of the Outstanding Class 1 Public Securities affected by such amendment consent thereto, except that the consent of the Owner of each Outstanding Class 1 Public Security affected by such amendment is required if such amendment would decrease the minimum percentage of Owners required for effective consent to such amendment.

ARTICLE VII. DISCHARGE

Section 7.01. Discharge of Claim Against Class 1 Pledged Revenues. (a) The claim of this Master Resolution against Class 1 Pledged Revenues shall be deemed discharged and of no further force and effect when:

(i) the Class 1 Public Securities Obligations on all Class 1 Public Securities have been discharged; and

(ii) all other amounts of money payable under this Master Resolution (including, without limitation, the Class 1 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) The Class 1 Public Securities Obligations on any Class 1 Public Securities shall be deemed discharged when:

(i) such Class 1 Public Securities Obligations have:

(A) been paid in accordance with the terms of such Class 1 Public Security; 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 Class 1 Debt Service Account, with the Paying Agent/Registrar or any Tender Agent, if applicable;

(ii) such Class 1 Public Security(ies) has (have) been canceled or surrendered to the Paying Agent/Registrar or any Tender Agent, if applicable, for cancellation; or

(iii) such Class 1 Public Securities Obligations have been discharged by a deposit of Sufficient Assets pursuant to this Master Resolution as described in Section 7.02 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 7.02. Defeasance of Class 1 Public Securities Obligations. (a) The benefits of this Master Resolution, and the covenants of the Authority contained herein in support of any such Class 1 Public Securities Obligations have been discharged by a deposit of Sufficient Assets pursuant to this Master Resolution, and the covenants of the Authority contained herein in support of Class 1 Public

Securities, shall be deemed redeemed and discharged with respect to such Class 1 Public Securities when the following requirements have been satisfied:

(i) the payment of the Class 1 Public Securities Obligations with respect thereto has been provided for by irrevocably depositing Sufficient Assets into the respective subaccount of the Class 1 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 Class 1 Public Securities Obligations;

(ii) the Authority has received a Favorable Opinion of Bond Counsel to the effect that such deposit of Sufficient Assets complies with State law, and all conditions precedent to such Class 1 Public Securities Obligations being deemed discharged have been satisfied;

(iii) all amounts of money (other than Class 1 Public Securities Obligations) due, or reasonably estimated by the Paying Agent/Registrar to become due, under this Master Resolution with respect to such Class 1 Public Security 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

(iv) 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 Class 1 Public Securities Obligations on less than all of the Outstanding Class 1 Public Securities, the particular maturity or maturities of Class 1 Public Securities (or, if less than all of a particular maturity, the principal amounts, shall be as specified by the Authority, and the particular Class 1 Public Securities (or portions thereof) shall be selected by the Paying Agent/Registrar by lot, on a pro rata basis, 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 Class 1 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 Class 1 Public Securities Obligations.

(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. PURPOSE, PLEDGE AND SECURITY FOR AND DEFEASANCE OF THE SERIES 2012 NOTES

Section 2.01. Purposes of Resolution. The purposes of this Resolution are to approve the specific terms and provisions of the Series 2012 Notes; to extend expressly the pledge, lien, security, and provisions of the Master Resolution to and for the benefit of the Owners of the Series 2012 Notes; to provide for certain rights in addition to those provided for in the Master Resolution; and to sell the Series 2012 Notes to the Purchaser pursuant to the Purchase Contract.

Section 2.02. Pledge, Security for, Sources of Payment of Series 2012 Notes. Pursuant to the Financing and Pledge Agreement, the Association has irrevocably pledged and assigned all of its rights, title, and interest in the Class 1 Pledged Revenues to be deposited in the Obligation Revenue Fund to the Authority for the benefit of the Owners. The Series 2012 Notes are "Class 1 Public Securities" under the Master Resolution, and as such are secured by an irrevocable, first and exclusive lien on and pledge of the Association's rights, title, and interest to the Class 1 Pledged Revenues.

Section 2.03. Defeasance of Series 2012 Notes. (a) if a Catastrophic Event does not occur by December 15, 2012, the Authority hereby covenants for the benefits of the Owner to apply the proceeds of the Series 2012 Notes on deposit in the Class 1 Pre-Event Program Account, along with Class 1 Pledged Revenues, to prepay the Series 2012 Notes on the Tender Date.

(b) if a Catastrophic Event does occur and proceeds of the Series 2012 Notes on deposit in the Class 1 Pre-Event Program Account have been or will be used to pay costs of the Association Program, the Authority, on behalf of the Association, shall use any Unencumbered Proceeds in the Class 1 Pre-Event Program Account to prepay the Series 2012 Notes on the Tender Date and shall use its best efforts to issue Post-Event Class 1 Public Securities and apply the proceeds of such securities to first refund that portion of the Series 2012 Notes that are not prepaid from Unencumbered Proceeds on deposit in the Class 1 Pre-Event Program Account. Any Series 2012 Notes that are not refunded, defeased, or prepaid as of the Tender Date, shall automatically convert to Term Rate Notes on the Tender Date and shall continue to be held by the Owners as provided in Section 4.01 hereof and such failure to prepay the Series 2012 Notes on the Tender Date shall not constitute an event of default by the Authority.

ARTICLE III. AUTHORIZATION; GENERAL TERMS AND PROVISIONS REGARDING THE SERIES 2012 NOTES

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Section 3.03. Interest Rates on the Series 2012 Notes. (a) Initial Rate. The Series 2012 Notes shall bear interest during the Initial Rate Period at the Initial Rate. In the event that the Initial Rate shall increase to 2.50% per annum as provided in the definition of "Initial Rate," the Paying Agent/Registrar shall promptly provide the Owners with notice of such increase. During the Initial Rate Period, interest shall be calculated at the applicable Initial Rate on the basis of a 360-day year comprised of twelve 30-day months.

(b) Term Rate. On the Tender Date, the Series 2012 Notes shall be subject to mandatory tender; provided, however, that a failure by the Authority to provide funds for the prepayment of all or a portion of the Series 2012 Notes on the Tender Date, as further described in Article IV hereof, shall result in the conversion of the Series 2012 Notes that are not prepaid into Term Rate Notes and shall not be an event of default. The Term Rate Notes that are not prepaid shall continue to be held by the Owners that tendered such Series 2012 Notes until the same are redeemed pursuant to the applicable provisions of this Resolution. The failure to provide funds for the prepayment of all or a portion of the Series 2012 Notes on the Tender Date shall not be considered an event of default. During the Term Rate Period, the Series 2012 Notes shall bear interest at the Term Rate. During the Term Rate Period, interest shall be payable on each Interest Payment Date and shall be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Section 3.04. Modification of Flow of Funds. (a) During the Initial Rate Period and notwithstanding the provisions of subclause (i) "First" of Section 4.04(a) of the Master Resolution, the amount to be transferred monthly pursuant to such subclause (i) thereof shall be $1/5^{th}$ of the estimated interest to be due and payable on the Series 2012 Notes on the initial Interest Payment Date. The interest due on the Series 2012 Notes shall be calculated assuming an interest rate of 1.00% per annum for the first 60 days after the Issuance Date and, if applicable, pursuant to the definition of "Initial Rate" herein, then 2.50% per annum to but not including the Tender Date. Deposits for and the payment of principal shall commence during the Term Rate Period.

(b) During the Term Rate Period, interest on the Series 2012 Notes shall be paid on each Interest Payment Date and the Series 2012 Notes shall be subject to special mandatory redemption to occur semiannually on the Mandatory Redemption Payment Dates, as further described in Section 5.02 hereof. Notwithstanding the provisions of subclauses (i) and (ii) "First" of Section 4.04(a) of the Master Resolution, the amount to be transferred monthly pursuant to such subclauses (i) and (ii) thereof shall be:

(i) $1/6^{th}$ of any interest to become due and payable on the Outstanding Series 2012 Notes on the Interest Payment Date next following the Date of Calculation; and

(ii) $1/6^{th}$ of the principal of the Outstanding Series 2012 Notes due and payable on the Mandatory Sinking Fund Payment Date next following the Date of Calculation.

(c) If the Series 2012 Notes are due and payable (either at maturity or mandatory redemption) and there are insufficient funds in the Class 1 Debt Service Account, the Class 1 Premium Revenue Account and the Class 1 Redemption Account to pay the Class 1 Public Securities Obligations of the Series 2012 Notes, the Authority hereby covenants and agrees to make a written direction to the Association to deposit any money legally available under the Act into the Class 1 Debt Service Account in an amount sufficient to timely pay the Series 2012 Notes.

Section 3.05. Medium, Method, and Place of Payment. (a) The principal of and interest on the Series 2012 Notes shall be paid in lawful money of the United States of America as provided in this Section.

(b) Interest on the Series 2012 Notes 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 2012 Note 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 2012 Notes 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 2012 Note 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 2012 Note to the Paying Agent/Registrar.

(e) If a date for the payment of the principal of or interest on the Series 2012 Notes 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 2012 Note 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 applicable Initial Rate or the applicable Term Rate. Such interest shall be payable on each Interest Payment Date. Interest on the Series 2012 Notes 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 Resolution, during any period in which the Series 2012 Notes are held in book-entry form by DTC in accordance with Section 3.05 hereof, payment of the principal, together with any premium, if any, and interest on the Series 2012 Notes, 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.

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ARTICLE IV. TENDER AND CONVERSION OF SERIES 2012 NOTES

Section 4.01. Mandatory Tender on the Tender Date. (a) The Series 2012 Notes shall be subject to mandatory tender on the Tender Date at the Purchase Price.

(b) If the Owner of any Series 2012 Note fails to deliver such Series 2012 Note to the Paying Agent/Registrar on the Tender Date such Series 2012 Note shall be deemed tendered, and

(i) if the Paying Agent/Registrar is in receipt of the Purchase Price therefor, such Series 2012 Note shall nevertheless be deemed prepaid on the Tender Date, and such Owner of an undelivered Series 2012 Note shall have no further right thereunder except the right to receive the

Purchase Price thereof upon presentation and surrender of said Series 2012 Note to the Paying Agent/Registrar; or

(ii) if the Paying Agent/Registrar is not in receipt of the Purchase Price therefor, such Series 2012 Note shall continue to be held by the Owner and shall convert on the Tender Date to a Term Rate Note.

Section 4.02. Notice to Paying Agent/Registrar. The Authority shall provide written notice to the Paying Agent/Registrar and the Trust Company of the mandatory tender not less than 20 days prior to the Tender Date, unless a shorter period shall be acceptable to the Paying Agent/Registrar and the Trust Company.

Section 4.03. Notice to Owners. (a) Notice of Mandatory Tender. Not less than 5 days prior to the Tender Date, the Paying Agent/Registrar shall mail, by first class mail, written notice of the mandatory tender to the Owner of any Series 2012 Note to be tendered for purchase. Such notice shall specify:

(i) the Tender Date;

(ii) the principal amount and the bond number (if not held in Book-Entry System) of the Series 2012 Notes to which the notice relates;

(iii) that the Series 2012 Notes to be tendered are subject to mandatory tender for prepayment on the Tender Date and the time at which the Series 2012 Notes are to be tendered for prepayment;

(iv) that the Owners shall not have the right to waive mandatory tender; that Series 2012 Notes not delivered to the Paying Agent/Registrar for prepayment on the Tender Date shall be deemed tendered on such date; and that (A) if the Paying Agent/Registrar is in receipt of the Purchase Price therefor, such Series 2012 Note shall nevertheless be deemed prepaid on the Tender Date, and such Owner of an undelivered Series 2012 Note shall have no further right thereunder except the right to receive the Purchase Price thereof upon presentation and surrender of said Bond to the Paying Agent/Registrar and (B) if the Paying Agent/Registrar is not receipt of the Purchase Price therefor, such Series 2012 Note shall continue to be held by the Owner and shall convert on the Tender Date to a Term Rate Note.

(v) if funds will not be available to prepay all or any portion of the Series 2012 Notes on the Tender Date, such notice shall further specify:

(A) the principal amount and bond number (if not held in Book-Entry System) of the Series 2012 Notes that will automatically convert into Term Rate Notes;

(B) that the Series 2012 Notes that are not prepaid shall automatically convert to Term Rate Notes on the Tender Date; and

(C) the applicable interest rate per annum based on the definition of "Term Rate."

Section 4.04. Purchase of Tendered Series 2012 Notes. (a) Source of Payment. At or before noon, New York City time (11:00 a.m. Austin, Texas time), on the Tender Date, the Authority shall cause to be paid to the Paying Agent/Registrar for deposit in the Class 1 Redemption Account of the Obligation

Revenue Fund to be held by the Trust Company, all amounts representing (i) proceeds of the Class 1 Public Securities issued by the Authority, on behalf of the Association, to redeem such Series 2012 Notes and/or (ii) the Unencumbered Proceeds contained in the Class 1 Pre-Event Program Account being used to prepay the Series 2012 Notes, if any.

(b) Payment. At or before 2:30 p.m., New York City time (1:30 p.m. Austin, Texas time), on the Tender Date and upon receipt by the Paying Agent/Registrar of the Purchase Price of the tendered Series 2012 Notes, the Paying Agent/Registrar shall pay the Purchase Price of such Series 2012 Notes to the Owners thereof at its designated office or by bank wire transfer. Such payments shall be made in immediately available funds. If sufficient finds are not available for the purchase of all tendered Series 2012 Notes, the sources of payment described in subsection (a) above shall be applied to purchase, on a pro rata basis, in accordance with the operational arrangements of the Securities Depository, an equivalent portion of the Series 2012 Notes, and the portion of the Series 2012 Notes remaining shall automatically convert to Term Rate Notes. On the Tender Date the Paying Agent/Registrar shall cancel all Series 2012 Notes purchased on the Tender Date.

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ARTICLE IX. GENERAL PROVISIONS

Section 9.01. Creation of Additional Accounts. Pursuant to the provisions of Section 4.02 of the Master Resolution, there is hereby established for the Series 2012 Notes a subaccount in the Class 1 Pre-Event Program Account within the Class 1 Program Fund designated as the "Series 2012 Notes Subaccount." Additional Accounts or subaccounts relating to the Series 2012 Notes 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 herein.

Section 9.02. Initial Deposits and Withdrawals. On the Issuance Date, the proceeds of the sale of the Series 2012 Notes shall be deposited in the Series 2012 Notes Subaccount and applied on or after the occurrence of a Catastrophic Event to finance the costs of the Association Program as specified in a Draw Request from the Association to the Authority as provided in the Financing and Pledge Agreement.

Section 9.03. Payment of the Series 2012 Notes. The Paying Agent/Registrar shall calculate and furnish calculations of the Class 1 Public Securities Obligations for the Series 2012 Notes as provided in Section 3.12 of the Master Resolution. While any of the Series 2012 Notes or Class 1 Administrative Expenses are outstanding and unpaid, the Authority shall direct the Trust Company to deposit Class 1 Pledged Revenues to the Class 1 Debt Service Account and the Class 1 Administrative Expenses Account (as appropriate) at the times and in the amounts required by the Master Resolution, as modified by Section 3.04 hereof, and shall make available to the Paying Agent/Registrar, out of the Class 1 Debt Service Fund, the amounts and at the times required by this Resolution required to pay all amounts due and payable on the Series 2012 Notes when and as due and payable.

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ARTICLE II. REPRESENTATIONS, WARRANTIES, AND COVENANTS

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Section 2.03 Special Covenants of the Association. The Association hereby covenants that:

(a) during each calendar year (or more often as necessary) it will review its rate structure for premiums for its policies and confirm that it has established, or it will endeavor to establish, rates sufficient to collect Class 1 Pledged Revenues adequate to pay the Class 1 Public Securities Obligations, any Contractual Coverage Amount, and any Class 1 Administrative Expenses during such calendar year;

(b) during each calendar year it will annually (or more often as necessary) make a rate filing with the Department that includes rates sufficient to produce Class 1 Pledged Revenues in the amounts required by Section 4.03 hereof;

(c) so long as this Agreement remains in effect, it will maintain an Operating Account and the Locked Account with the Depository Bank and deposit, withdraw, and transfer Gross Premium, Net Premium, and Other Revenues pursuant to the Plan of Operation and the terms of the Locked Account Agreement;

(d) not later than 90 days after the end of each calendar year, commencing with the calendar year ending on the December 31 succeeding the issuance of the Initial Series of Class 1 Public Securities, the Association shall file with the Authority a certificate of the Association Representative demonstrating that the Class 1 Pledged Revenues for the prior calendar year (set forth in such certificate) were not less than 150% of the Class 1 Public Securities Obligations and Class 1 Administrative Expenses that became due and payable in such calendar year on Class 1 Public Securities; if the coverage is less than 150%, the Association will take such action or actions during the current calendar year as it may deem necessary to redeem Class 1 Public Securities in order to increase the coverage to 150% or greater as of the end of the current calendar year; and

(e) to keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Class 1 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 its representative authorized in writing).

Section 2.04 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) contemplated 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 Section 3.03 hereof 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 incurred loss claims and operating expenses of the Association;

(ii) purchase reinsurance for the Association;

(iii) pay Costs of Issuance and any Class 1 Administrative Expenses;

(iv) provide a debt service reserve;

(v) pay capitalized interest on the Class 1 Public Securities for the period determined necessary by the Association;

(vi) pay private financial agreements entered into by the Association as temporary sources of payment of loss claims 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 (ii) of this section, the proceeds from Pre-Event Class 1 Public Securities, including investment income from such securities, may not be used to purchase reinsurance for the Association.

(b) With respect to purposes identified in subsection (a) above, proceeds of the Class 1 Public Securities may only be used to pay for such purposes attributable to or resulting from a Catastrophic Event. 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. If there are no Outstanding Class 1 Public Securities or unpaid Class 1 Administrative Expenses, the Association, with consent of the 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 Class 1 Program Fund. (a) The Class 1 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 Class 1 Program Fund shall be applied to pay Costs of Issuance and costs of the Association Program without legislative appropriation. Disbursements from the Class 1 Program Fund shall be directed by the Authority, as requested by the Association in a Disbursement Request. The Class 1 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 Class 1 Public Securities shall be depleted before the proceeds of any Post-Event Class 1 Public Securities may be used. The Authority may establish a subaccount relating to a specific Series of Class 1 Public Securities within each Account of the Class 1 Program Fund.

(c) The following accounts within the Class 1 Program Fund are created pursuant to the Resolution:

(i) Class 1 Pre-Event Program Account;

(ii) Class 1 Post-Event Program Account;

(iii) Class 1 Pre-Event Costs of Issuance Account; and

(iv) Class 1 Post-Event Costs of Issuance Account.

(d) 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 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 Class 1 Public Securities Obligations and Class 1 Administrative Expenses. The following accounts within the Obligation Revenue Fund are created pursuant to the Resolution:

(i) Class 1 Premium Revenue Account;

(ii) Class 1 Debt Service Account;

(iii) Class 1 Administration Expenses Account;

(iv) Class 1 Debt Service Reserve Account; and

(v) Class 1 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 Master Resolution and any Supplemental Resolution.

Section 4.03 Class 1 Pledged Revenues. (a) The Association hereby covenants and agrees with the Authority that:

(i) so long as there are Outstanding Class 1 Public Securities and Class 1 Administrative Expenses are incurred, it will charge premiums according to the requirements of and subject to the limitations imposed by the Act at rates that will provide Class 1 Pledged Revenues in an amount not less than:

(A) 1.50 times the amount of Class 1 Public Securities Obligations due in the next calendar year; and

(B) 1.50 times the estimated amount of Class 1 Administrative Expenses due in the next calendar year;

(ii) annually, or more often as necessary, in its rate filing made to the Department pursuant to the Subchapter H of the Act, the Association shall request any rate increase necessary

to provide projected Class 1 Pledged Revenues in an amount sufficient to meet the coverage requirements in subsection (i) above;

(iii) it will transfer on the Issuance Date of the Initial Series of Class 1 Public Securities the Deposit Amount to the Locked Account;

(iv) 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;

(v) it will transfer on or before the fifth Business Day of each calendar month the Net Premium and other Revenue on deposit in the Operating Account to the Trust Company;

(vi) it will maintain the required balance equal to the Deposit Amount and replenish the Locked Account to the Deposit Amount as required under the Locked Account Agreement.

(b) The Authority hereby covenants and agrees with the Association that:

(i) if the Association shall fail to transfer an amount equal to Net Premium and Other Revenue from the Operating Account to the Trust Company by the fifth Business Day of each calendar month, pursuant to the terms of the Locked Account Agreement, it will direct, or cause the transfer of, sufficient Net Premium and Other Revenue from the Locked Account to the Trust Company for deposit in the Class 1 Revenue Account within the Obligation Revenue Fund;

(ii) it will instruct the Trust Company on the fifth Business Day of each calendar month to transfer the Net Premium and Other Revenue on deposit in the Class 1 Premium Revenue Account within the Obligation Revenue Fund as follows:

(A) to the Class 1 Debt Service Account $1/12^{th}$ of the estimated annual Class 1 Public Securities Obligations on all Outstanding Class 1 Public Securities or such amounts as required by a Supplemental Resolution (the "Required Monthly Debt Service Deposit"). To the extent that sufficient Class 1 Pledged Revenues are not available on any Interest Payment Date, at any Stated Maturity Date, or upon mandatory redemption of Outstanding Class 1 Public Securities, as applicable, to fund the Required Monthly Debt Service Deposits, or amounts then due but unpaid on the Class 1 Public Securities, the Authority will transfer, upon deposit of such additional Class 1 Pledged Revenues in Class 1 Premium Revenue Account within the Obligation Revenue Fund, additional Class 1 Pledged Revenues to the Class 1 Debt Service Account until such account attains the greater of the cumulative Required Monthly Debt Service Deposits or the amounts due but unpaid on the Class 1 Public Securities. To the extent that sufficient Class 1 Pledged Revenues in the Class 1 Premium Revenue Account within the Obligation Revenue Fund are not available to fund the cumulative Required Monthly Debt Service Deposits, the Authority will transfer funds from the Class 1 Debt Service Reserve Account to the Class 1 Debt Service Account;

(B) to the Class 1 Administrative Expenses Account, $1/12^{th}$ of the estimated annual Class 1 Administrative Expenses occurring within 12 months of the Date of Calculation;

(C) to the Class 1 Debt Service Reserve Account, the amount of Class 1 Pledged Revenues sufficient to fund or replenish in equal monthly installments within 24 months the Class 1 Debt Service Reserve Requirement as further provided in the Master Resolution;

(D) to the funds and accounts established for the payment of principal, interest, and reserve fund requirements or obligations under credit agreements for any obligations which hereafter may be issued by the Authority, on behalf of the Association, or to fund Class 2 Repayment Obligations, that are payable from and secured by a lien on and pledges of the Class 1 Pledged Revenues which is subordinate to the liens securing the Class 1 Public Securities issued under the Master Resolution and any Supplemental Resolution; and

(E) to the Operating Reserve Fund, an amount sufficient to attain the Operating Reserve Requirement, if any;

(iii) it will transfer Class 1 Pledged Revenues from the Class 1 Debt Service Reserve Account at such other times and in such amounts as it deems necessary to pay Class 1 Public Securities Obligations; and

(iv) it will transfer from the Class 1 Administrative Expenses Account at such other times and in such amounts as it deems necessary to pay Class 1 Administrative Expenses.

(c) The Authority hereby covenants and agrees with the Association that:

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

(ii) it will provide the Association and the Trust Company confirmation of the sale of Class 1 Public Securities and the amount and time Class 1 Public Security Obligations are due.

Section 4.04 Pledge of Class 1 Pledged Revenues by the Association. The Association covenants and agrees and hereby irrevocably pledges and assigns to the Authority the Class 1 Pledged Revenues; and further the Association hereby acknowledges and agrees and authorizes the Authority to pledge and assign the Class 1 Pledged Revenues to secure the payment of the Class 1 Public Securities Obligations and the Class 1 Administrative Expenses.

Section 4.05 Notification by Authority of Class 1 Public Security Obligation and Other Amounts. As long as there are Outstanding Class 1 Public Securities, the Authority shall notify the Association of the amount of Class 1 Public Securities Obligations and the estimated amount of Class 1 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 Class 1 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 Class 1 Premium Revenue Account within the Obligation Revenue Fund to the Association to be used for the payment of Budgeted Operating Expenses and Scheduled Policy Claims or to purchase reinsurance (at the discretion of the Board of Directors of the Association) and for any other lawful purpose, including

but not limited to (a) transfer to the Class 1 Redemption Account to be used by the Authority to purchase or defease Outstanding Class 1 Public Securities, (b) prepayment of Class 2 Repayment Obligations, or (c) payment to the Catastrophe Fund.

Section 4.07 Insufficient Class 1 Pledged Revenues. If Class 1 Public Securities Obligations are due and payable and there are insufficient funds in the Class 1 Debt Service Account and the Obligation Revenue Fund to pay such Class 1 Public Securities Obligations, (a) the Authority hereby covenants and agrees to provide written notice by electronic transmission or other means of insufficient funds to the Association, and (b) the Association hereby covenants and agrees, upon written notice by electronic transmission or other means from the Authority, to promptly deposit or cause to be promptly deposited any money that is legally available under the Act into the Class 1 Debt Service Account in an amount sufficient to timely pay such Class 1 Public Securities Obligations.

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.

ARTICLE V. ASSIGNMENT OF RIGHTS IN AGREEMENT

Section 5.01 Authority's Assignment of this Agreement. 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 Class 1 Pledged Revenues to the Owners as security for the payment of Class 1 Public Securities Obligations and Class 1 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. 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 Class 1 Pledged Revenues by the Authority to the Owners as security for the payment of the Class 1 Public Securities 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 Class 1 Pledged Revenues and the right and interest to enforce the performance of the obligations of the Association under the Agreement.

*****

LOCKED ACCOUNT AGREEMENT

*****

Section 2. Establishment of the Locked Account.

(a) The Association shall cause the Depository Bank to establish and maintain, on the Issuance Date of the Initial Series of Class 1 Public Securities, a deposit account (which shall be an interest bearing account to the extent reasonably available), in the name of Association for the benefit of the Authority, as the issuer of Class 1 Public Securities, and the Owners of the Class 1 Public Securities (the "Locked Account").

(b) The Locked Account shall be assigned the federal tax identification number of the Association. So long as the Financing and Pledge Agreement has not been terminated, the Association agrees to cooperate with the Authority in the preparation and filing of or the renewal of a financing statement to perfect a security interest in any amounts on deposit in the Locked Account representing Net Premium and Other Revenue of the Association to the Authority for the benefit of the Owners.

(c) The Association and the Authority agree to enter into a Deposit Account Control Agreement with the Depository Bank in order to enable the Authority to exercise its rights hereunder and further agree to keep the Deposit Account Control Agreement (or an equivalent agreement) in place with the Depository Bank or its successor for so long as the Financing and Pledge Agreement is in effect.

(d) Pursuant to Section 4.03 of the Financing and Pledge Agreement, on the Issuance Date of the Initial Series of Class 1 Public Securities, the Association will transfer to the Locked Account lawfully available revenues in the amount of $95,850,000 (the "Deposit Amount"), and thereafter, will maintain the required balance equal to the Deposit Amount in the Locked Account as set forth herein.

Section 3. Operating Account. The Association shall promptly deposit or cause to be promptly deposited in accordance with this Agreement and its Plan of Operation all Gross Premium and Other Revenue that it may receive directly or from any third party into the Operating Account.

Section 4. Disbursements From the Operating Account to the Trust Company.

(a) Beginning on or before the fourth Business Day of the calendar month following the Issuance Date of the Initial Series of Class 1 Public Securities and on or before the fourth Business Day of each calendar month thereafter, the Association shall calculate the amount of Net Premium and Other Revenue available to the Association and, on the fourth Business Day of each calendar month, provide written notice by electronic transmission of such amount to the Authority not later than 11:00 a.m. New York City time (10:00 a.m. Austin, Texas time).

(b) Not later than 11:00 a.m. New York City time (10:00 a.m. Austin, Texas time) on the fifth Business Day of each calendar month the Association shall provide instructions (written or electronic) to the Depository Bank indicating the amount of Net Premium and Other Revenue

on deposit in the Operating Account to be transferred to the Trust Company. The Association shall provide to the Depository Bank instructions (written or electronic) directing the transfer on the fifth Business Day of each calendar month, to the Trust Company for deposit into the Class 1 Premium Revenue Account within the Obligation Revenue Fund the amount in the Operating Account representing Net Premium and Other Revenue.

(c) If the Association shall fail to transfer an amount equal to Net Premium and Other Revenue from the Operating Account to the Trust Company on the fifth Business Day of each calendar month, the Authority is authorized to and will direct the Depository Bank, through the provision of an instruction letter, to cause the transfer of, the amount calculated to be Net Premium and Other Revenue from the Locked Account to the Trust Company for deposit in the Class 1 Premium Revenue Account within the Obligation Revenue Fund to fund any amounts required by Section 4.04(a) and (b) of the Master Resolution.

(d) Without the prior written consent of the Authority and the Association, no party hereto shall terminate, amend, revoke, modify, or contradict any instruction letter delivered hereunder in any manner.

Section 5. Replenishment of Locked Account. If at anytime the funds on deposit in the Locked Account are less than the Deposit Amount, the Association shall make one or more deposits from available revenues to restore the balance of the Locked Account to the Deposit Amount not later than the first Business Day of the calendar month next succeeding the occurrence of any such deficiency. If at any time the funds held in the Locked Account shall exceed the Deposit Amount, the Association may direct the Depository Bank to transfer such excess funds to the Operating Account.

Section 6. Other Funds Held by Trust Company. Pursuant to the Master Resolution, the Authority has established or will establish the Obligation Revenue Fund, including various accounts within such fund, including but not limited to, the Class 1 Premium Revenue Account, the Class 1 Debt Service Account, the Class 1 Administrative Expenses Account, the Class 1 Debt Service Reserve Account, and the Class 1 Redemption Account, and a Operating Reserve Fund into which the Authority will deposit or cause to be deposited Net Premium and Other Revenue received from the Depository Bank in accordance with Section 5(b) hereof in such funds and accounts in the amounts required under the Master Resolution. The Association's right to seek disbursements from the Trust Company after the required deposits under the Master Resolution are made, the Trust Company or Authority's obligations to make such disbursements and the terms and conditions under which such disbursements are to be made are set forth in the Master Resolution, the Financing and Pledge Agreement, and the Funds Management Agreement.

The Trust Company will provide the Authority with a monthly statement of the amounts available in the funds and accounts as more fully described in the Funds Management Agreement.

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Section 8. Replacement of Depository Bank. The Association may replace the Depository Bank with a new Depository Bank reasonably acceptable to the Authority upon five days' written notice to the Authority and compliance with the provisions of the Deposit Account Control Agreement. The

parties hereto each agree that they shall take all reasonable action necessary to facilitate the transfer of the respective obligations, duties, and rights of the Depository Bank being replaced to the successor Depository Bank. In the event of replacement of the Depository Bank, the parties agree to establish a new Locked Account, and the related Deposit Account Control Agreement, and new Operating Account (if such Operating Account is maintained with the Depository Bank) with a new Depository Bank, and amend this Agreement to the extent necessary.

Section 9. Perfection of Security Interest. The Association has granted to the Authority pursuant to the Financing and Pledge Agreement a security interest in the Net Premium and Other Revenue. Additionally, the Association has agreed to grant to the Authority for the benefit of the Owners a security interest in the amounts on deposit in the Locked Account representing Net Premium and Other Revenue of the Association, which grant of a security interest does not include Unearned Premium.

Section 10. Covenants of the Association and the Authority. The Authority hereby covenants to withdraw amounts from the Locked Account as permitted in Section 4(c) hereof, in the event the Association fails to transfer an amount equal to Net Premium and Other Revenue from the Operating Account to the Trust Company.

Section 11. Remedies of the Authority. A writ of mandamus and any other legal and equitable remedies are available to the Authority to require the Association to perform its functions and duties under this Agreement, the Master Resolution, the Authorizing Law, or the Texas Constitution.

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DEPOSIT ACCOUNT CONTROL AGREEMENT

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1. Authority's Control over the Account.

(a) This Agreement evidences the extent of the Authority's control over 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 or by the Association that have been acknowledged by the Authority as set forth herein directing the disposition of 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 Account or Bank otherwise not complying with any instruction from Association directing the disposition of any 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 Net Premium and Other Revenue in the Account or any Funds deposited in the Account, except to the Authority and Bank.

(c) The Association will not permit any Account to become subject to any other pledge, assignment, lien, charge or encumbrance of any kind ("Charges"), 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 for so long as any Class 1 Public Securities are outstanding. Bank shall have no liability in the event the Association breaches this covenant to the Authority.

2. Association Access to the Account.

(a) Except as otherwise provided in this Section 2 of the Agreement, prior to the Activation Effective Time (as defined below) Bank may honor withdrawal, payment, transfer, or other instructions originated by the Association concerning the disposition of Funds in the Account (collectively, "Association Instructions") which shall be issued in accordance with the Locked Account Agreement, which is between the Authority and the Association. On and after the Activation Effective Time, Bank shall honor instructions originated by the Authority concerning the disposition of Funds in the Account ("Authority Instructions") which shall be issued by Authority as provided in Section 4(c) of the Locked Account Agreement without further consent from the Association and the Association shall have no right or ability to access, withdraw or transfer Funds from the Account again until after the Authority has notified the Bank that the transfer described in Section 4(c) of the Locked Account Agreement has been made. Except as provided herein, the Authority Instruction may be rescinded or modified without Bank's consent. Both the Authority and the Association acknowledge that Bank may, without liability, (i) comply with any Association Instruction prior to an Activation Effective Time and (ii) commence to solely honor 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 the 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.

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, Association may operate and transact business through the Accounts 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 Authority by sending Bank a notice of termination (the "Activation Termination Notice") in the form of Exhibit B. Each termination shall become effective on the Termination Effective Time. Notwithstanding anything to the contrary herein, after the second Activation Notice, the Association shall have no authority to access the Account until such time as (i) this Agreement has been terminated in accordance with Section 12, or (ii) the parties to this Agreement enter into a new Deposit Account Control Agreement. 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 Authority in substantially the form of Attachment 2, is acknowledged by the location of Bank to which 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 after the Termination Effective Time to halt further transfers from the Accounts to the account specified by Authority in the Activation Effective Notice.

For purposes hereof, and notwithstanding anything to the contrary in this Agreement, the "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 (the "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 the Activation Effective Time Bank shall wire transfer immediately available Funds in the Account in the amount specified by the Authority to the account specified by the Authority in the Activation Notice. 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 Funds in the Account or (B) the transfer of such Funds would result in Bank failing to comply with a statute, rule or regulation.

(b) Bank may conclusively rely on any notice or instruction delivered to it hereunder, and need not conduct an independent investigation as to such matters.

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4. 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 applicable 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 any 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 the Activation Effective Time, and which is presented for settlement against the Account (after having been presented against the Linked Account) after the Activation Effective Time, (ii) each check or other payment order drawn on or payable against an 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 an 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 the 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.

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7. Bank Subordination and Permitted Debits. Bank agrees that, after the 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 any necessary transfers have been made and the Authority shall notify Bank promptly, in writing in substantially the form attached hereto as Exhibit B, or the Authority shall have notified the Bank of the termination of this Agreement by means of a Termination Notice (defined below).

Continuing after commencement of the 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"); and

(b) any Returned Item Amounts and

(c) any Settlement Item Amounts.

Bank's right to debit the Account under this Section 7 shall exist notwithstanding any obligation of the Association or the Authority to reimburse or indemnify Bank.

8. Association and 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. The failure of the Association 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 Settlement Item Amounts, the Association agrees to pay Bank on demand the amount due Bank. The failure by the Association 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.

(d) At the request of Bank, the Association agrees to provide Bank with quarterly unaudited and annual audited financial statements within a reasonable period of time after the end of each quarter or year-end, as applicable, to Bank's address set forth below.

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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 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.

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APPENDIX C

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 Shelton & Valadez P.C., Co-Bond Counsel, upon the delivery of the Notes, assuming no material changes in facts or law.

WINSTEAD

AUSTIN L DALLAS L FORT WORTH L HOUSTON L SAN ANTONIO L THE WOODLANDS L WASHINGTON, D.C.

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August __, 2012

TEXAS PUBLIC FINANCE AUTHORITY
CLASS 1 REVENUE NOTES
(TEXAS WINDSTORM INSURANCE ASSOCIATION PROGRAM),
TAXABLE SERIES 2012
IN THE PRINCIPAL AMOUNT OF $500,000,000

WE HAVE ACTED AS "CO-BOND COUNSEL" FOR THE TEXAS PUBLIC FINANCE AUTHORITY (the "Issuer" or the "Authority") in connection with the issuance of the captioned Notes, and in that connection we have examined into the legality and validity of the Notes for the sole purpose of rendering an opinion with respect to the legality and validity of the Notes under the laws of the State of Texas and with respect to the treatment of interest on the Notes 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 Issuer or the Texas Windstorm Insurance Association (the "Association") or the disclosure thereof in connection with the sale of the Notes, 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 of Chapter 5 of Part I of Title 28 of the Texas Administrative Code, as amended (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 referred to as the "Authorizing Law"), a transcript of certified proceedings of the Issuer, the approving opinion of the Attorney General of the State of Texas, and other pertinent instruments authorizing and relating to the issuance of the Notes, including the form of Note to be executed and delivered by the Issuer. Capitalized terms not otherwise defined herein shall have the meanings assigned to such terms in the July 9, 2012 "Master Resolution" and "First Supplemental Resolution" authorizing the issuance of the Notes (collectively, the "Resolution").

BASED ON SAID EXAMINATION, 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 Notes.

(2) The transcript of certified proceedings evidences legal authority for the issuance of the Notes in full compliance with the Authorizing Law presently in effect; the Notes, when authenticated and delivered to and paid for by the initial purchasers of the Notes, will be valid and legally binding special obligations of the Issuer 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 Notes have been authorized in accordance with law; and the Notes are payable solely from and equally secured by a lien on and pledge of the Class 1 Pledged Revenues consisting of the following: (i) Net Premium; (ii) Other Revenue; (iii) amounts on deposit in the Funds and Accounts created in the Resolution and in any Supplemental Resolution for the payment of Class 1 Public Securities Obligations, including Investment Income or earnings, if any, credited to such funds and accounts; (iv) any revenue received pursuant to the exercise of any rights and remedies of the Authority under the Financing and Pledge Agreement and the Funds Management Agreement; and (v) any additional revenues hereafter designated as Class 1 Pledged Revenues which are lawfully available to pay Class 1 Public Securities Obligations and Class 1 Administrative Expenses.

THE NOTES 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 NOTES, EXCEPT TO THE EXTENT THE ASSOCIATION IS OBLIGATED TO PAY UNDER THE FINANCING AND PLEDGE AGREEMENT AND THE AUTHORITY IS OBLIGATED TO PAY PURSUANT THE 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 NOTES.

IT IS FURTHER OUR OPINION that even though the Notes are issued by an agency of the State of Texas, under existing law interest on the Notes 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 Notes. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Notes.

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.

Respectfully submitted,

APPENDIX D

DEPOSITORY TRUST COMPANY

This section describes how ownership of the Notes is to be transferred and how the principal of, premium, if any, and interest on the Notes are to be paid to and accredited by The Depository Trust Company, New York, New York ("DTC"), while the Notes 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 Underwriter 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 Underwriter cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Notes, 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 Notes), 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 Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Note will be issued for each maturity of the Notes 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 Notes 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 Notes 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 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes 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 Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("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 Notes 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 Notes, except in the event that use of the book-entry system for any series of the Notes 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 Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the documents governing the Notes or each series as the case may be. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes 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 Notes 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 Notes are to be redeemed, or if any Notes are subject to Special Mandatory Redemption, the Notes 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 Notes 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 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Notes 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 Notes 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 Notes, 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 Notes. In that event, Notes, 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 Underwriter 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 NOTES, WILL SEND ANY NOTICE OF PROPOSED AMENDMENT TO THE RESOLUTIONS OR OTHER NOTICES WITH RESPECT TO SUCH NOTES 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 NOTES OR THE PROVIDING OF NOTICE TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS.

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