Meeting of Board of Directors
Texas Windstorm Insurance Association
Teleconference/Web Conference
May 17, 2022
Hyatt Regency Hotel
208 Barton Springs Road
Austin, TX 77554
9:00 a.m.

Interested parties can listen to the meeting live by going to www.twia.org.
Go to "About Us/Board Meetings" and click on the webinar link.

Interested parties may attend the meeting and offer public comment in person or at the Hyatt Regency Hotel or virtually via Zoom Webinar.

***Indicates item on which General Manager believes the TWIA Board of Directors is likely to take action. However, the TWIA Board of Directors may take action regarding any item on this agenda.**

1. Call to Order: *5 minutes*
   A. Welcoming Remarks – *Chandra Franklin Womack*
   B. Anti-Trust Statement and Conflict of Interest Disclosure – *Counsel*
   C. Meeting Format Information – *Anna Stafford*

2. Consideration and Action to:
   Approve the Minutes from Prior Board of Directors' Meetings *5 minutes*
   – *Chandra Franklin Womack* – ***Action/Vote Likely****

3. Public Comment *15 minutes*

4. TWIA Operational Highlights – *John Polak* *5 minutes*

5. Financial *40 minutes*
   A. Report of the Secretary/Treasurer – *Corise Morrison* – ***Action/Vote Likely****
      1. Income Statement
      2. Management Discussion and Analysis
   B. Financial Statement Review by Staff – *Stuart Harbour*
      1. Income Statement and Expense Statement
      2. Balance Sheet
      3. Cash & Short-Term Investments
      4. Cash Flow Statement
      5. Historical Data
   C. Investment Plan Review – *Stuart Harbour* – ***Action/Vote Likely****
   D. 2022 Storm Season Liquidity and Bond Redemption – *Stuart Harbour*
      1. Line of Credit – ***Action/Vote Likely****
      2. Redemption of 2014 Bonds

E. Financial Audit by Calhoun, Thomson + Matza – *Clark Thomson*
   1. Audit Wrap-Up Reports
   2. Statutory Report – ***Action/Vote Likely****
   3. GASB – ***Action/Vote Likely****
   4. Internal Control Letter

6. Actuarial – *Jim Murphy* — *30 minutes*
   A. Reserve Adequacy
   B. Policy Count/Exposures
   C. 2022 Funding; Reinsurance – *Gallagher Re* – ***Action/Vote Likely****

7. Internal Audit Status & Update – *Bruce Zaret – Weaver* — *10 minutes*

8. Underwriting – *Jessica Crass* — *10 minutes*
   A. Operational Review Update
   B. Depopulation

9. Claims — *10 minutes*
   A. Claims Operations – Overview – *Dave Williams*
   B. Claims Litigation – *David Durden*

10. TWIA Operations — *20 minutes*
    A. IT Systems Update – *Camron Malik*
    B. RFPs for Professional Services – *John Polak* – ***Action/Vote Likely****
    C. Expert Panel Guidelines; Contract Renewal – *Dave Williams*
    D. Communications Update – *Jennifer Armstrong*
    E. General Manager Retirement and Search for New General Manager – *Chandra Franklin Womack* – ***Action/Vote Likely****

11. Closed Session **(Board Only)** — *60 minutes*
    A. Personnel Issues
    B. Legal Advice

12. Consideration of Issues Related to Matters Deliberated in Closed Session That May Require Action, if any, of the Board of Directors — *5 minutes*

13. Committees – *Chandra Franklin Womack* — *5 minutes*
    A. Report on April 27th Legislative and External Affairs Committee Meeting – *Mike Gerik* – ***Action/Vote Likely****

14. Future Meetings – *Chandra Franklin Womack* — *5 minutes*
    A. Future Meeting Dates
       - August 2, 2022 – Moody Gardens Hotel – Galveston, TX
       - December 2022 – TBD

15. Adjourn

Estimated Total Length of Meeting — 3 hours 45 minutes

1. Anti-Trust Statement

ANTI-TRUST COMPLIANCE STATEMENT

The Board of Directors of TWIA is committed to strict compliance with federal and state anti-trust laws. The anti-trust laws are designed to promote free and open competition and to penalize any activities that unreasonably lessen business rivalry. Members of the Board of Directors of TWIA may freely discuss and agree upon agenda items relating to their responsibilities as Directors including such topics as coordinating efforts regarding state or federal legislation, discussion of TWIA policy on legislative issues and methods of legislative lobbying including grass-roots lobbying, public relations, testimony before legislative committees and meetings with state and federal legislators and regulators.

Because TWIA meetings bring together competitors, any unauthorized discussion of topics prohibited by the anti-trust laws such as agreements between competitors on prices and rates, agreements to boycott third parties or agreements to divide markets or even individual insureds could lead to an inference that such an illegal agreement among participants to the discussion was in fact reached. Accordingly, the following guidelines apply to any meeting or other activity conducted under the auspices of TWIA:

- Someone on the TWIA staff shall be present at all times during meetings of the TWIA Board of Directors or other official activities such as meetings of various TWIA committees unless such meetings are for the purpose of discussing personnel matters;

- At any such meetings or official activities, there shall be no discussion of voluntary market rates, prices, discounts or other terms and conditions of sale without the General Manager or the General Counsel being present;

- There shall be no discussion of the areas in which TWIA Board members and their respective member companies will compete for the products and services that they will offer; and

- There shall be no discussion of any agreement or understanding to boycott a third party or to deal with a third party only on certain terms.

Texas Windstorm Insurance Association
5700 South MoPac Expressway, Building A, Austin, Texas 78749 ● P.O. Box 99090, Austin, Texas 78709-9090
512-899-4900 / Fax 512-899-4950

Without the prior authorization of TWIA's General Manager or its General Counsel, there shall be no discussion of agreements to deal exclusively with certain parties, requirements that purchasers of particular products or services must purchase other products or services, standard-setting, certification, statistical reporting, or codes of ethics and other self-regulatory activities.

- Only TWIA staff shall keep minutes of TWIA meetings and will immediately terminate any discussion that may violate these guidelines.

- At TWIA meetings, TWIA company representatives should adhere to the written agenda and outside of TWIA meetings should scrupulously avoid discussion of any topic that might violate these guidelines.

Severe civil and criminal penalties, including fines and imprisonment, can result from violations of the anti-trust laws. Whenever in doubt about how to apply these guidelines, the directors, members, officers and guests of TWIA should consult its General Manager and General Counsel and proceed in a conservative manner in order to avoid any actual, or apparent, violation of antitrust guidelines.

2. Approve the Minutes

Minutes of the Texas Windstorm Insurance Association Board of Directors Meeting Teleconference/Web Conference

Tremont House
2300 Ships Mechanic Row
Galveston, TX

February 22, 2022

The Following Board Members were Present:

1.	Chandra Franklin Womack (Chair)	First Tier Coastal Representative
2.	Georgia Neblett (Vice Chair)	First Tier Coastal Representative
3.	Peggy Gonzalez	First Tier Coastal Representative
4.	Corise Morrison (Secretary/Treasurer)	Industry Representative
5.	Mike Gerik	Industry Representative
6.	Karen Guard	Industry Representative
7.	Tony Schrader	Non-Seacoast Territory Representative
8.	Tim Garrett	Non-Seacoast Territory Representative
9.	Ron Walenta	Non-Seacoast Territory Representative

The Following TWIA Staff, Counsel, and Agents were Present:

1.	John Polak, General Manager	TWIA
2.	Stuart Harbour, CFO	TWIA
3.	Dave Williams, VP Claims	TWIA
4.	David Durden, VP Legal	TWIA
5.	Jessica Crass, VP Underwriting	TWIA
6.	Jennifer Armstrong, VP Communications and Legislative Affairs	TWIA
7.	JD Lester, VP Human Resources	TWIA
8.	Jim Murphy, Chief Actuary	TWIA
9.	Amy Koehl, Senior Project Administrator	TWIA
10.	Anna Stafford, Legislative and External Affairs Manager	TWIA
11.	Camron Malik, Chief Information Officer	TWIA
12.	Mike Perkins, Association Counsel	Perkins Law Group PLLC

The Following Guest Was Present:

1.	Bruce Zaret	Weaver

The Following In Person Attendee Was Present:

1. Rep. Mayes Middleton

<u>The Association's Webinar Tool Attendance Report Indicates the Following Attendees Were Online:</u>

1. Lee Alexander
2. Stephen Alexander
3. Marianne Baker
4. Luke Bellsnyder
5. Albert Betts
6. Talia Bright
7. Christel Brown
8. Kent Brownhill
9. Allen Cashin
10. Cari Christman
11. James Conroy
12. Ebony Cormier
13. Suzan Damas
14. Tad Delk
15. Erin Douglas
16. Theresa Elliott
17. Steve Evans
18. Afton Gillard
19. Todd Hunter
20. Debbie King
21. Xiuyu Li
22. Laura Machado
23. Travis McDavid
24. Richard Meister
25. David Muckerheide
26. Anne O'Ryan
27. Julie Pedraza
28. Melissa Rodriguez
29. Samantha Ruelas
30. Kenisha Schuster
31. Tom Tagliabue
32. Aaron Taylor
33. Larry Taylor
34. Joey Walker
35. Peggy Zahler

1. <u>Call to Order:</u> Ms. Franklin Womack called the meeting to order at 9:01 a.m. Board members were provided with a copy of the anti-trust statement and reminded of the prohibitions in the anti-trust statement by counsel. Mr. Perkins presented the required conflict-of-interest disclosures on behalf of each board member. Ms. Stafford reviewed the housekeeping items.

2. <u>Approval of Minutes:</u> The minutes from the December 7, 2021, October 25, 2021 and February 2, 2022 meetings were reviewed. Ms. Neblett moved to approve the minutes as presented. Mr. Garrett seconded the motion. The motion passed.

3. <u>Election of Officers:</u> Ms. Neblett said with so many projects going on at the moment, she felt the board was well served with the current slate keeping their positions as is. Mr. Garrett moved for the election of the following persons to serve as officers of the Association with their terms to begin on March 1, 2022: Chandra Franklin Womack as chair, Georgia Neblett as vice chair and Corise Morrison as secretary/treasurer. Ms. Neblett seconded the motion. The motion passed.

4. <u>Public Comment:</u> Ms. Stafford reviewed the written public comment received ahead of the meeting. In person comments were offered by Rep. Mayes Middleton. Rep. Todd Hunter offered comments via Zoom Webinar.

5. <u>TWIA Operational Highlights:</u> In Q4, operating expenses were well below plan and net income above plan. The Association is slightly behind with respect to the goal to

complete all strategic initiatives by the originally scheduled deadlines. Underwriting and claim service levels exceeded turnaround time and quality standards. Litigated claims and complaints in Q4 2021 remain below plan.

6. Financial:
   A. Report of the Secretary/Treasurer: Ms. Morrison reviewed the Treasurer's Report. Ms. Morrison moved to approve the report. Mr. Garrett seconded the motion. The motion passed.
   B. Financial Statement Review by Staff: Direct written premiums for the year ended December 31, 2021 totaled $395.1 million, which was $25.5 million (6.9%) above the $369.6 million for the same period in 2020. Direct written premium was $22.9 million (6.1%) higher than the budgeted $372.3 million. Policies in force as of December 31, 2021 of 193,002 were 9,325 (5.1%) higher than the budgeted number of 183,677.

      The TWIA 2021-2022 reinsurance program incepted on June 1, 2021. The gross cost associated with the $1.93 billion in coverage was $102.1 million compared to a budgeted cost of $114.8 million. This reflects an overall rate online (ROL) of 5.3% compared to the 5.1% ROL for the 2020 program. The coverage purchased in 2021 was $1.93 billion compared to the prior year coverage of $2.1 billion reflecting the lower 1 in 100 PML.

      Direct premiums earned through December 2021 totaled $378.5 million compared to $369.2 million for the prior year (an increase of $9.3 million or 2.5%). Direct premium earned was $9.0 million higher than the budget of $369.5 million.

      The one carrier (SafePoint) that signed up to participate in round five of depopulation (Weston elected to withdraw) selected approximately 32,000 policies for potential novation from TWIA. The agent review period closed on May 31 and approximately 31,800 policies were removed leaving less than 200 policies for potential depopulation. Owners of the remaining policies now have until January 31, 2022 to decide whether to allow their policy to transfer through depopulation or opt out and remain with TWIA.

      Direct losses and LAE incurred for the year ended December 31, 2021 totaled $19.0 million which was $44.0 million below the budget of $63.0 million. The lower than budgeted losses reflect the 2021 reductions in the estimated ultimate losses and LAE for Hurricane Ike, Hurricane Harvey and the 2020 hurricane events and a relatively mild 2021 spring storm season which combined to more than offset losses of approximately $52 million from Hurricane Nicholas. TWIA reported a YTD direct loss & LAE ratio of 5.0% compared to the budgeted 17.0%. The ultimate loss and loss adjustment expense estimate for Hurricane Harvey now stands at $1.67 billion.

Operating expenses for the year ended December 31, 2021 of $27.5 million were below budget by $3.8 million (12.1%). Notable expense items under budget include contractors and temporary help ($2.0 million), IT consulting ($695,000), software ($338,000), recruiting, training and other personnel expenses ($192,000), travel expenses ($175,000) and actuarial services ($145,000). The year-to-date operating expense ratio of 7.3% is below the budgeted ratio of 8.5%.

Year-to-date commission expense of $63.2 million and premium taxes of $7.3 million were over budget by $3.6 million and $401,000 respectively as direct written premium was higher than the budgeted amount.

Gross investment income for the year ended December 31, 2021 was $297,000, which was $89,000 higher than the budgeted amount of $208,000. Short term investment rates remain at extremely low levels. Interest expense on Class 1 bonds was on budget at $16.7 million.

Net income for the year ended December 31, 2021 was $143.1 million or $65.1 million (83.4%) above the budgeted income of $78.0 million.

The deficit as of December 31, 2021 was $26.3 million compared to $160.5 million as of December 31, 2020. The deficit improved due to the 2021 net income of $143.1 million and the decision by the TWIA Board of Directors to utilize the 2021 net gain from operations to redeem outstanding debt. The reduction in the deficit was slightly offset by an increase of $9.0 million in non-admitted assets which consists primarily of capitalized software (Project Elevate) and other prepaid expenses.

Ms. Neblett asked why the Expert Panel costs were listed twice under "Other Expenses." Mr. Harbour thought it was broken out between Accenture and modeling done by RMS. He will combine the expert panel costs into one item in the future expense reports. Mr. Walenta stated he thinks commission expense should go down to 10%.

C. Early Redemption of Remaining 2014 Class 1 Bonds: Mr. Harbour said the outstanding balance of the funds at 2021-year end was $177,000,000. The next steps are to finalize loan terms with Chase, a rate lock or variable loan. Permission is required to execute early redemption from the TDI Commissioner. The TWIA Board of Directors will be asked to adopt the loan and TFPA resolutions today. Staff will work on required communications and the bond payoff and short-term loan amounts will be finalized. The Texas Public Finance Authority will fund and close the transaction to retire all outstanding bonds. Mr. Walenta moved to adopt the two sets of resolutions in the board materials. Ms. Neblett seconded the motion. The motion passed unanimously.

7. Actual:

   A. Reserve Adequacy: The actuarial staff has completed a review of Texas Windstorm Insurance Association loss and loss adjustment expense reserves as of December 31, 2021.

      Hurricane Nicholas made landfall on September 26 in Matagorda County as a Category 1 hurricane. As of January 17, 2022, 6,477 Nicholas related claims were reported to the Association and the total incurred loss and expense was estimated and booked at $52 million in Q4 financials.

      The actuarial estimate of ultimate loss and loss adjustment expenses for Hurricane Harvey is in a reasonable range of $1.66 billion to $1.68 billion. Consistent favorable loss and expense development has been observed since first quarter of 2021, the ultimate loss and loss adjustment expense estimate is adjusted down by $10M to $1.67B after careful consideration of input claim and legal experts.

      The actual ultimate costs of Hurricane Harvey may differ substantially from the selected $1.67B. This variability arises from the assumptions made regarding the adequacy of case reserves for open claims and the outcome of disputed claims. About 246 of the 314 open claims are in some stage of litigation. There remains a material risk of adverse development due to the large variability associated with outstanding disputed claims, including those claims subject to litigation. The actuarial team will continue to monitor current case reserve adequacy and litigation/disputes to ensure all outstanding obligations are properly reserved.

      As of December 31, 2021, TWIA carried $77.6 million in total gross loss and loss adjustment expense reserves with $41K of the total gross ceded to carriers who have participated in the Association's Assumption Reinsurance Depopulation Program. The total gross loss and loss adjustment expense reserves include the reserves for Hurricane Ike, Harvey, Delta, Laura, Hanna, Nicholas and other outstanding claims. Collectability risk has been reviewed and found to be immaterial relative to total gross reserves.

      In the opinion of the senior actuary, the Association's reserves met the requirements of the insurance law of Texas, were consistent with reserves computed in accordance with accepted actuarial standards and principles and made a reasonable provision for all combined unpaid loss and loss expense obligations of the Association under its contracts and agreements.

   B. Policy Count/Exposures: Policy counts are growing since March of last year. It is fairly consistent between commercial and residential policies.

   C. Appointment of Actuary and Qualification Documentation: Mr. Murphy stated that every year, the TFPA Governing Committee would need to approve the appointed actuary. Mr. Murphy pointed the committee members to Xiuyu Li's credentials in the meeting materials. Ms. Neblett moved to approve Xiuyu Li as the Association's appointed actuary. Ms. Morrison seconded the motion. The motion passed unanimously.

D. 2022 Funding; Including Aon Modeling Update and Reinsurance: Staff has met with Aon representatives several times and the work is in progress. They will present results at an interim meeting coming up in March. Staff is also working with Gallagher Re and they will discuss reinsurance placement.

8. Internal Audit & Status: Current internal audit activities include premium taxes, actuarial, vendor management, information security and business continuity of operations. Upcoming audits include plan of operation.

9. Underwriting:

   A. Operational Review Update: Underwriting continues to have consistent turnaround time on all transactions. The goal is to issue 90% of new business submissions, endorsements, renewals and cancellations within 10 days. Staff is surpassing this standard with over 98% of transactions processed within 10 days. Over 85% of applications/renewals were processed within one day.

      Quality assurance results on underwriting decisions continue to exceed established goals. Telephone service response times and service quality scores continue to meet expectations. Underwriting is operating below budget, largely due to managing headcount and more efficient use of virtual and aerial inspections.

      Standard audits were completed for a sample of agents doing business with TWIA in the third quarter of 2021 to verify compliance with the declination of coverage and flood insurance requirements.

      Ninety five percent of agencies have completed their responses. Staff are pursuing a response from the remaining agency and escalating issues as necessary. Of the agents who have responded, 100% of policies reviewed were compliant with the requirement for proof of declination coverage. Two percent of the policies/properties selected for review required flood insurance. Only one policy is not currently compliant with flood insurance requirements and staff is working with the agency to bring that policy into compliance. All agents audited have an active property and casualty insurance license.

      Audit notifications have been sent to the agencies selected for audit on fourth quarter 2021 business. Responses are due back to TWIA no later than February 18, 2022.

   B. Depopulation: The program is in its fifth round. There is one participating carrier, SafePoint. There are just over 100 policies slated to transfer on March 1 after going through agent approvals and a policyholder opt out period. Round six has begun with the same carrier approved for participation. They will submit their offers in the next month.

10. Claims:
   A. Claims Operations: First notice of loss to property inspection averaged 4.4 days. Total cycle time of first notice of loss to payment was 13.7 days. TWIA claim volume for 2021 was 12,535. As of December 31, 2021, TWIA received 6,448 Hurricane Nicholas claims of which, 2,611 are closed. Open claims number 3,837.
   B. Litigation Report: For the fourth quarter of 2021, TWIA received eight new claims in suit and closed 53. For the quarter, 130 TWIA received 130 claims with letters of representation and closed 54. The majority of the suits are held by the Daly & Black and Furlow Law Firms. Ms. Neblett asked if Mr. Durden could break down letters of representation and suits by storm.

11. TWIA Operations:
   A. IT Systems Update: The TWIA Elevate program is now in the stabilization phase with user acceptance testing (UAT) underway.

      The original cost benefit analysis projected $5M in IT expense reduction starting in 2023. Staff had updated the board in December on plans to accelerate the savings and this has been put into effect and the Association will save approximately $1.8M in 2022 with further reductions coming in 2023.

      The virtual desktop infrastructure project was successfully completed in December. This effort was to move the organization to a remote, virtual computing environment that is independent of the data center. It has proven to be flexible and reliable and will have a beneficial effect on the budget.

      The systems development/production support releases continue with their monthly cadence, delivering various defect fixes and features for the business with quality and timeliness. The infrastructure and operations team continues to support remote work and excellent quality. All technology support and projects are on-track.

      Ms. Neblett asked how long TWIA is committed to Wellington for the 10-pay program. It is committed until Elevate goes live in April. Mr. Gerik asked how many policyholders have taken up the Wellington plan. Mr. Harbour said he would give an update on that later in the meeting.
   B. Elevate Status: Mr. Malik and Ms. Armstrong provided an update on Elevate. They noted that Elevate will upgrade core business systems, move TWIA and TFPA to a common shared platform and launches new agent and policyholder portals. The goals for the program are to reduce operating expenses, simplify processes and user experience and align more closely with the industry.
   C. Wellington 10-Pay Update: The program was implemented on February 1. There were some challenges on the go-live day but an emergency fix was put in and the system was back on track. As of February 18, 204 contracts were put in

place for funding. This falls in line with the estimated take up rate. Staff expects this number to increase as it goes forward.

D. Communications Update: The Association remains on track for implementing applicable legislation passed during the 87th Legislative Session. During Q4 2021, efforts continued to be focused primarily on coordinating with TDI on the 10-day grace period rules for premium payments as part of the Elevate systems upgrade project.

   In Q4 2021, staff focused coastal outreach efforts on responding to stakeholders impacted by Hurricane Nicholas. TWIA's primary media outreach activity in Q4 2021 was similar to the same quarter in the previous year, driven mainly by board and committee activity related to rates.

12. Closed Session: There was no closed session.

13. Consideration of Issues Related to Matters Deliberated in Closed Session that May Require Action, if any, of the Board of Directors: There was nothing to consider.

14. Committees; Including Filling Actuarial & Underwriting Committee Vacancy(ies): Mr. Walenta will join the TWIA Legislative and External Affairs Committee. Mr. Durden said a representative from the Office of Public Insurance Counsel has served on the committee in the past and weighed in on rate considerations. Ms. Franklin Womack said the vacancy doesn't need to be filled at this moment. Mr. Walenta said he would serve on the committee if needed. Mr. Murphy said staff solicited nomination on the TWIA website and tried to identify other qualified candidates. Mr. Gerik supported Mr. Walenta serving on the committee. Ms. Neblett moved to add Mr. Walenta to the TWIA Actuarial and Underwriting Committee. Mr. Gerik seconded the motion. The motion passed.

15. Future Meetings:

- May 17, 2022 – Hyatt Regency Austin
- August 2022 – TBD

16. Adjourn: The meeting adjourned at 10:38 a.m.

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Prepared by: Amy Koehl
Senior Project Administrator

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Approved by: Chandra Franklin Womack
TWIA Chair

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Approved by: Georgia Neblett
TWIA Vice Chair

Minutes of the Texas Windstorm Insurance Association
Board of Directors Meeting
5700 South MoPac Expressway
Building A
Austin, Texas 78749

March 22, 2022

The Following Board Members Were Present:

1.	Chandra Franklin Womack (Chair)	First Tier Coastal Representative
2.	Georgia Neblett (Vice Chair)	First Tier Coastal Representative
3.	Karen Guard	Industry Representative
4.	Mike Gerik	Industry Representative
5.	Corise Morrison (Secretary/Treasurer)	Industry Representative
6.	Tony Schrader	Non-Seacoast Territory Representative
7.	Ron Walenta	Non-Seacoast Territory Representative
8.	Tim Garrett	Non-Seacoast Territory Representative

Absent: Peggy Gonzalez: First Tier Coastal Representative

The Following TWIA Staff and Counsel Were Present:

1.	John Polak, General Manager	TWIA
2.	Stuart Harbour, Chief Financial Officer	TWIA
3.	David Durden, VP Legal	TWIA
4.	Jessica Crass, Interim VP Underwriting	TWIA
5.	Jennifer Armstrong, VP Communications and Legislative Affairs	TWIA
6.	Jim Murphy, Chief Actuary	
7.	Amy Koehl, Senior Project Administrator	TWIA
8.	Anna Stafford, Legislative and External Affairs Manager	TWIA
9.	Mike Perkins, Association Counsel	Perkins Law Group PLLC

The Following Guests Were Present:

1.	Debbie King	AmTrust
2.	James Conroy	Aon
3.	Dan Dick	Aon
4.	Dan Schweitz	Aon
5.	Hailey Smith	Aon
6.	Allen Cashin	Gallagher Re
7.	Bill Dubinsky	Gallagher Re
8.	Alicia Gerte	Gallagher Re

The Association's Webinar Tool Attendance Report Indicates the Following Attendees Were Online:

1. Stephen Alexander
2. Brenner Anderson
3. Marianne Baker
4. Sally Bakko
5. Tom Beckmerhagen
6. Luke Bellsnyder
7. David Bolduc
8. Ryan Brannan
9. Joseph Braun
10. Laura Carr
11. Cari Christman
12. Ebony Cormier
13. Tad Delk
14. Theresa Elliott
15. Regan Ellmer
16. Carlos Garcia
17. Melissa Heggen
18. Todd Hunter
19. Debbie King
20. Xiuyu Li
21. Lee Loftis
22. Louie Lujan
23. Laura Machado
24. Janie Melendez
25. Mayes Middleton
26. David Muckerheide
27. Constance MvQuiston
28. Jade Nguyen
29. Anne O'Ryan
30. Julie Pedraza
31. Kenisha Schuster
32. Terrilyn Tarlton Shannon
33. Larry Taylor
34. Ed Thompson
35. Ed Thompson
36. Joey Walker
37. Molly Wilson
38. Peggy Zahler

1. Call to Order: Chair Chandra Franklin Womack called the meeting to order at 1:32 pm. Board members were provided with a copy of the anti-trust statement and reminded of the prohibitions in the anti-trust statement by counsel and the required conflict of interest disclosures were made. Anna Stafford went over the housekeeping details for the meeting.

2. Public Comment: Anna Stafford gave a review of the written public comments that were received. Rep. Todd Hunter, Rep. Mayes Middleton and Terrilyn Tarlton Shannon offered verbal public comment.

3. Review of Catastrophe Model Results and Determination of 1:100 PML: James Conroy, Dan Dick and Dan Schweitz reviewed the modeling results so far. Hailey Smith reviewed hazards and the frequency and severity of hurricanes that have hit the Texas coast. She covered what types of events are driving losses in each model. Mr. Dick said models change regularly. All the models are Florida certified so that means they incorporate hurricane data from NOAA every other year. Mr. Schweitz discussed demand surge impact.

4. 2022 Funding, Including Purchase of Reinsurance: Mr. Murphy stated the Association is required by statue to maintain total available loss funding in an amount not less than the Association's probable maximum loss for a catastrophe year with a one-in-100-year probability. In 2019, the Texas Legislature enacted statutory changes that require the Association to assess its member insurers to pay for any reinsurance it purchases in excess of the Association's 1:100 statutory minimum funding level. Member

assessments to pay for this excess reinsurance are distinct from member assessments to pay losses and would not affect the Association's ability to assess member companies for excess losses incurred. He then explained the resolutions regarding reinsurance that were passed by the TWIA Board of Directors at their March 23, 2021 board meeting.

Mr. Gerik said one can look at any model and fundamentally they will be different for different reasons. RMS produced lower results previously but now they are higher. It doesn't matter which one is chosen; it won't be right if an event occurs. Every storm is different and every model is different. Mr. Gerik wants loss adjustment expense in the model results. Mr. Walenta thinks blending four models leads to more accuracy. He also wants loss adjustment expense in the results and also wants to factor in inflation percentage.

Mr. Walenta made the following motion and Mr. Garrett seconded:

The board agrees to average the results from the catastrophe models presented as a reference point for making its reinsurance purchase decision using the following weighting: AIR 25%, RMS 25%, IF 25%, RQE 25%.

The board agrees that the model results based on near term assumptions are preferable.

The board agrees that the words, "total available loss funding" in statute contemplate inclusion of loss adjustment expenses in determining the probable maximum loss for the Association for a catastrophe year with a probability of one in one hundred.

The board agrees based on the foregoing and the information presented that for catastrophe year 2022, the one in 100 probable maximum loss amount is $4.236 billion.

The board directs the Association's reinsurance broker to pursue placement of the reinsurance program for the 2022-2023 reinsurance contract year using a combination of catastrophe bonds and traditional reinsurance in an aggregate amount of $2.036 billion (in excess of $2.2 billion in statutory funding).

Staff is authorized and directed to submit these resolutions and supporting information to the Texas Department of Insurance for any review or approval that may be required by the Commissioner of Insurance under law.

A roll call vote was conducted.

Karen Guard – Yes
Mike Gerik – Yes
Corise Morrison – Yes
Georgia Neblett – Yes
Chandra Franklin Womack – Yes
Ron Walenta – Yes

Tim Garrett – Yes
Tony Schrader – Yes
Peggy Gonzalez wasn't on the call.

The motion passed.

Mr. Cashin reviewed the 2022 property CAT market conditions. He went over the favorable trends: capacity remains elevated, competing market with traditional vs. ILS (Cat bonds), ROLs still well below 2008-2012 levels. There are headwinds in 2022: all major reinsurers have reduced net PML in 2022, another large rate increase pushed through the market at 1/1, record cat losses in 2020 & 2021 and interest rates begin to compete for risk assets. Bill Dubinsky reviewed the CAT bond market update and Alicia Gerte reviewed the 2021 program vs. the 2022 preliminary program.

5. Adjourn: The meeting was adjourned at 3:43 pm.

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Prepared by: Amy Koehl
Senior Project Administrator

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Approved by: Chandra Franklin Womack
TWIA Chairman

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Approved by: Georgia Neblett
TWIA Vice Chairman

4. TWIA Operational Highlights

2022 TWIA Enterprise Scorecard

Reporting YTD as of March 31, 2022

TEXAS WINDSTORM INSURANCE ASSOCIATION

	YTD	Trend	Goal	Δ	Performance
Operating Expense Ratio	7.6%		8.1%	-0.5%	
Net Income[1]	$67.6 M		$78.6 M	-$11.1 M	
Enterprise Projects	94%		90%	4%	
Policy Administration	100%		90%	10%	
Claims Handling	95%		90%	5%	
Litigated Claims	0.00%		0.50%	-0.50%	
Complaints	7		6	1	

[1] Net Income equals YTD 2022 net income reduced by YTD monthly principal prepayments on public securities.

Reference Data

Policies In-Force	194,557
Exposures In-Force	$60.8 billion
Written Premiums YTD	$87.2 million
Claims Received YTD	1,322
Losses Incurred YTD[2]	$7.9 million

[2] Excludes IBNR

Key Quarterly Activities

- Successfully deployed the ELEVATE systems upgrade project on April 18.
- Implemented the Wellington Residential Interest-Free 10-Pay Plan in February to give policyholders expanded payment options ahead of the launch of ELEVATE.
- In Q1 2022, operating expenses and net income were slightly below plan.
- On track to complete all strategic initiatives by the originally scheduled deadlines.
- Exceeded turnaround time and quality standards on Underwriting and Claim service levels.
- Remain below plan on litigated claims in Q1 2022.

5. Financial

5A. Report of the Secretary/Treasurer

5A1. Income Statement

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Income Statement - Treasurer's Report
for the three months ended March 31,
(000's omitted)

	2022	2021
Direct Premiums Written	$ 87,215	$ 75,122
Premiums Earned:		
Direct Premiums Earned	$ 98,427	$ 90,583
Ceded Reinsurance Premiums	-	-
Ceded Reinsurance Premiums - Depopulation	-	-
Net Premiums Earned	98,427	90,583
Deductions:		
Direct Losses and LAE Incurred	17,589	(12,489)
Direct Losses and LAE Incurred - Harvey	-	(20,000)
Direct Losses and LAE Incurred - Ike & Dolly	-	-
Ceded Losses and LAE Incurred - Depopulation	(2)	52
Operating Expenses	7,519	6,935
Commission Expense	13,944	12,010
Ceding commissions / brokerage	-	-
Ceding commissions / brokerage - Depopulation	-	-
Premium / Maintenance Tax	1,625	1,403
Total Deductions	40,676	(12,090)
Net Underwriting Gain or (Loss)	57,751	102,672
Other Income or (Expense):		
Gross Investment Income	93	81
CRTF Funds Received	-	-
Member Assessment Income	-	-
Interest Expense on Class 1 Bonds	(3,651)	(4,686)
Debt Issuance & Other Investment Expenses	(73)	(115)
Other	-	-
Total Other Income or (Expense)	(3,631)	(4,721)
Net Income (Loss)	$ 54,120	$ 97,952
Surplus (Deficit) Account:		
Beginning Surplus (Deficit)	$ (24,584)	$ (160,451)
Net Income (Loss)	54,120	97,952
Change in Provision for Reinsurance	-	-
Change in nonadmitted assets - Other	(5,137)	(5,714)
Other	-	-
Statutory Fund Cost	(13,446)	(11,966)
Ending Surplus (Deficit)	$ 10,953	$ (80,179)

5A2. Management Discussion and Analysis

Texas Windstorm Insurance Association
Management's Discussion and Analysis of Financial Results for the Three Months Ended March 31, 2022

Direct Written Premium:
- Direct written premiums for the three months ended March 31, 2022 totaled $87.2 million, which was $12.1 million (16.1%) above the $75.1 million for the same period in 2021. Direct written premium was $4.6 million (5.6%) higher than the budgeted $82.6 million.
- Policies in force as of March 31, 2022 of 194,557 were 1,353 (0.7%) lower than the budgeted number of 195,910.

Reinsurance Costs

The TWIA 2021-2022 reinsurance program incepted on June 1, 2021 and remains in effect until May 31, 2022. The gross cost associated with the $1.93 billion in coverage was $102.1 million compared to a budgeted cost of $114.8 million. This reflects an overall rate-on-line (ROL) of 5.3% compared to the 5.1% ROL for the 2020 program. Ceded premiums associated with the 2021-2022 reinsurance program were fully earned during the 2021 hurricane season.

Direct Premiums Earned:
- Direct premiums earned through March 2022 totaled $98.4 million compared to $90.6 million for the prior year (an increase of $7.8 million or 8.7%).
- Direct premium earned was $1.3 million higher than the budget of $97.1 million.

Depopulation Program:
- The one carrier (SafePoint) that signed up to participate in round 5 of depopulation (Weston elected to withdraw) originally selected approximately 32,000 policies for potential novation from TWIA. The agents review period closed on May 31, 2021 and approximately 31,800 policies were removed leaving less than 200 policies for potential depopulation. Owners of the remaining policies had until January 31, 2022 to decide whether to allow their policy to transfer through depopulation or opt out and remain with TWIA. The round 5 novation was completed on March 1, 2022 with a total of 125 policies transferred to SafePoint.

Loss and Loss Adjustment Expense Incurred:
- Direct losses and LAE incurred for the three months ended March 31, 2022 totaled $17.6 million which was $9.8 million above the budgeted amount. The higher than budgeted losses resulted from an increase in reserves primarily due to adverse development related to 2021 Hurricane Nicholas.
- TWIA reported a YTD direct loss & LAE ratio of 17.9% versus a budgeted ratio of 8.0%.
- The ultimate loss and loss adjustment expense estimate for Hurricane Harvey continues to stand at $1.67 billion.

Operating Expenses:

- Operating expenses for the three months ended March 31, 2022 of $7.5 million were below budget by $365,000 (4.6%).
- Notable expense items under budget include postage ($72,000), software and hardware ($266,000), and other services ($72,000)
- The year-to date operating expense ratio of 7.6% is below the budgeted ratio of 8.1%.

Commission Expense and Premium Taxes:

- Year-to-date Commission expense of $13.9 million and Premium taxes of $1.6 million were over budget by $728,000 and $89,000 respectively as Direct Written premium was higher than the budgeted amount.

Other Income (Expense):

- Gross investment income for the three months ended March 31, 2022 was $93,000 which was $39,000 higher than the budgeted amount of $53,000. Short term interest rates remain at low levels but are starting to increase slightly as the Federal Reserve reacts to recent high levels of inflation.
- Interest expense on Class 1 bonds was on budget at $3.7 million. The early redemption of the remaining $177 million of Class 1 bonds is on schedule to be completed by May 9, 2022.

Net Income

- Net income for the three months ended March 31, 2022 was $54.1 million or $8.8 million (14.0%) below the budgeted income of $63.0 million.

Surplus/(Deficit):

- The surplus as of March 31, 2022 was $11.0 million compared to the deficit of $24.6 million as of December 31, 2021. The deficit improved due to the year-to-date net income of $54.1 million. The increase in surplus was partially offset by $13.4 million in statutory fund cost for the year-to-date CRTF accrual and an increase of $5.1 million in non-admitted assets which consists primarily of prepaid expenses and capitalized software.

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5B. Financial Statement Review by Staff

5B1. Income Statement and Expense Statement

5B2. Balance Sheet

5B3. Cash & Short-Term Investments

5B4. Cash Flow Statement

5B5. Historical Data

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Income Statement (000's omitted)
for the three months ended March 31,

	Actuals - 2022	Budget - 2022	Variance - 2022	Actuals - 2021
Premiums Written:				
Direct	$ 87,215	$ 82,599	$ 4,616	$ 75,122
Ceded	-	-	-	-
Ceded - Depopulation	-	-	-	-
Net	87,215	82,599	4,616	75,122
Premiums Earned:				
Direct	$ 98,427	$ 97,113	$ 1,314	$ 90,583
Ceded	-	-	-	-
Ceded - Depopulation	-	-	-	-
Net	98,427	97,113	1,314	90,583
Deductions:				
Direct Losses and LAE Incurred	17,589	7,789	9,801	(12,489)
Direct Losses and LAE Incurred - Harvey	-	-	-	(20,000)
Direct Losses and LAE Incurred - Ike & Dolly	-	-	-	-
Ceded Losses and LAE Incurred - Depopulation	(2)	-	(2)	52
Operating Expenses	7,519	7,884	(365)	6,935
Commission Expense	13,944	13,216	728	12,010
Ceding commissions / brokerage	-	-	-	-
Ceding commissions / brokerage - Depopulation	-	-	-	-
Premium / Maintenance Tax	1,625	1,536	89	1,403
Total Deductions	40,676	30,424	10,251	(12,090)
Net Underwriting Gain or (Loss)	57,751	66,689	(8,938)	102,672
Other Income or (Expense):				
Gross Investment Income	93	53	39	81
CRTF Funds Received	-	-	-	-
Member Assessment Income	-	-	-	-
Interest Expense on Debt	(3,651)	(3,651)	0	(4,686)
Debt Issuance/Maintenance & Other Investment Expenses	(73)	(128)	55	(115)
Other	-	-	-	-
Total Other Income or (Expense)	(3,631)	(3,725)	94	(4,721)
Net Income (Loss)	$ 54,120	$ 62,963	$ (8,844)	$ 97,952
Surplus (Deficit) Account:				
Beginning Surplus (Deficit)	(24,584)	(24,584)	-	(160,451)
Net Income (Loss)	54,120	62,963	(8,844)	97,952
Change in Provision for Reinsurance	-	-	-	-
Change in nonadmitted assets - Other	(5,137)	(4,413)	(724)	(5,714)
Other	-	-	-	-
Statutory Fund Cost	(13,446)	(15,657)	2,211	(11,966)
Ending Surplus (Deficit)	$ 10,953	$ 18,310	$ (7,357)	$ (80,179)
Key Operating Ratios:				
Direct:				
Loss & LAE Ratio:				
Non Hurricane	17.9%	8.0%	9.9%	-13.8%
Hurricane Harvey	0.0%	0.0%	0.0%	-22.1%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%
Loss & LAE Ratio	17.9%	8.0%	9.9%	-35.9%
UW Expense Ratio:				
Acquisition	17.9%	17.9%	(0.0%)	17.9%
Non Acquisition	7.6%	8.1%	(0.5%)	7.7%
UW Expense Ratio	25.5%	26.0%	(0.5%)	25.5%
Combined Ratio	43.4%	34.0%	9.4%	-10.4%
Net:				
Loss & LAE Ratio:				
Non Hurricane	17.9%	8.0%	9.8%	-13.7%
Hurricane Harvey	0.0%	0.0%	0.0%	-22.1%
Hurricanes Ike & Dolly	0.0%	0.0%	0.0%	0.0%
Loss & LAE Ratio	17.9%	8.0%	9.8%	-35.8%
UW Expense Ratio:				
Acquisition	18.0%	18.0%	0.0%	17.9%
Non Acquisition	7.6%	8.1%	(0.5%)	7.7%
UW Expense Ratio	25.6%	26.1%	(0.5%)	25.6%
Combined Ratio	43.5%	34.1%	9.4%	-10.2%

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Expense Report (000's omitted)
for the three months ended March 31,

Description	Actuals - 2022	Budget - 2022	Variance - 2022	Actuals - 2021
Personnel Expenses				
Salaries & Wages - Permanent	$ 3,468	$ 3,457	$ 12	$ 3,381
Contractor & Temporary Help	2,561	3,577	(1,016)	2,340
Payroll Taxes	257	296	(39)	277
Employee Benefits	1,281	1,229	52	1,246
Recruiting, Training & Other	73	69	4	97
Subtotal	$ 7,640	$ 8,628	$ (988)	$ 7,341
Professional & Consulting Services				
Legal	$ 91	$ 145	$ (54)	$ 104
Accounting & Auditing	54	77	(22)	79
Information Technology	921	942	(21)	1,290
Actuarial Services	150	39	111	56
Omsbudsman Program	137	112	25	130
Surveys & Inspections	327	323	4	316
Disaster Recovery Services	29	68	(39)	106
Other Services (1)	1,278	1,309	(31)	1,092
Subtotal	$ 2,988	$ 3,014	$ (26)	$ 3,172
Hardware/Software Purchases & Licensing	$ 909	$ 1,205	$ (296)	$ 889
Rental & Maintenance - Office/Equipment	319	347	(29)	337
Travel Expenses	19	57	(39)	1
Postage, Telephone and Express	185	263	(77)	224
Capital Management Expenses	4	4	0	4
Depreciation	7	7	(0)	7
Other Operating Expenses	358	453	(96)	283
Total Operating Expenses	**$ 12,428**	**$ 13,979**	**$ (1,551)**	**$ 12,260**
Capitalization of Fixed Assets	(1,533)	(1,901)	369	(2,071)
Reimbursement of Depop Servicing Expense	(1)	(2)	0	(10)
Allocation To ULAE	(3,307)	(4,110)	802	(3,174)
Allocation To Investing & Other Expense	(68)	(83)	15	(70)
Net Operating Expense - UW Operations	**$ 7,519**	**$ 7,884**	**$ (365)**	**$ 6,935**

(1) Summary Details for Other Services:

VENDOR	Amount	Department
Accenture LLP	$ 561	Expert Panel
Marshall & Swift/Boeckh	$ 284	UW
ISO Services Inc	$ 79	Claims
Clear Point Claims LLC	$ 79	UW
EagleView Technologies Inc	$ 67	Claims
Xactware Solutions Inc	$ 52	Claims
Iron Mountain Records Management	$ 38	Operations
Insurity LLC	$ 32	Claims
Risk Management Solutions Inc	$ 28	Expert Panel
*Other Outside Services below $20K	$ 58	Various departments
Total Other Services	**$ 1,278**	

TEXAS WINDSTORM INSURANCE ASSOCIATION

Statutory Balance Sheet (000's omitted)

	March-22	December-21
Admitted Assets		
Cash and short term investments:		
Unrestricted	$ 428,519	$ 424,825
Restricted - Funds Held at TTSTC	78,961	69,002
Restricted - Funds Held at TTSTC (Non Admitted)	-	-
Total cash and short term investments	507,480	493,827
Premiums receivable & other	3,518	3,108
Assessment receivable	(11)	-
Amounts recoverable from reinsurers	0	-
Total admitted assets	**$ 510,986**	**$ 496,935**
Liabilities, Surplus and other funds		
Liabilities:		
Loss and Loss adjustment expenses	$ 75,629	$ 77,585
Underwriting expenses payable	11,929	12,540
Unearned premiums, net of ceded unearned premiums	191,314	202,525
Ceded reinsurance premiums payable	676	25,951
Principal Outstanding on Class 1 Pre Event Bonds	177,000	177,000
Interest Payable on Class 1 Pre Event Bonds	3,651	7,301
Provision for reinsurance	-	-
Other payables	26,390	18,617
Statutory fund payable	13,446	-
Total liabilities	**500,034**	**521,519**
Surplus and others funds		
Unassigned surplus	10,953	(24,584)
Total liabilities, surplus and other funds	**$ 510,986**	**$ 496,935**
Balance in CRTF	**$ 183,343**	**$ 182,712**
Balance in CRTF including Statutory fund payable	**$ 196,788**	**$ 182,712**

Texas Windstorm Insurance Association
Unrestricted Cash and Short Term Investments ($ in 000's)
March 31, 2022

Bank	Non Interest Bearing	Interest Bearing	Total Amount of Deposits	Average Daily Balance for the Quarter	Investment Income during the Quarter	Average Annual Yield	Total Deposit % of TWIA's Portfolio	N.A. Bank Credit Rating	N.A Tier 1 Capital Ratio	N.A. Regulatory Capital	Are funds in excess of the N.A. Regulatory Capital?
							< 40%	**Superior or Strong**	**> 10%**	**> $25B**	**> .2% of N.A. Reg Capital**
Balances as of 3/31/2022:											
Bank of America, Operating	162	142,069	142,231	146,537	64	0.18%	33%	Superior	13.5%	$183	No
BlackRock Liquidity Funds (1)	0	115,027	115,027	111,367	1	0.00%	27%	N/A	N/A	N/A	N/A
Citibank	199	16,988	17,187	16,988	0	0.01%	4%	Superior	14.1%	$150	No
JP Morgan Chase	16,329	0	16,329	0	0		4%	Superior	16.9%	$267	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	0	137,744	137,744	137,744	2	0.01%	32%	N/A	N/A	N/A	N/A
Total of all financial institutions	**16,691**	**411,828**	**428,519**	**412,636**	**68**	**0.07%**	**100%**				
Balances as of 12/31/2021:											
Bank of America, Operating	162	142,497	142,659	146,058	66	0.18%	34%	Superior	13.5%	$174	No
BlackRock Liquidity Funds (1)	0	109,645	109,645	100,854	1	0.00%	26%	N/A	N/A	N/A	N/A
Citibank	200	16,987	17,187	16,987	0	0.01%	4%	Superior	13.6%	$150	No
JP Morgan Chase	17,591	0	17,591	0	0		4%	Superior	16.6%	$260	No
JP Morgan U.S. Treasury Plus Money Market Fund (2)	0	137,742	137,742	150,296	2	0.01%	32%	N/A	N/A	N/A	N/A
Total of all financial institutions	**17,953**	**406,872**	**424,825**	**414,195**	**69**	**0.07%**	**100%**				

(1) The Fund invests in U.S. Treasury bills, notes, trust receipts and direct obligations of the U.S. Treasury.
(2) The Fund invests in U.S. treasury bills, notes, bonds and other obligations issued or guaranteed by the U.S. Treasury.
(3) Balances in non-interest bearing accounts have increased to reduce bank charges as rates for earnings credits have generally exceeded yields on short-term investments.

Bank credit rating, Tier 1 Capital Ratios, and Regulatory Capital were reviewed with the latest financial information available as of December 31, 2021. Rates, ratios and regulatory capital are comparable and consistent with year end National Association (N.A.) results.

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statement of Cash Flows (000's omitted)
for the three months ended March 31,

	Actuals - 2022	Budget - 2022	Variance - 2022
Cash flows from operating activities:			
Premiums collected, net of reinsurance	$ 69,710	$ 74,631	$ (4,921)
Losses and loss adjustment expense paid	(19,543)	(13,191)	(6,352)
Underwriting expenses paid	(29,052)	(27,515)	(1,536)
CRTF funds received	-	-	-
Member assessment received	11	-	11
Other	(109)	(12,218)	12,109
Net cash provided by operating activities	21,018	21,707	(689)
Cash flows from nonoperating activities:			
Statutory fund paid	-	(66,385)	66,385
Other	-	-	-
Net cash provided by nonoperating activities	-	(66,385)	66,385
Cash flows from investing activities:			
Sales and maturities of investments	-	-	-
Net investment income	(7,366)	(7,376)	10
Net cash provided by investing activities	(7,366)	(7,376)	10
Cash flows from financing activities:			
Borrowed funds	-	-	-
Borrowed funds repaid	-	-	-
Net cash provided by financing activities	-	-	-
Net increase (decrease) in cash and short-term investments	13,653	(52,054)	65,707
Cash and short-term investments, Beginning	493,827	493,827	-
Cash and short-term investments, Ending	$ 507,480	$ 441,773	$ 65,707

TEXAS WINDSTORM INSURANCE ASSOCIATION
HISTORICAL DATA
1971 - 2022
($ with 000's omitted)

	GROSS						NET				
YEAR	LIABILITY IN FORCE END OF PERIOD	POLICY COUNT	RATE CHANGES RESID	RATE CHANGES COMML	WRITTEN PREMIUMS	LOSS & LAE INCURRED	EARNED PREMIUMS	LOSS & LAE INCURRED	UNDERWRITING EXPENSES INCURRED	UNDERWRITING GAIN (LOSS)	CRTF BALANCE END OF PERIOD
1971	$ 278,710	13,415			$ 2,393	$ 92	$ 868	$ 92	$ 385	$ 391	
1972	739,983	33,577			4,138	214	3,468	214	849	2,405	
1973	1,017,048	45,743			4,286	1,427	4,288	1,427	1,099	1,763	
1974	1,064,772	45,901			4,512	452	4,378	452	1,106	2,819	
1975	1,169,763	46,365			6,036	592	5,263	592	1,417	3,254	
1976	1,387,252	48,747			8,130	231	6,953	231	1,878	4,844	
1977	1,616,220	51,382			9,922	203	9,080	203	2,258	6,619	
1978	1,633,521	48,820			10,523	296	10,249	296	2,329	7,624	
1979	1,816,410	46,128			11,045	2,370	11,039	2,370	2,178	6,490	
1980	1,936,388	43,613			9,675	14,217	10,245	14,217	2,079	(6,051)	
1981	2,105,244	42,495			9,137	2,715	9,313	2,715	2,097	4,501	
1982	2,285,594	51,034			8,641	982	9,106	982	2,095	6,029	
1983	2,165,231	44,894			6,900	157,112	7,585	157,112	1,937	(151,463)	
1984	3,178,079	51,311			9,450	1,294	7,989	1,294	2,493	4,202	
1985	4,061,660	57,181			18,232	1,510	3,534	1,510	3,638	(1,614)	
1986	4,510,378	60,028			20,987	1,202	5,229	1,202	3,997	30	
1987	4,401,486	57,976			20,532	2,555	4,931	2,555	4,091	(1,715)	
1988	4,266,615	56,773	-5.4%	-15.0%	19,061	2,509	3,551	2,509	4,066	(3,024)	
1989	4,236,600	55,401	-	-	18,066	14,176	5,330	14,176	4,037	(12,883)	
1990	4,248,611	56,155	3.1%	-2.1%	18,244	1,590	16,761	1,590	4,171	11,000	
1991	4,346,209	54,145	25.0%	-2.0%	20,504	1,783	7,167	1,783	4,343	1,042	
1992	5,155,790	55,471	-20% (I)/-75% (B)	-22.9%	11,495	1,321	4,014	1,321	4,220	(1,527)	
1993	6,500,165	56,921	30.0%	-	19,377	4,778	123,515	4,778	5,161	113,576	
1994	7,645,176	63,348	-	-	26,545	1,572	25,692	1,572	6,982	17,138	124,847
1995	8,828,140	69,807	25.0%	-	32,419	4,033	29,016	4,033	8,119	16,864	151,284
1996	10,001,843	72,977	-	-	40,359	1,484	37,153	1,484	10,627	25,042	179,020
1997	10,907,937	75,361	-	-	42,463	4,133	41,045	4,133	11,038	25,874	216,896
1998	11,633,935	77,261	0.2%	-3.0%	44,411	27,235	28,256	27,235	12,181	(11,160)	238,221
1999	11,972,502	75,947	-9.4%	-	44,581	11,320	28,702	11,320	11,524	5,858	250,403
2000	12,052,604	73,815	8.7%	9.0%	48,012	7,937	28,470	7,937	11,681	8,852	268,563
2001	13,249,407	77,022	18.5%	4.0%	54,631	8,011	31,112	8,011	12,936	10,165	280,063
2002	16,003,048	85,668	-	5.0%	72,968	32,359	44,516	32,359	16,584	(4,427)	303,185
2003	18,824,457	96,420	-	10.0%	87,987	24,955	51,702	24,955	19,682	7,065	305,599
2004	20,796,656	103,503	9.6%	10.0%	102,384	6,115	52,230	6,115	21,911	24,204	308,729
2005	23,263,934	109,693	-	10.0%	113,928	178,370	65,438	178,370	25,277	(138,209)	311,508
2006	38,313,022	143,999	3.1%	13.4%	196,833	5,188	85,467	5,188	37,138	43,141	361,823
2007	58,641,546	216,008	4.2%	3.7%	315,139	17,985	135,843	17,985	51,768	66,090	388,542
2008	58,585,060	215,537	8.2%	5.4%	331,049	2,587,123	(138,560)	1,117,123	53,759	(1,309,442)	-
2009	61,700,891	230,545	12.3%	15.6%	382,342	(486,314)	389,600	(183,974)	87,899	485,675	-
2010	67,452,357	242,664	-	-	385,550	555,025	351,730	252,685	85,598	13,447	76,334
2011	71,083,333	255,945	5.0%	5.0%	403,748	202,539	321,781	202,539	81,665	37,577	146,650
2012	74,186,949	266,726	5.0%	5.0%	443,480	401,873	321,122	401,873	93,583	(174,334)	178,902
2013	76,921,369	270,814	5.0%	5.0%	472,739	30,975	295,130	30,975	100,524	163,631	186,184
2014	78,763,302	275,626	5.0%	5.0%	494,036	(13,994)	367,555	(13,994)	109,189	272,360	216,813
2015	78,551,742	272,219	5.0%	5.0%	503,824	178,886	377,594	178,886	114,973	83,736	487,170
2016	73,393,573	254,346	5.0%	5.0%	487,354	38,669	370,404	38,625	109,756	222,023	587,860
2017	65,023,810	231,567	-	-	423,074	1,476,861	347,354	1,475,302	97,878	(1,225,826)	1,220
2018	58,041,760	202,208	5.0%	5.0%	395,552	175,718	301,515	175,998	96,399	29,118	5,986
2019	55,189,815	189,203	-	-	372,017	113,513	287,477	113,398	92,415	81,664	122,496
2020	55,009,638	184,890	-	-	369,600	118,669	261,574	118,470	90,594	52,510	179,174
2021	59,543,596	193,002	-	-	395,113	19,026	276,372	19,048	95,623	161,701	182,712
2022	60,739,995	194,557	5.0%	5.0%	87,215	17,589	98,427	17,587	23,089	57,751	183,343
TOTAL*					**7,440,639**	**5,960,475**	**5,187,574**	**4,488,858**	**1,652,315**	**(953,600)**	

*2022 data through 3/31/2022.

5C. Investment Plan Review

TEXAS WINDSTORM INSURANCE ASSOCIATION

MEMORANDUM

DATE: April 26, 2022

TO: John Polak, General Manager

FROM: Stuart Harbour, Chief Financial Officer

RE: **TWIA Investment Plan Review**

Annually, the TWIA board of directors reviews the adequacy and implementation of the association's investment plan as reflected in the Statement of Investment Objectives and Guidelines. This document does not cover investments in the CRTF or the assets previously held by the Texas Treasury Safekeeping Trust Company representing the proceeds and debt service payments of the Series 2014 Bonds.

The primary focus of the Investment Plan is asset preservation and liquidity, along with compliance with the Texas Insurance Code and Plan of Operation of the Association.

On a quarterly basis, TWIA reviews the following criteria to monitor our counterparty relationships:

- Bank ratings and credit ratings from Moody or Standard and Poor's must meet 'AAA'. 'AA', or 'A' ratings defined as "superior or strong" in credit ratings.
- Tier 1 Capital Ratio must be above a 10% ratio.
- The National Association Regulatory Capital must be in excess of $25 Billion.
- Total investment in any one financial institution will not exceed .2% of the National Association's regulatory capital.
- Total investment in any one financial institution will not exceed 40% of TWIA's total portfolio.

On the next page, you will find an evaluation of financial institutions based on certain criteria as listed above.

At this time, we are not recommending any changes to the investment plan. However, we will be seeking a resolution at the May 17, 2022 board meeting regarding board review of the adequacy of the current investment plan, copy attached, and board review of the implementation of the plan. Suggested wording of such resolution is as follows:

PO Box 99090, Austin, TX 78709-9090 | Call 1-800-788-8247 | twia.org

The Board of Directors of the Texas Windstorm Insurance Association acknowledges its review of the adequacy and implementation of the Statement of Investment Objectives and Guidelines of the Association and accepts staff's recommendation to make no changes to the document at this time.

Please let us know if you have any questions or would like to discuss this matter.

Evaluation of Counterparty Relationships as of 12/31/2021				
Financial Institution	**N.A. Bank Credit Rating (as of 12/31/21)**	**N.A. Tier 1 Capital Ratio (as of 12/31/21)**	**N.A. Regulatory Capital (as of 12/31/21)**	**Holding Level Market Capitalization ($ in Billions as of 12/31/21)**
JPMorgan Chase, N.A.	Superior	16.9%	$267	$468
Bank of America, N.A.	Superior	13.5%	$183	$341
Citibank, N.A.	Superior	14.1%	$150	$120

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TEXAS WINDSTORM INSURANCE ASSOCIATION

STATEMENT OF INVESTMENT OBJECTIVES AND GUIDELINES

I. Overview

The purpose of this statement is to provide clear objectives and guidelines for the investing and management of assets with Texas Windstorm Insurance Association ("TWIA").

TWIA was created by the Texas Legislature in 1971. TWIA's controlling statute is currently codified as Chapter 2210 of the Texas Insurance Code. The purpose of TWIA is to provide a method whereby adequate windstorm and hail insurance may be obtained in certain areas designated by the Commissioner of Insurance located in the gulf coast region of the State of Texas.

II. Investment Objectives

The investment objectives enable TWIA to manage funds with the primary focus of asset preservation and liquidity, as well as securing maximum total return through the application of the investment policy set forth below. This policy must comply with all restrictions on investments in accordance with the Texas Insurance Code, the Plan of Operation of the Association and any other applicable requirements. While maximizing yield is important, the Association will consider the safety of the principal and liquidity the foremost objective.

III. Permissible Asset Types

TWIA's Plan of Operation, which is a Texas Department of Insurance rule, requires all funds collected by the Association that are not otherwise required to be expended as provided in the Plan of Operation, to be retained in a checking account or accounts in any bank or banks doing business in the State of Texas and/or invested in items pursuant to Texas Insurance Code, chapter 2210. (See Appendix A).

1. Checking, savings accounts, and Money Market Demand Accounts in Financial Institutions that meet the counterparty requirements outlined below in section IV of this document.

2. US Treasury Notes not to exceed 12 months, unless otherwise approved by the board of directors.

3. Money Market Fund Accounts with a maximum duration of 1 year or less, unless otherwise approved by the board of directors. Account must invest exclusively in US bonds backed by the full faith and credit of the US government.

4. Other investments proposed by the board of directors and approved by the Commissioner.

IV. Diversification and Evaluation of counterparty relationships:

The Association should evaluate bank financial performance, bank ranking and credit ratings from Moody or Standard & Poor's to assess the investment risk. All financial institutions ratings must meet 'AAA', 'AA', or 'A' ratings defined as "strong or superior" in credit ratings.

The Association must also evaluate the bank's capital strength through Tier 1 Capital Ratios. The Association's criterion is that the Tier 1 Capital Ratio must be above 10% for the Association to invest with such institution.

The Association should evaluate the total capital of all banks on a quarterly basis. National Association (N.A.) Regulatory Capital must be in excess of $25B.

Total investment in any one financial institution should not exceed .2% of the of the National Association's regulatory capital. Total investments in any one financial institution should not exceed 40% of TWIA's total portfolio.

The Association should perform the above evaluation on a quarterly and/or annual basis as information is available. To the extent certain information is not available quarterly at the N.A. level; the Association should review the Tier 1 Capital Ratio and Market Capitalization at the bank holding company level.

V. Monitoring, Evaluation and Compliance

TWIA's management will review the investment policy on an annual basis and make recommendations, if necessary, to the board of directors at that time. It is the responsibility of TWIA management to report to the board of directors all cash and investment balances, interest rates and diversification ratios on a quarterly basis.

Appendix to TWIA's Statement of Investment Objectives and Guidelines

I. Definitions related to the guidelines

a. <u>Tier 1 Capital Ratio</u> also known as Capital Adequacy is the amount of capital a bank or other financial institution has to hold as required by its financial regulator. These requirements are put into place to ensure that institutions do not take on excess leverage and become insolvent.

A firm must have a Tier 1 capital ratio of 6% or greater, and not pay any dividends or distributions that would affect its capital, to be classified as well capitalized according to the Federal Deposit Insurance Corporation (FDIC).

Formula = (Total Equity – Revaluation Reserves) / Risk Based Assets

b. <u>Market Capitalization</u> is the total value of the issued shares of a publicly traded company; it is equal to the share price times the shares outstanding. This allows investment community to determine a company's size, as opposed to sales or total asset figures.

Formula = stock price X total number of shares outstanding.

II. Permissible Assets as defined by the Plan of Operation:

All funds collected by the Association which are not otherwise required to be expended as provided in the Plan of Operation, may be retained in a checking account or accounts in any bank or banks doing business in the State of Texas and / or may be invested only in the following:

a. Interest bearing time deposits or certificates of deposit in any bank or banks doing business in the State of Texas and/or:

b. In treasury notes of the government of the United States of America; and/or

c. Money market funds which invest exclusively in the bonds or to the evidence of indebtedness of the United States of America or any of its agencies when such obligations are guaranteed as to principal and interest by the Unites States of America; except however:

   i. such money market funds may make loans to or purchases of the described bonds and other evidence of indebtedness from a solvent bank or securities broker, registered under the Securities Act of 1934, under an agreement (commonly called a "repurchase agreement") which provides for the purchase by the money market fund of the type of securities described and which agreement matures in 90 days or less and provides for the repurchase by such entity of the same or similar securities purchased by the money market fund, provided that the total market value of such securities shall equal or exceed the amount of such loan or repurchase when it is made; and

   ii. such loan collateral or securities purchased from any one bank or securities broker may not exceed the greater of 5.0% of the assets of the money market fund or 5.0% of the amount of capital, surplus, or individual profits of such bank or securities broker; and/or

d. In such other investments as may be proposed by the board of directors and approved by the Commissioner. The board of directors shall determine what portion of such funds shall be retained in a checking account or accounts and what portion of such reserve shall be invested in the investments listed in this subparagraph, as well as which specific investments, if any, shall be made.

5D. 2022 Storm Season Liquidity and Bond Redemption

5D1. Line of Credit

Texas Windstorm Insurance Association

JPMorgan's Financing Proposal for the 2022 Windstorm Credit Facility | April 2022

J.P.Morgan

Disclaimer

This proposal is intended only as an outline of certain indicative terms of the facility described herein (the "Facility") and does not purport to be an exhaustive or all-inclusive summary of the conditions, covenants, representations, warranties and other provisions that would be contained in definitive documentation for the Facility. The final documentation may include terms and conditions required by JPMorgan Chase Bank, N.A. (together with its affiliates, "JPMorgan") not included in this proposal. This proposal is non-binding, is not a commitment and is subject to final credit approval.

Texas Windstorm Insurance Association ("TWIA") acknowledges and agrees that: (i) JPMorgan does not have an advisory or fiduciary relationship with TWIA and nothing in this proposal or our services in connection therewith or otherwise will be deemed to create an advisory or fiduciary relationship (irrespective of whether JPMorgan or any of its affiliates has provided other services or is currently providing other services to TWIA on other matters); (ii) JPMorgan has no obligations to TWIA with respect to the transaction contemplated hereby unless and except to the extent expressly stated in this proposal; and (iii) TWIA has consulted with and is relying on its own legal, accounting, tax, financial and other advisors, as applicable, to the extent it has deemed appropriate in order to determine whether this proposal is in TWIA's best interests.

This proposal from JPMorgan for the Facility is entirely independent from any proposal or other agreement from any other affiliate of JPMorgan to provide other services.

Transmittal Letter

April 8, 2022

Stuart Harbour, Chief Financial Officer
Texas Windstorm Insurance Association
sharbour@twia.org

Al Fulkerson, Accounting Manager
Texas Windstorm Insurance Association
afulkerson@twia.org

David Durden, VP of Legal
Texas Windstorm Insurance Association
ddurden@twia.org

Dear Mr. Harbour, Mr. Fulkerson, and Mr. Durden:

On behalf of JPMorgan Chase Bank, N.A. ("JPMorgan" or the "Bank"), thank you for the opportunity to partner with Texas Windstorm Insurance Association ("TWIA") again on this transaction. Attached is a summary of terms and conditions for a $500,000,000 Line of Credit (the "Facility") to provide short term liquidity during the upcoming hurricane season. The terms of the Facility will be substantially similar to the Credit Agreement between the Bank and TWIA, dated as of June 1, 2021.

Please note this proposal is subject to normal due diligence, credit approval, satisfactory documentation and agreement on terms and conditions, and is not a commitment at this time. Indicative pricing is as of April 8, 2022. Nothing expressed or implied herein constitutes any commitment of JPMorgan, or any of its affiliates, to lend or provide any other financial services in connection with the transaction; such obligations would arise only under separate written agreement(s) mutually acceptable to the TWIA and JPMorgan. We would reasonably expect final credit approval within ten (10) business days of receiving all necessary information from the TWIA.

Thank you and we look forward to working with TWIA again on this exciting opportunity.

Yours sincerely,

Allyson Goetschius

Allyson Goetschius, Executive Director
allyson.l.goetschius@jpmorgan.com
(212) 270-0335

Texas Windstorm Insurance Association's dedicated team at JPMorgan Chase

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Summary of Terms and Conditions

Borrower:	Texas Windstorm Insurance Association ("TWIA" or the "Borrower").
Lead Arranger:	JPMorgan Chase Bank, N.A. ("JPMorgan" or the "Bank").
Administrative Agent:	JPMorgan Chase Bank, N.A.
Facility:	**Line of Credit Agreement** — **Facility Size** Total Senior Credit Facility — Up to \$500.0 million JPMorgan Chase Bank, N.A. Line of Credit ("L/C" Commitment) — Up to \$400.0 million Bank of America, N.A. ("BANA") Line of Credit ("L/C" Commitment) — Up to \$100.0 million
Purpose:	To finance the short term liquidity needs of the Borrower to pay insurance claims in the event of a natural disaster from a windstorm or hailstorm.
Collateral:	First perfected security interest in proceeds of public securities and other financing arrangements and all member insurer assessments now or hereafter assessed, collected and/or otherwise received by the Borrower and second lien perfected security interest in net premiums.
Tenor:	Facility will have a final maturity date of May 31, 2023.
Amortization:	N/A
Pricing Grid:	See table below

Pricing Grid:

Level	Tenor of Fundings (1)	Commitment Fee (bps)	Drawn Spread (Adjusted Term SOFR + bps) (2)
I	**< 150 days**	**47.5**	**200.0**
II	≥ 150 days	47.5	325.0

Conditions Precedent to Closing / Advances:

- Receipt and satisfactory review of the 2021 TWIA audit.
- Completion and delivery of satisfactory legal documentation including satisfactory opinions of counsel.
- Evidence that (i) the Plan of Operation is in place upon the closing date as well as that (ii) TWIA shall begin necessary steps to draft documents funding a post-event bond transaction.
- For each advance, the Bank shall receive documentation demonstrating that the amount of claims being made under policies issued by the Borrower exceeds the aggregate amount of TWIA's available liquid funds including without limitation, all amounts available under any and all deposit accounts, savings accounts and securities or other investments now or hereafter maintained by TWIA.
- Advances shall not exceed the amount by which the aggregate amount of claims exceeds the aggregate amount of liquid assets.

Mandatory Prepayment:

- After the occurrence of a natural windstorm or hailstorm, Class I Public Securities must be issued to prepay any fundings on the L/C.
- In the event and on each occasion that TWIA receives any proceeds of any Public Securities or Member Assessments at any time, TWIA shall immediately prepay the L/C in an aggregate amount equal to the lesser of (i) 100% of such Public Securities proceeds or Member Assessments or (ii) the aggregate amount of the loans then outstanding.
- After the occurrence of a natural windstorm or hailstorm disaster, and in the event Public Securities are not issued, TWIA will levy assessments on its member insurers, subject to applicable legal requirements, in an amount sufficient to cover and repay in full the aggregate amount of loans (including, without limitation, accrued interest on such loans) to be advanced to TWIA in accordance with the other provisions of the agreement.

Termination Option:	May be exercised by TWIA on either of the following dates: December 27, 2022 and March 28, 2023 at no penalty.
Covenants:	The covenants will remain consistent with the Credit Agreement between the Bank and TWIA, dated June 1, 2021.
Upfront Fee:	10.0 bps on Total Senior Credit Facility commitments at closing, allocated on a pro rata basis to all participating banks.
Lender Counsel:	Locke Lord LLP. Legal fees are estimated at \$40,000 and capped at \$50,000.

(1) Defined as the length of time after a funding on the L/C occurs to repayment either by public securities or member assessments.
(2) "Adjusted Term SOFR" means, for any day, the sum of (i) the Term SOFR Rate and (ii) the Credit Spread Adjustment of 0.10%, provided that if the Adjusted Term SOFR Rate as so determined would be less than zero, such rate shall be deemed to be equal to zero for the purposes of calculating such rate. Should Adjusted Term SOFR Rate be unavailable, the Loan will accrue at an alternate base rate.

J.P.Morgan

RESOLUTIONS OF THE BOARD OF DIRECTORS
OF

TEXAS WINDSTORM INSURANCE ASSOCIATION

May 17, 2022

The undersigned authorized representative of the TEXAS WINDSTORM INSURANCE ASSOCIATION (the "Association") hereby certifies that the following resolutions were adopted at a public meeting of the Association's board of directors (the "Board") lawfully held and noticed, effective as of the date hereof:

RESOLVED, that in order to provide the Association with liquidity to facilitate payment by the Association of claims to its policyholders and related expenses, the Association may enter into a Credit Agreement (the "Credit Agreement") by and among the Association and JPMorgan Chase Bank, N.A., in its capacity as Administrative Agent (the "Administrative Agent"), and each of the financial institutions which are signatories thereto or which may become a party thereto from time to time (each a "Lender" and, collectively, the "Lenders");

RESOLVED, FURTHER, that in connection with the Credit Agreement, the Association may execute and deliver to the Lenders one or more promissory notes in the original aggregate principal amount of up to $500,000,000 (collectively, the "Notes");

RESOLVED, FURTHER, to secure repayment of the Association's payment and performance obligations under the Credit Agreement and the Notes, the Association may execute and deliver to the Administrative Agent a Financing and Pledge Agreement (the "Pledge Agreement";

RESOLVED, FURTHER, that in connection with the Credit Agreement, the Association may execute and deliver to the Administrative Agent a Blocked Account Control Agreement (the "Blocked Account Agreement", together with the Credit Agreement, the Notes, and the Pledge Agreement, collectively, the "Credit Documents");

RESOLVED, FURTHER, that in connection with the Credit Agreement, the Notes shall bear interest on the unpaid principal balance thereof at the rate or rates provided for in the Credit Agreement (said interest rate(s) to never exceed the maximum amount of interest permitted under applicable law, including without limitation, Chapter 1204 of the Texas Government Code), with accrued interest on the Notes being due and payable on the Interest Payment Dates (as defined in the Credit Agreement), and with the outstanding principal balance of the Notes being finally due and payable on the Maturity Date (as defined in the Credit Agreement);

RESOLVED, FURTHER, that in order to induce the Administrative Agent and the Lenders to enter into the Credit Agreement, the Association is hereby authorized to pay to the

Administrative Agent and the Lenders any and all fees for extending credit to the Association thereunder as agreed pursuant to the Credit Documents;

RESOLVED, FURTHER, that the chief financial officer and/or the general manager of the Association be, and is/are, authorized and directed for and on behalf, and as the act and deed, of the Association to negotiate the specific terms of, and to execute and deliver to the Administrative Agent and the Lenders, the Credit Documents and such other instruments as the Administrative Agent and Lenders may reasonably require in their discretion in connection with the Credit Agreement (the "Ancillary Documents") and to take such other action in the consummation and/or administration of the renewal and extension of Credit Documents and the Ancillary Documents as such officer(s) shall deem to be necessary or desirable, and any and all acts heretofore taken by the above-described officer(s) to such end are hereby expressly ratified and confirmed as the acts and deeds of the Association;

RESOLVED, FURTHER, that the Credit Documents and the Ancillary Documents shall be in form and substance satisfactory to the Administrative Agent and the Lenders and in form and substance approved by the above-described officer(s) executing the same on behalf of the Association, his or her approval of each such instrument to be conclusively evidenced by the execution thereof by such officer(s);

RESOLVED, FURTHER, that such officer(s) of the Association be, and is/are, authorized and directed for and on behalf, and as the act and deed, of the Association and without further authorization of the Board, to negotiate and agree to on terms acceptable to such officer(s) any and all further renewals, extensions, modifications and/or amendments, but not any principal increases, to the credit extended to the Association pursuant to the Credit Agreement, and to execute and deliver to the Administrative Agent and the Lenders such documents as the Administrative Agent and the Lenders shall require to evidence any such renewal, extension, modification or amendment, but not any principal increase, and to take such other action in the consummation of the transactions therein contemplated as the officer(s) acting shall deem to be necessary or desirable;

RESOLVED, FURTHER, that any and all documents, agreements, certificates, opinions, letters, financing statements, consents, schedules and other instruments and writings executed and delivered on behalf of the Association in connection with the foregoing resolutions by such officers shall be deemed to be the act of the Association and shall be in all respects binding against the Association;

RESOLVED, FURTHER, that the Board has determined it to be in the best interest of the Association for the Association to enter into, execute and deliver the Credit Documents and to enter into, execute and deliver any Ancillary Documents required in connection with the Credit Agreement;

RESOLVED, FURTHER, that the execution and delivery of and performance under the Credit Documents and the Ancillary Documents, and other actions contemplated herein, can reasonably be expected to benefit the Association, directly or indirectly; and

RESOLVED, FURTHER, that any and all acts, transactions or agreements undertaken by the officers of the Association for and on behalf and in the name of the Association, prior to the adoption of the foregoing resolutions, in connection with any of the foregoing matters including but not limited to, negotiation of the terms and/or execution and delivery of the Credit Documents and the Ancillary Documents be, and they are hereby, ratified, confirmed and approved in all respects for all purposes.

Executed and effective as of the date first written above.

Authorized Officer of the Association:

By: ___________________________
(Signature)

Its: ___________________________|
(Printed Name and Title)

5D2. Redemption of 2014 Bonds

There is no exhibit for this topic

5E. Financial Audit by Calhoun, Thomson + Matza

5E1. Audit Wrap-Up Reports

Texas Windstorm Insurance Association

December 31, 2021

Audit Wrap Up

Calhoun, Thomson+Matza, LLP
Certified Public Accountants

This presentation was prepared as part of our audit, has consequential limitations, is restricted to those charged with governance and, if appropriate, management, and is not intended and should not be used by anyone other than those specified parties.

Calhoun, Thomson + Matza LLP
Certified Public Accountants

Austin, Texas
512.439.8400
www.ctmllp.com

April 25, 2022

Board of Directors
Texas Windstorm Insurance Association
Austin, Texas

Ladies and Gentlemen:

Professional standards require us to communicate with you regarding matters related to the statutory financial statement audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. On August 5, 2021, we presented an overview of our plan for the audit of the statutory financial statements of Texas Windstorm Insurance Association (the "Association") as of and for the year ended December 31, 2021, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the Association's accounting practices and policies, management's judgments and estimates, statutory financial statement disclosures, and other required matters.

We are pleased to be of service to the Association and look forward to meeting with you to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

Calhoun, Thomson & Matza, LLP

Discussion Outline

Status of Our Audit

Audit of Statutory Financial Statements

We have completed our audit of the statutory financial statements as of and for the year ended December 31, 2021. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America. This audit of the statutory financial statements does not relieve management or those charged with governance of their responsibilities.

- The objective of our audit was to obtain reasonable – not absolute – assurance about whether the statutory financial statements are free from material misstatements.

- The scope of the work performed was substantially the same as that described to you in our engagement letter.

- We issued an unmodified opinion on the statutory financial statements on April 25, 2022.

- Our responsibility for other information in documents containing the Association’s audited statutory financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by the Association and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the statutory financial statements. Our responsibility also includes calling to management’s attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.

- All records and information requested by Calhoun, Thomson + Matza, LLP were freely available for our inspection.

- Management’s cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of Association personnel throughout the course of our work.

Results of Our Audit

Accounting Practices, Policies, Estimates, and Statutory Financial Statement Disclosures

The following summarizes the more significant required communications related to our audit concerning the Association's accounting practices, policies, estimates, and statutory financial statement disclosures:

The Association's significant accounting practices and policies are those included within the statutory financial statements. These accounting practices and policies are appropriate, comply with accounting practices prescribed or permitted by the Texas Department of Insurance, and industry practice, were consistently applied, and are adequately described within the Summary of Significant Accounting Policies of the statutory financial statements.

- There were no changes in significant accounting policies and practices during 2021.

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The Association's significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in the Summary of Significant Accounting Policies of the statutory financial statements.

Significant accounting estimates include:
Loss and Loss Adjustment Expense Reserves
Pension Benefit Obligation

Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in 2021.

Corrected and Uncorrected Misstatements

There were no corrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we brought to the attention of management.

There were no uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management.

Internal Control Over Financial Reporting

In planning and performing our audit of the statutory financial statements, we considered the Association's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the statutory financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the Association's internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Deficiency in Internal Control	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
Significant Deficiency	A deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's statutory financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit of the statutory financial statements, we noted no material weaknesses.

Required Communications

Matters Required To Be Reported to Those Charged with Governance

Various professional guidance requires independent auditors to communicate with those charged with governance certain matters in relation to an audit. Following is a summary of those required items along with specific discussion points as they pertain to the Association.

Requirement	*Discussion Points*
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our audit engagement letter.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the Association's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
Auditor's judgment about the quality of the Association's accounting policies, estimates and statutory financial statement disclosures	In accordance with applicable auditing standards, a discussion was held regarding the quality of financial reporting, which included the Association's significant accounting practices, estimates and statutory financial statement disclosures.
Critical accounting policies and practices	Refer to the Accounting Practices, Policies, Estimates, and Statutory Financial Statement Disclosures section on page 2 for all critical accounting policies and practices used by the Association.
Adoption of a change in accounting principle	There were no situations involving the adoption of or a change in accounting principles where the application of alternative statutory accounting principles, including alternative methods of applying an accounting principle, would have a material effect on the Association's statutory financial statements.
Material, corrected misstatements brought to the attention of management by the auditor	There were no corrected misstatements brought to the attention of management by the auditor.
Unrecorded misstatements, other than those the auditor believes to be trivial	There were no unrecorded misstatements brought to the attention of management by the auditor.

Required Communications

Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the Association's statutory financial statements or to our auditor's report.
Nature and extent of specialized skills or knowledge needed related to significant risks	There were no specialized skills or knowledge needed, outside of the core engagement team, to perform the planned audit procedures or evaluate audit results related to significant risks.
Significant findings and issues arising during the audit in connection with the Association's related parties	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the statutory financial statements from achieving fair presentation.
Other matters significant to the oversight of the Association's financial reporting process, including complaints or concerns regarding accounting or auditing matters	There are no other matters that we consider significant to the oversight of the Association's financial reporting process that have not been previously communicated.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of statutory accounting principles.
Major issues discussed with management prior to retention	Prior to our being retained as auditor for the current fiscal year, there were no major accounting or other issues of concern discussed with management.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Material alternative accounting treatments discussed with management	There was no discussion with management concerning alternative accounting treatments.
Representations requested from management	Please refer to the management representation letter.

Independence Communication

Our engagement letter to you dated August 5, 2021 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the Association with respect to independence as agreed to by the Association. Please refer to that letter for further information.

5E2. Statutory Report

Texas Windstorm Insurance Association

Statutory Financial Statements and Supplemental Information

Years Ended December 31, 2021 and 2020

Calhoun, Thomson+Matza, LLP
Certified Public Accountants

Texas Windstorm Insurance Association

Statutory Financial Statements and Supplemental Information

Years Ended December 31, 2021 and 2020

Texas Windstorm Insurance Association

Contents

Calhoun, Thomson+Matza LLP
Certified Public Accountants

Austin, Texas
512.439.8400
www.ctmllp.com

Accountants' Letter of Qualifications

Board of Directors
Texas Windstorm Insurance Association

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statutory financial statements of Texas Windstorm Insurance Association (the "Association") for the years ended December 31, 2021 and 2020, and have issued our report thereon dated April 25, 2022. In connection therewith, we advise you as follows:

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

b. The engagement partner, who is a certified public accountant, has 28 years of experience in public accounting and is experienced in auditing insurance enterprises. Members of the engagement team, most of whom have had experience in auditing insurance enterprises and most of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.

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

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

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

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

d. We will retain the workpapers prepared in the conduct of our audit until the Texas Department of Insurance has filed a Report of Examination covering 2021, 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 2018, is licensed by the Texas State Board of Public Accountancy, and is a member in good standing of the American Institute of Certified Public Accountants.

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

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

Calhoun, Thomson & Matza, LLP

April 25, 2022

Calhoun, Thomson+Matza LLP
Certified Public Accountants

Austin, Texas
512.439.8400
www.ctmllp.com

Independent Auditors' Report

Board of Directors
Texas Windstorm Insurance Association
Austin, Texas

Opinions on Statutory Basis of Accounting

We have audited the statutory basis financial statements of Texas Windstorm Insurance Association (the "Association"), which comprise the statutory basis statements of admitted assets, liabilities, surplus and other funds as of December 31, 2021 and 2020, and the related statutory statements of income and changes in surplus and other funds, and cash flows for the years then ended, and the related notes to the statutory basis financial statements.

Unmodified Opinion on Statutory Basis of Accounting

In our opinion, the accompanying statutory basis financial statements present fairly, in all material respects, the admitted assets, liabilities, surplus and other funds of the Association as of December 31, 2021 and 2020, and the results of its operations, changes in its capital and surplus, and its cash flows for the years then ended in accordance with the statutory accounting practices prescribed or permitted by the Texas Department of Insurance as described in the Summary of Significant Accounting Policies – "Basis of Accounting".

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of the report, the statutory basis financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Association as of December 31, 2021 and 2020, or the results of its operations and its cash flows for the years then ended.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Statutory Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in the Summary of Significant Accounting Policies – "Basis of Accounting" of the statutory basis financial statements, the statutory basis financial statements are prepared by the Association on the basis of the accounting practices prescribed or permitted by the Texas Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Because of the differences between statutory basis accounting principles and accounting principles generally accepted in the United States of America identified above, as of December 31, 2021 and 2020 total assets were lower by approximately $20.9 million and $12.5 million, respectively. The differences identified above reduced total net position as of December 31, 2021 and 2020 by approximately $24.8 million and $17.2 million, respectively. The effects on change in net position for the years ended December 31, 2021 and 2020 were immaterial.

Emphasis of Matters

As of December 31, 2021, the Association had approximately $65.8 billion of insurance exposure in certain designated counties located in the gulf coast region of the State of Texas. By state statute, any net gain from operations must be paid to the Catastrophe Reserve Trust Fund ("CRTF"). As of December 31, 2021, the balance in the CRTF was approximately $182.7 million. If a major claim event occurs in the future, it could have a severe impact on the financial condition of the Association. The auditors' opinion is not modified with respect to the matter emphasized.

In accordance with Senate Bill 900 ("SB 900") passed by the Texas Legislature during 2015, the Association is authorized to place $1.0 billion in public securities and assess member insurance companies $1.0 billion to fund catastrophic losses. The Association does not have taxing authority. In addition, the public securities, if issued, will not be guaranteed by any state or federal agency. Consequently, the ability of the Association to place all these public securities and the sufficiency of that amount to cover future losses will depend upon market conditions and the financial and operating results of the Association. The auditors' opinion is not modified with respect to the matter emphasized.

Ultimate loss projections for Hurricane Harvey were estimated to be $1.67 billion by the Association's appointed actuary as of December 31, 2021. If the ultimate loss projection changes in the future it could have a material adverse effect on the financial condition of the Association. The auditors' opinion is not modified with respect to the matter emphasized.

Responsibilities of Management for the Statutory Financial Statements

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

In preparing the statutory basis financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the statutory basis financial statements are issued or available to be issued.

Auditors' Responsibilities for the Audit of the Statutory Financial Statements

Our objectives are to obtain reasonable assurance about whether the statutory basis financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the statutory basis financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the statutory basis financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the statutory basis financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the statutory basis financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter – Supplementary Information

Our audits of the statutory basis financial statements were conducted for the purpose of forming an opinion on those statutory basis financial statements taken as a whole. The accompanying supplemental summary investment schedule, investment risk interrogatories, and the reinsurance interrogatories as of and for the year ended December 31, 2021, are presented for purposes of additional analysis and are not a required part of the basic statutory basis financial statements but is supplementary information required by the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and Texas state law.

The accompanying supplementary information is the responsibility of the Association's management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory basis financial statements. Such information has been subjected to the auditing procedures applied in our audits of the statutory basis financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the statutory basis financial statements or to the statutory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated in all material respects in relation to the basic statutory basis financial statements taken as a whole.

Calhoun, Thomson & Matza, LLP

April 25, 2022

Texas Windstorm Insurance Association

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

(Amounts in Thousands)

December 31,		**2021**		2020
Admitted Assets				
Cash and cash equivalents	**$**	**493,827**	$	481,676
Other assets		**3,108**		2,517
Total admitted assets	**$**	**496,935**	$	484,193
Liabilities, Surplus and Other Funds				
Liabilities:				
Loss and loss adjustment expenses	**$**	**77,585**	$	164,315
Borrowed money – bonds and interest payable		**184,301**		236,572
Underwriting expenses payable		**12,540**		11,038
Unearned premiums		**202,525**		185,917
Ceded reinsurance premiums payable, net of ceding commissions		**25,951**		25,908
Other liabilities		**18,617**		20,894
Total liabilities		**521,519**		644,644
Commitments and contingencies (Notes 7, 8, 9, 12, 14 and 15)				
Surplus and other funds:				
Unassigned deficit		**(24,584)**		(160,451)
Total liabilities and surplus and other funds	**$**	**496,935**	$	484,193

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,		**2021**		2020
Underwriting income:				
Premiums earned	**$**	**378,504**	$	369,179
Premiums ceded		**(102,132)**		(107,605)
Net premiums earned		**276,372**		261,574
Deductions:				
Losses and loss expenses incurred		**19,048**		118,470
Underwriting expenses incurred		**95,933**		90,594
Total underwriting deductions		**114,981**		209,064
Net underwriting gain		**161,391**		52,510
Investment loss:				
Net investment loss		**(18,578)**		(23,693)
Net income before federal income tax expense		**142,813**		28,817
Federal income taxes incurred		**-**		-
Net income	**$**	**142,813**	$	28,817

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 Deficit
Balance at January 1, 2020	$	(183,792)
Net income		28,817
Change in nonadmitted assets		(4,430)
Other		(1,046)
Balance at December 31, 2020		(160,451)
Net income		142,813
Change in nonadmitted assets		(8,984)
Other		2,038
Balance at December 31, 2021	$	(24,584)

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,		**2021**		2020
Cash from operations:				
Premiums collected, net of reinsurance	**$**	**295,476**	$	265,136
Net investment loss		**(19,289)**		(24,971)
Assessment income		**-**		90,000
Benefit and loss related payments		**(75,140)**		(89,540)
Commissions, expenses paid and aggregate write-ins for deductions		**(124,291)**		(174,473)
Net cash from operations		**76,756**		66,152
Cash from financing and miscellaneous sources:				
Principal and interest paid		**(52,271)**		(95,170)
Other cash applied		**(12,334)**		(3,917)
Net cash from financing and miscellaneous sources		**(64,605)**		(99,087)
Net change in cash and cash equivalents		**12,151**		(32,935)
Cash and cash equivalents, beginning of year		**481,676**		514,611
Cash and cash equivalents, end of year	**$**	**493,827**	$	481,676

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

Nature of Business

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

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

Organization

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

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

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

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

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

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

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

Approximately $4,030,000 in funding was secured for the 2021 hurricane season. SB 900, passed by the 84th Texas Legislature, took effect during 2015, and changed the Association's funding structure. $4,030,000 is sufficient to fund claims associated with 99% of all modeled hurricane seasons.

The Association's funding structure for the 2021 hurricane season is, in order;

- $100,000 in CRTF funds
- $500,000 in Class 1 public securities
- $500,000 in Class 1 member assessments
- $250,000 in Class 2 public securities
- $250,000 in Class 2 member assessments
- $250,000 in Class 3 public securities
- $250,000 in Class 3 member assessments
- $1,930,000 in total reinsurance, including both traditional reinsurance and catastrophe bonds

(Amounts in Thousands)

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

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

The Association implemented the Assumption Reinsurance Depopulation Program ("Assumption Program") in 2016 and the program is still in effect as of December 31, 2021. In 2020, the Assumption Program was restructured and a new round was launched in 2021 with a novation occurring on March 1, 2022. Only one private market insurer participated in the 2021-2022 Assumption Program. The 2022 novation consisted of 125 policies, down from the prior novation. Approximately 16,125 policies have been novated through December 31, 2021 since the inception of the Assumption Program.

Basis of Accounting
The accompanying financial statements have been prepared on a statutory basis in accordance with accounting practices prescribed or permitted by the TDI. 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 TDI.

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

Years ended December 31,		**2021**		2020
Net income, Texas basis	**$**	**142,813**	$	28,817
Effect of Texas prescribed practices		**-**		-
Effect of Texas permitted practices		**-**		-
Net income, NAIC SAP basis	**$**	**142,813**	$	28,817

December 31,		**2021**		2020
Statutory deficit, Texas basis	**$**	**(24,584)**	$	(160,451)
Effect of Texas prescribed practices		**-**		-
Effect of Texas permitted practices		**(69,002)**		(83,406)
Policyholders' deficit, NAIC SAP basis	**$**	**(93,586)**	$	(243,857)

The TDI has approved the permitted practice to allow the Association to admit the following restricted assets associated with the issuance of Series 2014 Pre-Event Class 1 Revenue Bonds (the “Bonds”) as of December 31, 2021 and 2020, respectively:

- $69,002 and $83,406 held in the obligation revenue fund for repayment of the Bonds.

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

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

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

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

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

Use of Significant Estimates
The preparation of financial statements in accordance with statutory accounting practices prescribed or permitted by the TDI requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

The Association had been filing form 1120-PC tax returns with the IRS as a property and casualty insurance company. Under the IRC the statute of limitations to be assessed additional taxes or to file amended tax returns is 3 years from the later of the due date of the return (including extensions) or the filing date of the return. There are existing net operating loss carryforwards in the open tax years that are not anticipated to be realized. As of December 31, 2021, the statute of limitations remains open for the 2018 to 2021 tax years. No further federal income tax impact is expected in the future.

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

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

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

Loss and Loss Adjustment Expense Reserves
Loss and LAE reserves are based upon claim estimates for (1) losses for claims 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 losses that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Depopulation ceded premiums are recognized as the ceded policies' premiums are earned.

Fair Value Measurements
Statement of Statutory Accounting Principles ("SSAP") No. 100R, Fair Value, 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. 100R 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 Association is required to categorize its assets and liabilities that are measured at fair value into the three-level fair value hierarchy. The three-level fair value hierarchy is based on the degree of subjectivity inherent in the valuation method by which fair value was determined. The three levels are defined as follows:

- Level 1 – Fair values are based on quoted prices in active markets for identical assets or liabilities that the Association has the ability to access as of the measurement date.

- Level 2 – Fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that can otherwise be corroborated by observable market data.

- Level 3 – Fair values are based on inputs that are considered unobservable where there is little, if any, market activity for the asset or liability as of the measurement date. In this circumstance, the Association has to rely on values derived by independent brokers or internally-developed assumptions. Unobservable inputs are developed based on the best information available to the Association which may include the Association's own data.

(Amounts in Thousands)

1. Cash and Cash Equivalents

Cash and cash equivalents are as follows:

December 31,		**2021**		2020
Cash	**$**	**177,437**	$	196,419
Cash equivalents:				
Reverse repurchase agreements		**69,002**		83,406
Money market mutual funds		**247,388**		201,851
Total cash equivalents		**316,390**		285,257
	$	**493,827**	$	481,676

Money Market Mutual Funds

The Association invests in money market mutual funds which are included in cash equivalents. The fair value of money market mutual funds was approximately $247,388 and $201,851 as of December 31, 2021 and 2020, respectively. The admitted value of money market mutual funds was $247,388 and $201,851 as of December 31, 2021 and 2020, respectively.

Reverse Repurchase Agreements

The Association invests in overnight reverse repurchase agreements with the Texas Treasury Safekeeping Trust Company ("TTSTC"). These invested funds were received from the issuance of bonds during 2014 and include debt service payments. The funds are held at the TTSTC to be used for debt service and for use when a catastrophic event occurs (See Note 12). The TTSTC's minimum collateral required for overnight reverse repurchase investments is at least 100% for Treasuries; 101% for Agencies and U.S Instrumentalities and 102% for mortgage-backed securities. The fair value of reverse repurchase agreements was approximately $69,002 and $83,406 as of December 31, 2021 and 2020, respectively. The admitted value of reverse repurchase agreements was approximately $69,002 and $83,406 as of December 31, 2021 and 2020, respectively, and is included in cash and cash equivalents in the statutory statements of admitted assets, liabilities, surplus and other funds.

Repurchase agreements were Tri-Party during the years ended December 31, 2021 and 2020.

Original (flow) & residual maturity

	Fourth Quarter 2021			
		Maximum		Ending Balance
Overnight	$	69,002	$	69,002

(Amounts in Thousands)

Fourth Quarter 2020		
	Maximum	Ending Balance
Overnight	$ 83,406	$ 83,406

Securities acquired under repurchase agreements - sale

Fourth Quarter 2021		
	Maximum	Ending Balance
BACV	$ 69,002	$ 69,002
Nonadmitted – subset of BACV	-	-
Fair value	$ 69,002	$ 69,002

Book/Adjusting Carrying Value ("BACV")

Fourth Quarter 2020		
	Maximum	Ending Balance
BACV	$ 83,406	$ 83,406
Nonadmitted – subset of BACV	-	-
Fair value	$ 83,406	$ 83,406

Securities acquired under repurchase agreements – sale by NAIC designation

December 31, 2021	None	NAIC 1	NAIC 2	NAIC 3	NAIC 4	NAIC 5	NAIC 6	Nonadmitted
Other invested assets – BACV	$ -	$ 69,002	$ -	$ -	$ -	$ -	$ -	$ -
Other invested assets – FV	-	69,002	-	-	-	-	-	-
Total assets – BACV	-	69,002	-	-	-	-	-	-
Total assets - FV	$ -	$ 69,002	$ -	$ -	$ -	$ -	$ -	$ -

December 31, 2020	None	NAIC 1	NAIC 2	NAIC 3	NAIC 4	NAIC 5	NAIC 6	Nonadmitted
Other invested assets – BACV	$ -	$ 83,406	$ -	$ -	$ -	$ -	$ -	$ -
Other invested assets – FV	-	83,406	-	-	-	-	-	-
Total assets – BACV	-	83,406	-	-	-	-	-	-
Total assets - FV	$ -	$ 83,406	$ -	$ -	$ -	$ -	$ -	$ -

(Amounts in Thousands)

Proceeds Provided - Sale

Fourth Quarter 2021				
		Maximum		Ending Balance
Cash	$	69,002	$	69,002
Securities (FV)		-		-
Securities (BACV)		-		-
Nonadmitted subset	$	-	$	-

Fourth Quarter 2020				
		Maximum		Ending Balance
Cash	$	83,406	$	83,406
Securities (FV)		-		-
Securities (BACV)		-		-
Nonadmitted subset	$	-	$	-

Recognized forward resale commitment

Fourth Quarter 2021				
		Maximum		Ending Balance
Recognized forward resale commitment	$	69,002	$	69,002

Fourth Quarter 2020				
		Maximum		Ending Balance
Recognized forward resale commitment	$	83,406	$	83,406

(Amounts in Thousands)

2. Restricted Assets

Restricted assets are summarized below by restricted asset category. Certain assets included in the subject to reverse repurchase category are held by the TTSTC and are restricted for use for debt service reserves and for when a catastrophic event occurs (See Note 12). These assets are invested in overnight reverse repurchase agreements.

	Gross (Admitted & Nonadmitted) Restricted								Current Year		
	Current Year									Percentage	
	1	2	3	4	5	6	7	8	9	10	11
Restricted Asset Category	Total General Account (G/A)	G/A Supporting S/A Restricted Assets (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase / (Decrease) (5 minus 6)	Total Non-admitted Restricted	Total Admitted Restricted (5 minus 8)	Gross (Admitted & Non-Admitted) Restricted to Total Assets (c)	Admitted Restricted to Total Admitted Assets (d)
Subject to reverse repurchase	$ 69,002	$ -	$ -	$ -	$ 69,002	$ 83,406	$ (14,404)	$ -	$ 69,002	13.41%	13.89%
Total restricted assets	$ 69,002	$ -	$ -	$ -	$ 69,002	$ 83,406	$ (14,404)	$ -	$ 69,002	13.41%	13.89%

(Amounts in Thousands)

3. Furniture and Equipment

Furniture and equipment consist of the following:

December 31,		**2021**		2020
Furniture and equipment	**$**	**540**	$	540
Electronic data processing equipment and software		**23,970**		15,043
Leasehold improvements		**1,858**		1,858
		26,368		17,441
Less: accumulated depreciation		**(12,621)**		(12,416)
		13,747		5,025
Less: non-admitted furniture and equipment		**(13,747)**		(5,025)
	$	**-**	$	-

Depreciation and amortization expense was approximately $205 for the years ended December 31, 2021 and 2020.

4. Reinsurance

During 2021 and 2020, the Association entered into reinsurance agreements. These agreements reduce the amount of losses that can arise from claims under a general reinsurance contract known as a catastrophe aggregate excess of loss reinsurance agreement ("aggregate excess of loss").

Aggregate Excess of Loss

Effective June 1, 2021, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of $2,100,000, subject to a limit of liability to the reinsurer of $1,930,000.

Effective June 1, 2020, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of $2,100,000, subject to a limit of liability to the reinsurer of $2,100,000.

(Amounts in Thousands)

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

The Association has entered into quota share reinsurance agreements in relation to the Assumption Program (See Note 13).

The Association has unsecured reinsurance recoverables which exceed 3% of the Association's surplus with the following reinsurers as of December 31, 2021 and 2020 as a result of the Assumption Program:

Name of reinsurer	**2021**	2020
Weston Insurance Company	**$ 40**	$ 65
Safepoint Insurance Company	**-**	88
United Property & Casualty Insurance Company	**-**	-
Total	**$ 40**	$ 153

(Amounts in Thousands)

The effect of reinsurance on premiums written and earned for the years ended December 31, 2021 and 2020 is as follows:

	2021		2020	
	Written	**Earned**	Written	Earned
Direct premium	**$ 395,113**	**$ 378,504**	$ 369,600	$ 369,179
Excess of loss ceded premium	**(102,132)**	**(102,132)**	(106,865)	(106,865)
Depopulation ceded premium	**-**	**-**	(740)	(740)
Net	**$ 292,981**	**$ 276,372**	$ 261,995	$ 261,574

Ceded premiums include premiums ceded to companies that assume policies pursuant to the Assumption Program (see Note 13).

As of December 31, 2021 and 2020, the Association had reinsurance recoverables of $0 and $66, respectively, of paid losses and LAE as a result of the Assumption Program and is included in other assets in the statutory statements of admitted assets, liabilities, surplus and other funds.

5. Unearned Premiums

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

December 31,	**2021**	2020
Gross unearned premiums	**$ 202,525**	$ 185,917
Ceded unearned premiums	**-**	-
	$ 202,525	$ 185,917

The amount of return commission that would have been due to reinsurers if they or the Association had cancelled the Association's excess of loss reinsurance agreement would have been $0 as of December 31, 2021 and 2020.

(Amounts in Thousands)

6. Loss and Loss Adjustment Expenses

The following table provides a reconciliation of the beginning and ending reserve balances, net of reinsurance recoverables, for losses and loss adjustment expenses:

Years ended December 31,	**2021**	2020
Beginning balance	**$ 164,401**	$ 169,198
Less: reinsurance recoverable	**86**	68
Beginning net balance	**164,315**	169,130
Incurred related to:		
Current loss year	**83,525**	118,363
Prior loss years	**(64,477)**	107
Losses and loss adjustment expense incurred	**19,048**	118,470
Paid related to:		
Current loss year	**61,725**	66,784
Prior loss years	**44,053**	56,501
Paid losses and loss adjustment expense	**105,778**	123,285
Ending net balance	**77,585**	164,315
Plus: reinsurance recoverable	**40**	86
Ending balance	**$ 77,625**	$ 164,401

Current year changes in estimates of the cost of prior year losses and LAE affect the current year statutory statements of income. Increases in those estimates increase current year expense and are referred to as unfavorable development or prior year reserve shortages. Decreases in those estimates decrease current year expense and are referred to as favorable development or prior year reserve redundancies. Current year losses and LAE reflected on the statutory statements of income of $19,048 had relatively favorable prior year development. During 2020, Association policyholders were impacted by Hurricanes Hanna, Laura and Delta which have an estimated combined gross ultimate loss and LAE of $92.1 million as of December 31, 2020. During 2021, the estimated reserves related to those storms were revised and contributed to favorable development in 2021 in excess of $15 million. The coverage area insured by the Association was previously impacted by Hurricane Harvey in 2017. Ultimate loss and LAE from Hurricane Harvey are estimated to be approximately $1,670,000 as of December 31, 2021, down $30 million from 2020 due to favorable development. Hurricane Ike ultimate reserves were reduced in 2021 resulting in $9 million in favorable development. Increases or decreases of this nature occur as the result of claim settlements and receipt and evaluation of additional information regarding unpaid claims. Recent development trends are also taken into account in evaluating the overall adequacy of reserves. Due to the inherently uncertain process involving loss and LAE reserve estimates, the final resolution of the ultimate liability may be different from that anticipated at the reporting date. The appointed actuary for the Association has opined that the loss and LAE reserves as of December 31, 2021 and 2020 make a reasonable provision for the Association's claim liabilities.

7. **Statutory Fund**

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

When there is 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 CRTF. Administrative rules adopted by the Commissioner of Insurance establish the procedures relating to the disbursement of money from the CRTF.

The Texas Comptroller of Public Accounts ("comptroller") administers the CRTF in accordance with Tex. Ins. Code, Chapter 2210. All money, including investment income, deposited in the CRTF, are state funds to be held by the comptroller outside the state treasury on behalf of, and with legal title in, the 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 CRTF may be terminated only by law. On termination of the CRTF, all assets of the CRTF revert to the state of Texas to provide funding for the mitigation and preparedness plan established under Tex. Ins. Code, §2210.454.

For the years ended December 31, 2021 and 2020, statutory fund costs were $0, based on the direction of the TDI and based on its interpretation of the relevant statutes. TDI's directive requires the Association to determine its net gain from operations based on catastrophe-year incurred losses, rather than calendar year reported losses. Starting at the end of calendar year 2018, the Association is required to use the net gain from operations of the Association to make payments to the CRTF, procure reinsurance, or use alternative risk financing mechanisms. Although amounts held in the CRTF are not presented as assets in the statutory statements of admitted assets, liabilities, surplus and other funds, once contributed to the CRTF, these funds will be held in trust with the TTSTC and will be available for the exclusive use of the Association to pay losses and expenses of the Association as permitted by law. No contribution to the CRTF has been accrued as of December 31, 2021, as net gain from operations will be used to redeem the remaining outstanding principal on the Bonds in 2022 (See Note 12). No contribution to the CRTF has been accrued as of December 31, 2020, as net gain from operations was a deficit due to 2020 storm activity.

For the years ended December 31, 2021 and 2020, the CRTF held $182,712 and $179,174, respectively.

In August 2017, the Texas coverage area insured by the Association was struck by Hurricane Harvey. The ultimate loss and LAE from Hurricane Harvey are estimated to be approximately $1,670,000. The Act allows the Association to assess member companies Class 1 member assessments up to $500,000. A Class 1 member assessment was approved by the Commissioner of Insurance on May 25, 2018 for $175,000, a second Class 1 member assessment was approved on August 20, 2018 for $106,820, and a third Class 1 member assessment was approved on January 10, 2020 for $90,000 for a combined total of $371,820. As of December 31, 2020, $369,621 has been collected from the three assessments. One insurance group disputed whether they were subject to a 2018 assessment based on their interpretation of a 2017 legislative change. In 2020, the TDI Commissioner made a determination that the insurance group was not subject to the 2018 assessments. The insurance group’s assessment of $2,199 has been non-admitted by the Association as of December 31, 2021. The outstanding assessment will be reallocated and collected from the other member companies. Further assessments will be requested if needed as Hurricane Harvey paid loss development matures. As of December 31, 2021 and 2020, the deficit of the Association is $24,584 and $160,451, respectively.

(Amounts in Thousands)

8. Employee Benefit Plans

Defined Benefit Plan. The Association has a defined benefit pension plan (the "Plan"), which covers employees from their date of hire, if the employee is scheduled to work at least 1,000 hours in a twelve-month period. Pension benefits are based on years of service and the employee's compensation during the five highest consecutive years' earnings from the last ten years of employment. An employee's benefits vest 5 years from date of hire. The Association makes contributions to the Plan that comply with the minimum funding provisions of the Employee Retirement Income Security Act. Such contributions are included in general expenses. As of December 31, 2021 and 2020, the Association accrued in accordance with actuarially determined amounts with an offset to the pension cost accrual for the incremental asset amortization.

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

December 31,	**2021**	2020
Change in Projected Benefit Obligations (PBO) (Underfunded):		
Benefit obligation at beginning of year	**$ 36,590**	$ 30,989
Service cost	**2,794**	2,276
Interest cost	**1,115**	1,095
Actuarial (gain) loss	**(925)**	2,893
Benefits paid	**(625)**	(663)
Projected benefit obligation at end of year	**38,949**	36,590
Change in Plan Assets:		
Fair value of plan assets at beginning of year	**25,955**	21,547
Actual return on plan assets	**1,836**	2,503
Employer contributions	**2,961**	2,568
Benefits paid	**(625)**	(663)
Fair value of plan assets at end of year	**30,127**	25,955
Funded status	**$ (8,822)**	$ (10,635)

(Amounts in Thousands)

December 31,		**2021**		2020
Funded Status:				
Assets (non-admitted):				
Prepaid benefit costs	**$**	**-**	$	-
Total assets (non-admitted)		**-**		-
Liabilities recognized:				
Accrued benefit costs		**2,926**		2,701
Liability for pension benefits		**5,896**		7,934
Total liabilities recognized		**8,822**		10,635
Unrecognized liabilities as a component of net periodic benefit cost		**-**		-
Funded status	**$**	**(8,822)**	$	(10,635)
Accumulated benefit obligation	**$**	**34,153**	$	32,057

Years ended December 31,		**2021**		2020
Components of Net Periodic Benefit Costs:				
Service costs	**$**	**2,794**	$	2,276
Interest costs		**1,115**		1,095
Expected return on plan assets		**(1,212)**		(1,110)
Loss amortization		**444**		410
Prior service cost		**44**		44
Total net periodic benefit cost	**$**	**3,185**	$	2,715

(Amounts in Thousands)

Years ended December 31,		**2021**		2020
Amounts in unassigned funds (surplus) recognized as components of net periodic benefit cost:				
Items not yet recognized as a component of net periodic cost – prior year	**$**	**7,934**	$	6,888
Net transition asset or obligation recognized		**-**		-
Net prior service cost or credit arising during the period		**-**		-
Net prior service cost recognized		**(44)**		(44)
Net (gain) loss arising during the period		**(1,550)**		1,500
Net gain recognized		**(444)**		(410)
Items not yet recognized as a component of net periodic cost – current year	**$**	**5,896**	$	7,934

Years ended December 31,		**2021**		2020
Amounts in unassigned funds (surplus) expected to be recognized in the next fiscal year as components of net periodic benefit cost:				
Amortization of net transition asset or obligation	**$**	**-**	$	-
Amortization of net prior service cost		**44**		44
Amortization of net loss	**$**	**162**	$	359

Years ended December 31,		**2021**		2020
Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost:				
Net transition asset or obligation	**$**	**-**	$	**-**
Net prior service cost		**223**		**267**
Net loss	**$**	**5,674**	$	**7,667**

(Amounts in Thousands)

Pension Assumptions:

December 31,	**2021**	2020
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	**3.00%**	3.50%
Rate of compensation increase	**2.50%**	2.50%
Expected long-term rate of return of plan assets	**4.50%**	5.00%
Weighted-average assumptions used to determine projected benefit obligations:		
Weighted-average discount rate	**3.25%**	3.00%
Rate of compensation increase	**2.50%**	2.50%

The amount of accumulated benefit obligation for the defined benefit pension plan was approximately $34,153 and $32,057 as of December 31, 2021 and 2020, respectively.

Measurement Date
A measurement date of December 31, 2021 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,	**2021**	2020
Equity securities	**37.0%**	36.9%
Debt securities	**57.0%**	58.2%
Real estate	**5.2%**	4.4%
Other	**0.8%**	0.5%
	100.0%	100.0%

(Amounts in Thousands)

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

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

<u>Future Payments</u>
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
2022	$	827
2023		950
2024		1,063
2025		1,187
2026		1,336
2027 and thereafter		8,548

<u>Planned Contributions</u>
The Association expects to make contributions of $3,516 during 2022.

(Amounts in Thousands)

Fair value measurements of Plan assets as of December 31, 2021 and 2020:

	Fair Value Measurements at December 31, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash	**$ 135**	**$ -**	**$ -**	**$ 135**
Large cap equity	**6,619**	**-**	**-**	**6,619**
Small cap equity	**881**	**-**	**-**	**881**
Mid cap equity	**2,022**	**-**	**-**	**2,022**
International equity	**2,697**	**-**	**-**	**2,697**
Realty fund	**1,708**	**-**	**-**	**1,708**
Fixed income	**5,948**	**10,117**	**-**	**16,065**
Total plan assets	**$ 20,010**	**$ 10,117**	**$ -**	**$ 30,127**

	Fair Value Measurements at December 31, 2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash	$ -	$ 126	$ -	$ 126
Large cap equity	5,748	-	-	5,748
Small cap equity	810	-	-	810
Mid cap equity	1,853	-	-	1,853
International equity	-	2,804	-	2,804
Realty fund	-	1,421	-	1,421
Fixed income	-	13,193	-	13,193
Total plan assets	$ 8,411	$ 17,544	$ -	$ 25,955

(Amounts in Thousands)

<u>Defined Contribution Plan</u>. The Association has a defined contribution 401(k) plan available to eligible employees after six months of employment. Matching contributions totaling $999 and $935 (before allocation to Texas FAIR Plan Association ("TFPA")) were made for the years ended December 31, 2021 and 2020, respectively. The Association's portion was approximately $693 and $644 for the years ended December 31, 2021 and 2020, respectively.

9. Lease Commitments

The Association leases office space under a non-cancellable operating lease agreement which expires in 2033. 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, 2021:

Years ending December 31,		Amount
2022	$	1,088
2023		857
2024		880
2025		905
2026 and thereafter		7,725
	$	11,455

Rental expense under the non-cancelable operating lease was approximately $1,497 and $1,481 for the years ended December 31, 2021 and 2020, respectively.

10. Governance

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

11. Service Contract with Texas Fair Plan Association

During 2002, the Association entered into a service contract with the Texas Fair Plan Association ("TFPA") in which the Association is to be fully reimbursed for all expenditures, professional fees, consulting services, allocated employee time, lost investment income and other costs directly associated with the services provided by the Association on behalf of TFPA. During 2021 and 2020, the Association paid expenses for TFPA under its management contract and was reimbursed $13,186 and $14,314, respectively. As of December 31, 2021 and 2020, the Association incurred or paid expenses for which it has not been reimbursed of $1,159 and $1,132, respectively, on behalf of TFPA, and are included in other assets in the statutory statements of admitted assets, liabilities, surplus and other funds. This arrangement is subject to a written agreement which requires that balances be settled within 30 days.

12. Borrowed Money – Bonds Payable

The Texas Public Finance Authority (the "Authority" or the "Issuer") has issued the Bonds on behalf of the Association for the purposes of financing catastrophe loss costs in the amount of $500,000. The Bonds are issued pursuant to a master resolution adopted by the Board of Directors of the Authority on September 24, 2014 (the "Master Resolution"), and a first supplemental resolution adopted by the Board of Directors of the Authority on September 24, 2014 (the "First Supplemental Resolution", and together with the Master Resolution, the "Resolutions"). The Bonds constitute the initial series of Class 1 Public Securities of the Authority secured and payable from Class 1 Pledged Revenues irrevocably pledged under the Resolutions. The Association has pledged the Class 1 Pledged Revenues to the Authority pursuant to a Financing and Pledge Agreement dated as of September 1, 2014 between the Authority and the Association.

The Bonds were issued on September 30, 2014 for $500,000 of which $177,000 and $227,200 principal balance was outstanding as of December 31, 2021 and 2020, respectively, and is included in borrowed money – bonds and interest payable in the statutory statements of admitted assets, liabilities, surplus and other funds. The bonds mature July 1, 2024 and can be redeemed in whole or in part by the Issuer beginning July 1, 2019. The original Bonds bear interest from 5.25% to 8.25% with an effective interest rate of 8.03%. Interest is payable semi-annually on January 1 and July 1 with the first payment made January 1, 2015. The Bonds are secured by the Association's net premium and other revenue which is used to fund the debt service and related accounts held by the TTSTC.

There are various general and special covenants associated with the Bonds. The primary covenants, which exist as long as there are outstanding Class 1 Public Securities and administrative expenses, require that; (1) the Association will take actions that produce projected net coverage revenues in an amount not less than 125% of the obligations and administrative expenses due in the succeeding four quarters and; (2) that actual net coverage revenues for the preceding four quarters will be in an amount not less than 110% of the actual obligations and administrative expenses for the same period. Another covenant, which exists as long as the Bonds are outstanding, states that the Association will maintain the operating bank account subject to a deposit account control agreement to maintain a perfected security interest in the net premiums and other revenue held for the benefit of the bondholders. As of December 31, 2021, the Association estimates projected net coverage revenues will be 188% of the obligations and administrative expenses for the next four quarters ending December 31, 2022 which exceeds the required 125% threshold.

On May 11, 2020, the Association completed a voluntary early redemption of $45 million principal of the Bonds and paid $1.3 million interest associated with the redeemed securities. While the redemption was optional, the $46.3 million paid to redeem these securities is required to be included as a debt obligation impacting the preceding four quarters "look back" calculation. The coverage ratio for the four quarters ended December 31, 2020 is 44% or 66 percentage points below the specified ratio of 110% due to the inclusion of the $46.3 million redemption amount and losses from Hurricanes Hanna, Laura and Delta which struck the Association's coverage areas along the Texas coast during the 2020 hurricane season. Pursuant to the Bond documents, if either the actual net coverage revenue test or the projected net coverage revenue test falls below the applicable threshold (110% and 125%, respectively) the Association is required to disclose to the Authority the action or actions (including but not limited to rate changes, reinsurance costs adjustments, and other fiscal steps) necessary to meet the requirements in the future. Future periods are forecasted to produce sufficient projected net coverage revenues as the early redemption and non-catastrophic losses from the 2020 hurricane season are excluded from the coverage calculation due to the passage of time. As a result, neither a rate adjustment nor an adjustment to reinsurance costs are deemed necessary to produce future projected net coverage revenues equal to or in excess of 125% of the obligations and administrative expenses.

The Bonds are subject to optional make-whole redemption, in whole or in part, at the option of the Authority, at the request of the Association prior to July 1, 2019 at a redemption price equal to the greater of (i) 100% of the principal amount of the Bonds to be redeemed or (ii) the sum of the present values of the remaining schedule payments of principal and interest on the Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 100 basis points, plus in each case, accrued and unpaid interest on the Bonds being redeemed to the date fixed for redemption.

The Bonds are also subject to optional redemption prior to maturity on or after July 1, 2019, in whole or in part, at a redemption price equal to the principal amount of Bonds to be redeemed plus accrued interest to the date of redemption. On February 18, 2020, the Association Board of Directors approved an early redemption in the amount of $45 million and directed Association staff to request approval from the Commissioner of Insurance. On February 24, 2020, the Association received approval from the Commissioner of Insurance to redeem the requested $45 million of bond principal. The redemption was completed on May 11, 2020.

On December 7, 2021, the Association Board of Directors approved an early redemption of the remaining $177,000 of Bonds and directed the Association staff to request approval from the Commissioner of Insurance to redeem the outstanding Bonds prior to their scheduled maturity dates. The redemption is expected to be completed in the second quarter of 2022.

As of December 31, 2021, and 2020, the Bonds had no unamortized premium or discount. Bond issuance costs are expensed as incurred.

Interest expense incurred is recorded as an investment expense and was $16,674 and $21,999 for the years ended December 31, 2021 and 2020, respectively, and is included in net investment loss in the statutory statements of income. Interest expense of $18,744 and $25,769 was paid for the years ended December 31, 2021 and 2020, respectively. Interest payable was $7,301 and $9,372 as of December 31, 2021 and 2020, respectively, and is included in borrowed money – bonds and interest payable in the statutory statements of admitted assets, liabilities, surplus and other funds.

(Amounts in Thousands)

Changes in borrowed money - bonds payable for the year ended December 31, 2021 is as follows:

Description		Bonds Outstanding January 1, 2021		Bonds Issued		Bonds Matured		Bonds Outstanding December 31, 2021
Bonds	**$**	**227,200**	**$**	**-**	**$**	**50,200**	**$**	**177,000**

Changes in borrowed money - bonds payable for the year ended December 31, 2020 is as follows:

Description		Bonds Outstanding January 1, 2020		Bonds Issued		Bonds Matured/Redeemed		Bonds Outstanding December 31, 2020
Bonds	$	318,600	$	-	$	91,400	$	227,200

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

Years ending December 31,		Amount
2022	$	54,400
2023		58,900
2024		63,700
2025		-
2026		-
On Demand		-
	$	177,000

13. Depopulation

Depopulation measures were introduced in the 84th Texas Legislature in 2015 authorizing assumption reinsurance agreements between the Association and the private market to facilitate depopulation. The Association implemented the Assumption Program in 2016. As of December 31, 2020, four Assumption Program rounds have been completed. The program was restructured prior to round five and no longer includes a quota-share reinsurance period. The round five novation occurs on March 1, 2022 resulting in no financial activity for round five in either 2021 or 2020.

As of December 31, 2021 and 2020, funds held by company under reinsurance treaties was $0.

During 2021 and 2020, the Association recognized ceded written premiums of $0 and $740 respectively, as a result of the Assumption Program.

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.

The Association obtained a $500,000 committed line of credit with two of its primary financial institutions during 2021. The line of credit agreement was entered into June 1, 2021 subsequent to the Association's Board of Directors approval on May 18, 2021. No amounts have been drawn against the line of credit. Issuance fees for the line of credit were $500 and the Association paid the lenders a 0.475% commitment fee against the unused portion of the line of credit. The commitment was originally set to mature on May 31, 2022, however, the line of credit was terminated by the Association on December 27, 2021 without penalty.

The Association obtained a $500,000 committed line of credit with two of its primary financial institutions during 2020. The line of credit agreement was entered into June 1, 2020 subsequent to the Association's Board of Directors approval on May 12, 2020. No amounts were drawn against the line of credit. Issuance fees for the line of credit were $500 and the Association paid the lenders a 0.8% commitment fee against the unused portion of the line of credit. The commitment was originally set to mature on May 31, 2021, however, the line of credit was terminated by the Association on December 28, 2020 without penalty.

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 $65,800,000 and $61,000,000 of insurance exposure as of December 31, 2021 and 2020, respectively.

(Amounts in Thousands)

16. Nonadmitted Assets

Nonadmitted assets consisted of the following:

December 31,		**2021**		2020
Prepaid expenses and receivables	**$**	**1,565**	$	1,302
Member assessment receivable		**2,199**		2,199
Electronic data processing equipment and software		**13,505**		4,578
Furniture and equipment		**242**		448
Total nonadmitted assets	**$**	**17,511**	$	8,527

17. Fair Value Measurements

The following table reflects the fair values and admitted assets and liabilities that are financial instruments. The fair values are also categorized into the three-level fair value hierarchy. Cash and cash equivalents are the only financial instruments held by the Association. The investment strategy for the Association is to hold highly liquid cash and cash equivalents for funding catastrophe events. The Association does not believe that the assets stated at NAV have any significant restrictions to liquidate or to be sold for less than NAV.

Fair Value Measurements at December 31, 2021 Using:

	Aggregate Fair Value	**Net Asset Value**	**Admitted Assets**	**Level 1**	**Level 2**	**Level 3**
Cash	**$ 177,437**	**$ -**	**$ 177,437**	**$ 177,437**	**$ -**	**$ -**
Cash equivalents*	**69,002**	**247,388**	**316,390**	**69,002**	**-**	**-**
	$ 246,439	**$ 247,388**	**$ 493,827**	**$ 246,439**	**$ -**	**$ -**

Fair Value Measurements at December 31, 2020 Using:

	Aggregate Fair Value	Net Asset Value	Admitted Assets	Level 1	Level 2	Level 3
Cash	$ 196,419	$ -	$ 196,419	$ 196,419	$ -	$ -
Cash equivalents*	83,406	201,851	285,257	83,406	-	-
	$ 279,825	$ 201,851	$ 481,676	$ 279,825	$ -	$ -

* In accordance with SSAP 100R, certain investments that were measured at NAV have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation to the line items presented in the statutory statements of admitted assets, liabilities, surplus and other funds.

18. Reconciliation with Annual Statement
There were no differences between the 2021 and 2020 annual statements as filed with the TDI and the 2021 and 2020 audited statutory financial statements.

19. Subsequent Events
The Association has evaluated subsequent events occurring after December 31, 2021, the date of the most recent statutory statements of admitted assets, liabilities, surplus, and other funds through April 25, 2022, the date the statutory financial statements were issued. The Association does not believe any subsequent events have occurred that would require further disclosure or adjustment to the statutory financial statements.

Texas Windstorm Insurance Association

Summary Investment Schedule
December 31, 2021
(Amounts in Thousands)

Investment categories	Gross Investment Holdings * Amount	%	Admitted Assets as Reported in the Annual Statement ** Amount	%
Long- Term Bonds (Schedule D, Part 1):				
U.S. Governments	$ -	-	$ -	-
All other governments	-	-	-	-
U.S. states, territories and possessions, etc. guaranteed	-	-	-	-
U.S. political subdivisions of states, territories, and possessions, guaranteed	-	-	-	-
U.S. special revenue and special assessment obligations, etc. non-guaranteed	-	-	-	-
Industrial and miscellaneous	-	-	-	-
Hybrid securities	-	-	-	-
Parent, subsidiaries and affiliates	-	-	-	-
SVO identified funds	-	-	-	-
Unaffiliated bank loans	-	-	-	-
Total long-term bonds	-	-	-	-
Preferred stocks (Schedule D, Part 2, Section 1):				
Industrial and miscellaneous (Unaffiliated)	-	-	-	-
Parent, subsidiaries and affiliates	-	-	-	-
Total preferred stocks	-	-	-	-
Common stocks (Schedule D, Part 2, Section 2):				
Industrial and miscellaneous Publicly traded (Unaffiliated)	-	-	-	-
Industrial and miscellaneous Other (Unaffiliated)	-	-	-	-
Parent, subsidiaries and affiliates Publicly traded	-	-	-	-
Parent, subsidiaries and affiliates Other	-	-	-	-
Mutual funds	-	-	-	-
Unit investments trusts	-	-	-	-
Closed-end funds	-	-	-	-
Total common stocks	-	-	-	-
Mortgage loans (Schedule B):				
Farm mortgages	-	-	-	-
Residential mortgages	-	-	-	-
Commercial mortgages	-	-	-	-
Mezzanine real estate loans	-	-	-	-
Total mortgage loans	-	-	-	-
Real Estate (Schedule A):				
Properties occupied by company	-	-	-	-
Properties held for production of income	-	-	-	-
Properties held for sale	-	-	-	-
Total real estate	-	-	-	-

See accompanying independent auditors' report on supplemental information.

Texas Windstorm Insurance Association

Summary Investment Schedule
December 31, 2021
(Amounts in Thousands)

Investment categories		Gross Investment Holdings * Amount	%		Admitted Assets as Reported in the Annual Statement ** Amount	%
Cash, cash equivalents and short-term investments:						
Cash (Schedule E, Part 1)		177,437	35.93		177,437	35.93
Cash equivalents (Schedule E, Part 2)		316,390	64.07		316,390	64.07
Short-term investments (Schedule DA)		-	-		-	-
Total cash, cash equivalents and short-term investments		493,827	100.00		493,827	100.00
Contract loans		-	-		-	-
Derivatives (Schedule DB)		-	-		-	-
Other invested assets (Schedule BA)		-	-		-	-
Receivables for securities		-	-		-	-
Securities Lending (Schedule DL, Part 1)		-	-		-	-
Other invested assets (Page 2, Line 11)		-	-		-	-
Total invested assets	$	493,827	100.00	$	493,827	100.00

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

*** The Association has no securities lending reinvested collateral at December 31, 2021.*

See accompanying independent auditors' report on supplemental information.

Texas Windstorm Insurance Association

Supplemental Investment Risk Interrogatories

December 31, 2021

(Amounts in Thousands)

1) Reporting entity's total admitted assets as reported in the accompanying financial statements. $ 496,935

Questions 2 through 19 are not applicable.

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

	At Year-End		At End of Each Quarter		
	Amount	Percentage of Total Admitted Assets	1st Qtr	2nd Qtr	3rd Qtr
Reverse repurchase agreements	$ 69,002	13.89	$ 85,528	$ 94,067	$ 51,748

Questions 21 through 23 are not applicable.

See accompanying independent auditors' report on supplemental information.

7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? YES[ ] NO [X]

7.2 If yes, indicate the number of reinsurance contracts containing such provisions. N/A

7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? YES[ ] N/A [X]

9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year–end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

(a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

(b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity; or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

(c) Aggregate stop loss reinsurance coverage;

(d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;

(e) A provision permitting reporting of losses, or payment of losses, less frequently than a quarterly basis (unless there is no activity during the period); or

(f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. YES[ ] NO [X]

See accompanying independent auditors' report on supplemental information.

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[ ] NO [X]

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:

N/A

9.4 Except for transactions meeting the requirements of paragraph 37 of SSAP No. 62R, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

(a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (“SAP”) and as a deposit under generally accepted accounting principles (“GAAP”); or

(b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP? YES [ ] NO [X]

9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP. N/A

See accompanying independent auditors' report on supplemental information.

5E3. GASB

Texas Windstorm Insurance Association

Financial Statements and Required Supplementary Information

For the Years Ended December 31, 2021 and 2020

ctm Calhoun, Thomson+Matza, LLP
Certified Public Accountants

Texas Windstorm Insurance Association

Financial Statements and Required Supplementary Information

For the Years Ended December 31, 2021 and 2020

Texas Windstorm Insurance Association

Table of Contents

Calhoun, Thomson+Matza LLP
Certified Public Accountants

Austin, Texas
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Independent Auditors' Report

Board of Directors
Texas Windstorm Insurance Association
Austin, Texas

Opinion

We have audited the financial statements of Texas Windstorm Insurance Association (the "Association"), a component unit of the State of Texas, which comprise the statements of net position as of December 31, 2021 and 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2021 and 2020, and the results of its operations, changes in its financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

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, or, where applicable, its cash flows for the years ended 2021 and 2020, in accordance with accounting principles generally accepted in the United States of America. The auditors' opinion is not modified with respect to the matter emphasized.

As discussed in Note 14, as of December 31, 2021, the Association had approximately $65.8 billion of insurance exposure in certain designated counties located in the gulf coast region of the State of Texas. As discussed in Note 9, by state statute, any net gain from operations must be paid to the Catastrophe Reserve Trust Fund ("CRTF"). As of December 31, 2021, the balance in the CRTF was approximately $182.7 million. If a major claim event occurs in the future, it could have a severe impact on the financial condition of the Association. The auditors' opinion is not modified with respect to the matter emphasized.

As discussed in the summary of significant accounting policies, in accordance with Senate Bill 900 ("SB 900") passed by the Texas Legislature during 2015, the Association is authorized to place $1.0 billion in public securities and assess member insurance companies $1.0 billion to fund catastrophic losses. 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 will depend on market conditions and the financial and operating results of the Association. The auditors' opinion is not modified with respect to the matter emphasized.

As discussed in Note 5, ultimate loss projections for Hurricane Harvey were estimated to be $1.67 billion by the Association's appointed actuary as of December 31, 2021. If the ultimate loss projection changes in the future it could have a material adverse impact on the financial condition of the Association. The auditors' opinion is not modified with respect to the matter emphasized.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 6 to 15, schedules of changes in net pension liability and related ratios, on page 46, and schedules of employer contributions on page 47 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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.

Cahn, Thomas & Matza, LLP

April 25, 2022

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, 2021 and 2020. The information should be read 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 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 position for the Association is presented below:

December 31,		**2021**		2020
Cash and cash equivalents	**$**	**493,827**	$	481,676
Assessment receivable		**2,199**		2,199
Capital assets		**13,747**		5,025
Other assets		**4,713**		3,906
Total assets		**514,486**		492,806
Deferred outflows of resources		**3,376**		3,881
	$	**517,862**	$	496,687
Other liabilities	**$**	**331,103**	$	401,046
Borrowed money – bonds and interest payable		**184,301**		236,572
Total liabilities		**515,404**		637,618
Deferred inflows of resources		**2,211**		2,351
Total liabilities and deferred inflows of resources		**517,615**		639,969
Net position:				
Investment in capital assets		**13,747**		5,025
Unrestricted		**(13,500)**		(148,307)
Total net position		**247**		(143,282)
	$	**517,862**	$	496,687

(Amounts in Thousands)

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

Years ended December 31,		**2021**		2020
Operating revenues:				
Net premiums earned	**$**	**276,372**	$	261,574
Operating expenses:				
Losses and loss adjustment expenses		**19,048**		118,470
Underwriting expenses		**95,216**		90,242
Total expenses		**114,264**		208,712
Operating income		**162,108**		52,862
Nonoperating expense		**(18,579)**		(23,693)
Increase in net position before federal income tax expense		**143,529**		29,169
Federal income tax expense		**-**		-
Change in net position		**143,529**		29,169
Net position at beginning of year		**(143,282)**		(172,451)
Net position at end of year	**$**	**247**	$	(143,282)

ANALYSIS OF FINANCIAL POSITION

Assets

All funds collected by the Association which are not otherwise required to be expended are held in cash or cash equivalents. As of December 31, 2021, cash and cash equivalents totaled $493,827, an increase of $12,151 from December 31, 2020. The increase was partially attributable to the increase in written premium in 2021. As of December 31, 2020, cash and cash equivalents totaled $481,676, a decrease of $32,935 from December 31, 2019. The decrease was partially attributable to repayments of bond principal and is offset by assessments collected from insurance carriers resulting from Hurricane Harvey payments.

The assessment receivable was $2,199 as of December 31, 2021 and 2020. The assessment receivable was $2,199 and $92,199 as of December 31, 2020 and 2019, respectively. The decrease was related to the $90,000 assessment receipts during 2020.

The assets held by the Texas Treasury Safekeeping Trust Company ("TTSTC") represent funds deposited for payment of scheduled principal and interest on the Texas Public Finance Authority Texas Windstorm Insurance Association Premium Revenue Taxable Bonds, Series 2014 (the "Series 2014 Bonds"). The funds are restricted to use for debt service only. The Association received a Permitted Practice from the Commissioner of the Texas Department of Insurance ("TDI") to admit these assets as the funds are restricted and offset the borrowed funds of the Association. The balance held by the TTSTC was $69,002 and $83,406 as of December 31, 2021 and 2020, respectively.

Liabilities

The liability for the statutory fund expense payment to the CRTF was $0 for both December 31, 2021 and 2020, based on the TDI's interpretation of the relevant statutes. No contribution to the CRTF has been accrued related to calendar year 2021 as net gain from operations will be used in the redemption of the remaining outstanding principal on the Series 2014 Bonds in 2022. No contribution to the CRTF has been accrued as of December 31, 2021 and 2020 as there was no net gain from operations for the year 2021 and 2020.

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 and to observe adherence to corporate policy.

The reserve for losses and LAE is based upon claim estimates for (1) losses for claims 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.

Loss and LAE reserves as of December 31, 2021 totaled $77,625, a decrease of $86,776 from the same period ended in 2020. The decrease in reserves is attributable to payments made on prior year claims and reductions of reserves no longer needed. During 2021, the gross ultimate estimated losses for two prior hurricane events were lowered. Reserves in 2021 associated with 2017 Hurricane Harvey were reduced by $30,000 and 2008 Hurricane Ike reserves were reduced by $9,000. The Association believes that the loss and LAE reserves as of December 31, 2021 make a reasonable provision for the Association's claim liabilities.

Loss and LAE reserves as of December 31, 2020 totaled $164,401, a decrease of $4,797 from the same period ended in 2019. The minimal decrease in reserves was attributable to payments made on prior year claims offset by current year storm activity. During 2020, Association policyholders were impacted by Hurricanes Hanna, Laura and Delta which had an estimated combined gross ultimate loss and loss adjustment expense of $92.1 million as of December 31, 2020. The coverage area insured by the Association was previously impacted by Hurricane Harvey in 2017. Ultimate loss and loss adjustment expenses from Hurricane Harvey are estimated to be approximately $1.7 billion as of December 31, 2020. The Association believes that the loss and LAE reserves as of December 31, 2020 make a reasonable provision for the Association's claim liabilities.

Borrowed money – bonds and interest payable

Bonds consist of $500,000 in Texas Public Finance Authority Class 1 Revenue Bonds (Texas Windstorm Insurance Association Program), Taxable Series 2014 (the "Bonds"), as permitted by Texas Statute. The Bonds fully mature by 2024. The principal balance of Bonds outstanding as of December 31, 2021 and 2020 was $177,000 and $227,200, respectively. The decrease is attributable to scheduled principal payments during the year. Total interest payable as of December 31, 2021 and 2020 was $7,301 and $9,372, respectively. The principal balance of Bonds outstanding as of December 31, 2020 and 2019 was $227,200 and $318,600, respectively. The decrease is attributable to scheduled principal payments during the year and early partial redemption of $45,000 paid during 2020. Total interest payable as of December 31, 2020 and 2019 was $9,372 and $13,142, respectively.

Capital and Surplus

The net statutory gain from operations of the Association must be transferred to the CRTF following the close of each business year. Under the statutory agreement with the TDI, monies in the CRTF are to be used for purposes directly related to funding the payment of insured losses from windstorm and hail catastrophe losses in excess of premium and other revenue of the Association in a catastrophe year.

During 2021 and 2020, statutory fund costs were $0. No contribution to the CRTF has been accrued related to calendar year 2021 as net gain from operations will be used to redeem the remaining outstanding principal on the Series 2014 Bonds in 2022. No contribution to the CRTF has been accrued as of December 31, 2020 as there was no excess net gain from operations. During 2020 and 2019, the Association paid $52,641 and $110,590 to the CRTF representing the 2019 and 2018 net gain from operations. The Association accrued $0 and $52,641 of statutory fund costs in the statements of revenues, expenses and changes in net position for the years ended December 31, 2020 and 2019, respectively.

Reinsurance

During 2021 and 2020, the Association entered into reinsurance agreements. These agreements reduce the amount of losses that can arise from claims under a general reinsurance contract known as a catastrophe aggregate excess of loss reinsurance agreement ("aggregate excess of loss").

Effective June 1, 2021, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of $2,100,000, subject to a limit of liability to the reinsurer of $1,930,000.

Effective June 1, 2020, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of $2,100,000, subject to a limit of liability to the reinsurer of $2,100,000.

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

The Association has entered into quota share reinsurance agreements in relation to the Assumption Reinsurance Depopulation Program ("Assumption Program") (see Note 10).

(Amounts in Thousands)

The effect on premiums written and earned for the years ended December 31, 2021 and 2020 is as follows:

	2021		2020	
	Written	**Earned**	Written	Earned
Direct premium	**$ 395,113**	**$ 378,504**	$ 369,600	$ 369,179
Excess of loss ceded premium	**(102,132)**	**(102,132)**	(106,865)	(106,865)
Depopulation ceded premium	**-**	**-**	(740)	(740)
Net	**$ 292,981**	**$ 276,372**	$ 261,995	$ 261,574

Ceded premiums include premiums ceded to companies that assume policies pursuant to the Assumption Program (see Note 10).

Unearned premiums are reported as follows:

December 31,	**2021**	2020
Gross unearned premiums	**$ 202,525**	$ 185,917
Ceded unearned premiums	**-**	-
	$ 202,525	$ 185,917

Commitments and Contingencies

The Association leases office space under a non-cancelable operating lease agreement which expires in 2033. 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, 2021.

The minimum aggregate rental commitments are as follows:

Years ending December 31,	Amount
2022	$ 1,088
2023	857
2024	880
2025	905
2026 and thereafter	7,725
	$ 11,455

Rental expense under the non-cancelable operating lease was approximately $1,497 and $1,481 for the years ended December 31, 2021 and 2020, respectively.

Governance

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

Depopulation

Depopulation measures were introduced in the 84th Texas Legislature in 2015 authorizing assumption reinsurance agreements between the Association and the private market to facilitate depopulation. The Association implemented the Assumption Program in 2016. As of December 31, 2020, four Assumption Program rounds have been completed. The program was restructured prior to round five and no longer includes a quota-share reinsurance period. The round five novation occurs on March 1, 2022 resulting in no financial activity for round five in either 2021 or 2020.

As of December 31, 2021 and 2020, funds held by company under reinsurance treaties was $0.

During 2021 and 2020, the Association recognized ceded written premiums of $0 and $740, respectively, as a result of the Assumption Program.

Service Contract with Texas Fair Plan Association

During 2002, the Association entered into a service contract with the Texas Fair Plan Association ("TFPA") in which the Association is to be fully reimbursed for all expenditures, professional fees, consulting services, allocated employee time, lost investment income and other costs directly associated with the services provided by the Association on behalf of TFPA. During 2021 and 2020, the Association paid expenses for TFPA under its management contract and was reimbursed $13,186 and $14,314, respectively. As of December 31, 2021 and 2020, the Association incurred or paid expenses for which it has not been reimbursed of $1,159 and $1,132, respectively, on behalf of TFPA. These amounts are included in other assets in the statements of net position. This arrangement is subject to a written agreement which requires that balances be settled within 30 days. During 2020 and 2019, the Association paid expenses for TFPA under its management contract and was reimbursed $14,314 and $14,133, respectively. As of December 31, 2020 and 2019, the Association incurred or paid expenses for which it has not been reimbursed of $1,132 and $1,076, respectively, on behalf of TFPA. These amounts are included in other assets in the statements of net position. This arrangement is subject to a written agreement which requires that balances be settled within 30 days.

RESULTS OF OPERATIONS

Revenues

Direct written premium was $395,113 and $369,600 for the years ended December 31, 2021 and 2020 respectively. The 7% increase from 2020 to 2021 was the result of increased policy count and reduced depopulation efforts. Direct written premium was $369,600 and $372,017 for the years ended December 31, 2020 and 2019 respectively. The 1% decrease from 2019 to 2020 was the result of lower policy count and continued depopulation efforts during 2020 and 2019.

Net earned premium was $292,981 and $261,574 for the years ended December 31, 2021 and 2020, respectively. The 12% increase from 2020 to 2021 was a result of increased policy count, reduced depopulation efforts and a reduction in reinsurance costs. Net earned premium was $261,574 and $287,477 for the years ended December 31, 2020 and 2019, respectively. The 9% decrease from 2019 to 2020 was a result of continued reductions in written premium from the prior two years.

Net investment expense was $1,905 and $1,694 for the years ended December 31, 2021 and 2020, respectively. The increase in net investment expense is due to increasing interest rates and a minimal change in investment expenses. Net investment (expense) income was $1,694 and $6,226 for the years ended December 31, 2020 and 2019, respectively. The decrease in net investment income reflects the sharp drop in interest rate return during 2020.

In August 2017, the Texas coverage area insured by the Association was struck by Hurricane Harvey. The ultimate loss and LAE from Hurricane Harvey are estimated to be approximately $1,670,000. The Act allows the Association to assess member companies Class 1 member assessments up to $500,000. A Class 1 member assessment was approved by the Commissioner of Insurance on May 25, 2018 for $175,000, a second Class 1 member assessment was approved on August 20, 2018 for $106,820, and a third Class 1 member assessment was approved on January 10, 2020 for $90,000 for a combined total of $371,820. As of December 31, 2020, $369,621 has been collected from the three assessments. One insurance group disputed whether they were subject to a 2018 assessment based on their interpretation of a 2017 legislative change. In 2020, the TDI Commissioner made a determination that the insurance group was not subject to the 2018 assessments. The outstanding assessment will be reallocated and collected from the other member companies. Further assessments will be requested if needed as Hurricane Harvey paid loss development matures. As of December 31, 2021 and 2020, the net position of the Association is $247 and $(143,282), respectively. As of December 31, 2020 and 2019, the negative position of the Association is $143,282 and $172,451, respectively.

Net Loss and Loss Adjustment Expenses

Net loss and LAE was $19,048 and $118,470 for the years ended December 31, 2021 and 2020, respectively. The decrease in net loss and LAE is primarily due to reduction in reserves related to Hurricane Harvey and Hurricane Ike totaling $39,000 offset by the 2021 Hurricane Nicholas impact. Net loss and LAE was $118,470 and $113,398 for the years ended December 31, 2020 and 2019, respectively. The increase in net loss and LAE is primarily due to the Association being impacted by Hurricanes Hanna, Laura and Delta which had an estimated combined gross ultimate loss and LAE of $92.1 million as of December 31, 2020 offset by no development from Hurricane Harvey in 2020 that was experienced in 2019.

Underwriting Expenses

Underwriting expenses were $95,216 and $90,242 for the years ended December 31, 2021 and 2020, respectively. Underwriting expenses increased from 2020 to 2021 by 6% due to increased commissions on increased premiums. Underwriting expenses were $90,242 and $94,068 for the years ended December 31, 2020 and 2019, respectively. Underwriting expenses decreased during 2020 by 4% while direct written premium decreased by 1%. Reductions in commission and premium were offset by costs associated with system implementations.

Texas Windstorm Insurance Association

Statements of Net Position
(Amounts in Thousands)

December 31,		**2021**		2020
Assets and deferred outflows of resources				
Assets				
Cash and cash equivalents	**$**	**493,827**	$	481,676
Assessment receivable		**2,199**		2,199
Capital assets, net		**13,747**		5,025
Other assets		**4,713**		3,906
Total assets		**514,486**		492,806
Deferred outflows of resources related to pensions				
Differences between expected and actual experience		**861**		701
Changes in assumptions		**2,515**		3,180
Total deferred outflows of resources		**3,376**		3,881
	$	**517,862**	$	496,687

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

Texas Windstorm Insurance Association

Statements of Net Position

(Amounts in Thousands)
(Continued)

December 31,		**2021**		2020
Liabilities, deferred inflows of resources and net position				
Liabilities				
Losses and loss adjustment expense reserves	**$**	**77,625**	$	164,401
Unearned premiums		**202,525**		185,917
Ceded reinsurance premiums payable, net of ceding commissions		**25,951**		25,908
Borrowed money – bonds and interest payable		**184,301**		236,572
Other liabilities		**25,002**		24,820
Total liabilities		**515,404**		637,618
Deferred inflows of resources related to pensions				
Net difference between projected and actual earnings on plan investments		**2,127**		2,183
Differences between expected and actual experience		**43**		113
Changes in assumptions		**41**		55
Total deferred inflows of resources		**2,211**		2,351
Total liabilities and deferred inflows of resources		**517,615**		639,969
Net position				
Investment in capital assets		**13,747**		5,025
Unrestricted		**(13,500)**		(148,307)
Total net position		**247**		(143,282)
	$	**517,862**	$	496,687

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

Texas Windstorm Insurance Association

Statements of Revenues, Expenses and Changes in Net Position

(Amounts in Thousands)

Years ended December 31,		**2021**		2020
Operating revenues				
Premiums earned	**$**	**378,504**	$	369,179
Premiums ceded		**(102,132)**		(107,605)
Total operating revenues		**276,372**		261,574
Operating expenses				
Losses and loss adjustment expenses		**19,048**		118,470
Underwriting expenses		**95,216**		90,242
Total operating expenses		**114,264**		208,712
Operating income		**162,108**		52,862
Nonoperating revenues and (expenses)				
Net investment loss		**(1,905)**		(1,694)
Interest expense		**(16,674)**		(21,999)
Total nonoperating expenses		**(18,579)**		(23,693)
Increase in net position before federal income tax expense		**143,529**		29,169
Federal income tax expense		**-**		-
Change in net position		**143,529**		29,169
Net position:				
Net position, beginning of year		**(143,282)**		(172,451)
Change in net position		**143,529**		29,169
Net position, end of year	**$**	**247**	$	(143,282)

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

Texas Windstorm Insurance Association

Statements of Cash Flows
(Amounts in Thousands)

Years ended December 31,		**2021**		2020
Cash flows from operating activities:				
Premiums collected, net of reinsurance	**$**	**293,369**	$	264,820
Losses and loss adjustment expense paid		**(105,754)**		(123,321)
Underwriting expenses paid		**(95,665)**		(88,413)
Receivable from affiliate		**(27)**		(57)
Net cash provided by operating activities		**91,923**		53,029
Cash flows from noncapital financing activities:				
Bond principal paid		**(50,200)**		(91,400)
Financing costs paid		**(1,927)**		(3,058)
Bond interest paid		**(18,744)**		(25,769)
Statutory fund paid		**-**		(52,641)
Assessment income received		**-**		90,000
Net cash used in noncapital financing activities		**(70,871)**		(82,868)
Cash flows from capital and related financing activities:				
Capital assets		**(8,927)**		(4,577)
Net cash used in capital and related financing activities		**(8,927)**		(4,577)
Cash flows from investing activities:				
Net investment income		**26**		1,481
Net cash provided by investing activities		**26**		1,481
Net increase (decrease) in cash and cash equivalents		**12,151**		(32,935)
Cash and cash equivalents, beginning of year		**481,676**		514,611
Cash and cash equivalents, end of year	**$**	**493,827**	$	481,676

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

(Amounts in Thousands)

Years ended December 31,		**2021**		2020
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	**$**	**162,108**	$	52,862
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization		**205**		713
Changes in assets and liabilities:				
Losses and loss adjustment expense reserves		**(86,775)**		(4,797)
Unearned premiums		**16,608**		422
Ceded reinsurance premiums payable		**43**		3,527
Other liabilities		**38**		1,844
Other assets		**(304)**		(1,542)
Net cash provided by operating activities	**$**	**91,923**	$	53,029

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

Nature of Business

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

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

Organization

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

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

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

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

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

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

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

Approximately $4,030,000 in funding was secured for the 2021 hurricane season. SB 900, passed by the 84th Texas Legislature, took effect during 2015, and changed the Association's funding structure. $4,030,000 is sufficient to fund claims associated with 99% of all modeled hurricane seasons.

The Association's funding structure for the 2021 hurricane season is, in order:

- $100,000 in CRTF funds
- $500,000 in Class 1 public securities
- $500,000 in Class 1 member assessments
- $250,000 in Class 2 public securities
- $250,000 in Class 2 member assessments
- $250,000 in Class 3 public securities
- $250,000 in Class 3 member assessments
- $1,930,000 in total reinsurance, including both traditional reinsurance and catastrophe bonds

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

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

The Association implemented the Assumption Program in 2016 and the program is still in effect as of December 31, 2021. In 2020, the Assumption Program was restructured and a new round was launched in 2021 with a novation occurring on March 1, 2022. Only one private market insurer participated in the 2021-2022 Assumption Program. The 2022 novation consisted of 125 policies, down from the prior novation. Approximately 16,125 policies have been novated through December 31, 2021 since the inception of the Assumption Program.

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 in accordance with 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 May of 2020, the Governmental Accounting Standards Board ("GASB") issued Statement No. 95, Postponement of Effective Dates of Certain Authoritative Guidance. This statement postpones the effective date of GASB 87 to fiscal years beginning after June 15, 2021.

In January of 2020, GASB issued Statement No. 92, Omnibus 2020. This statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3. The requirements related to the effective date of Statement No. 87 and Implementation Guide 2019-3 are effective for periods beginning after December 15, 2019. The Association is currently evaluating the impact this standard will have on the financial statements when adopted.

In June of 2017, the GASB issued Statement No. 87, Leases. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Early application is encouraged. The Association is currently evaluating the impact this standard will have on the financial statements when adopted.

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 statements of cash flows, the Association considers all highly liquid investments with original maturities of three months or less as cash equivalents. Cash equivalents, which include money market mutual funds, are recorded at Net Asset Value ("NAV"), which approximates fair value.

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

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. There are existing net operating loss carryforwards in the open tax years that are not anticipated to be realized. As of December 31, 2021, the statute of limitations remains open for the 2018 to 2021 tax years. No further federal income tax impact is expected in the future.

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.

All revenue not meeting the definition of operating revenue and expenses are reported as nonoperating revenues and expenses. Significant or major components of nonoperating revenues and expenses include interest expense, assessment income, statutory fund costs, and statutory fund income and are included in the statements of revenues, expenses and changes in net position.

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 TDI Commissioner.

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

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

Policy Acquisition Costs
Acquisition costs consisting of commissions and premium taxes, vary with and are primarily related to the issuance of new and renewal insurance policies. Acquisition costs are expensed as incurred.

Losses and Loss Adjustment Expenses
Loss and LAE reserves are based upon claim estimates for (1) losses for claims 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 losses that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Depopulation ceded premiums are recognized as the ceded policies' premiums are earned.

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.

(Amounts in Thousands)

1. Cash and Cash Equivalents

Cash and cash equivalents are as follows:

December 31,		2021		2020
Cash	**$**	**177,437**	$	196,419
Cash equivalents:				
Reverse repurchase agreements		**69,002**		83,406
Money market mutual funds		**247,388**		201,851
Cash equivalents		**316,390**		285,257
	$	**493,827**	$	481,676

Money Market Mutual Funds

The Association invests in money market mutual funds which are included in cash equivalents. The fair value of money market mutual funds was approximately $247,388 and $201,851 as of December 31, 2021 and 2020, respectively.

Reverse Repurchase Agreements

The Association invests in overnight reverse repurchase agreements with the Texas Treasury Safekeeping Trust Company (“TTSTC”). These invested funds were received from the issuance of bonds during 2014 and include debt service payments. The funds are held at the TTSTC to be used for debt service and for use when a catastrophic event occurs (see Note 8). The TTSTC’s minimum collateral required for overnight reverse repurchase investments is at least 100% for Treasuries; 101% for Agencies and U.S. Instrumentalities and 102% for mortgage-backed securities. The fair value of reverse repurchase agreements was approximately $69,002 and $83,406 as of December 31, 2021 and 2020, respectively, and is included in cash and cash equivalents in the statements of net position.

Reverse Repurchase Agreement

Fair Value as of December 31,		2021		2020
Open	**$**	**-**	$	-
30 days or less		**69,002**		83,406
31 to 60 days		**-**		-
61 to 90 days		**-**		-
Greater than 90 days		**-**		-
Securities received		**-**		-
	$	**69,002**	$	83,406

(Amounts in Thousands)

2. Capital assets

Capital assets consist of the following:

December 31,		**2021**		2020
Furniture and fixtures	**$**	**540**	$	540
Electronic data processing equipment and software		**23,970**		15,043
Leasehold improvements		**1,858**		1,858
		26,368		17,441
Less: accumulated depreciation		**(12,621)**		(12,416)
	$	**13,747**	$	5,025

Depreciation and amortization expense was $205 and $713 for the years ended December 31, 2021 and 2020, respectively.

3. Reinsurance

During 2021 and 2020, the Association entered into reinsurance agreements. These agreements reduce the amount of losses that can arise from claims under a general reinsurance contract known as a catastrophe aggregate excess of loss reinsurance agreement ("aggregate excess of loss").

Aggregate Excess of Loss

Effective June 1, 2021, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of $2,100,000, subject to a limit of liability to the reinsurer of $1,930,000.

Effective June 1, 2020, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of $2,100,000, subject to a limit of liability to the reinsurer of $2,100,000.

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

(Amounts in Thousands)

The Association has entered into quota share reinsurance agreements in relation to the Assumption Program (see Note 10).

The effect of reinsurance on premiums written and earned for the years ended December 31, 2021 and 2020 is as follows:

	2021		2020	
	Written	**Earned**	Written	Earned
Direct premium	**$ 395,113**	**$ 378,504**	$ 369,600	$ 369,179
Excess of loss ceded premium	**(102,132)**	**(102,132)**	(106,865)	(106,865)
Depopulation ceded premium	**-**	**-**	(740)	(740)
Net	**$ 292,981**	**$ 276,372**	$ 261,995	$ 261,574

Ceded premiums include premiums ceded to companies that assume policies pursuant to the Assumption Program (see Note 10).

As of December 31, 2021 and 2020, the Association had reinsurance recoverables of $0 and $66, respectively, of paid losses and LAE as a result of the Assumption Program and are included in other assets in the statements of net position.

4. Unearned Premiums

Unearned premiums are reported as follows:

December 31,	**2021**	2020
Gross unearned premiums	**$ 202,525**	$ 185,917
Ceded unearned premiums	**-**	-
	$ 202,525	$ 185,917

(Amounts in Thousands)

5. Losses and Loss Adjustment Expense Reserves

The following table provides a reconciliation of the beginning and ending reserve balances, net of reinsurance recoverables, for losses and loss adjustment expenses:

Years ended December 31,		**2021**		2020
Beginning balance	**$**	**164,401**	$	169,198
Less: reinsurance recoverable		**86**		68
Beginning net balance		**164,315**		169,130
Incurred related to:				
Current loss year		**83,525**		118,363
Prior loss years		**(64,477)**		107
Losses and loss adjustment expense incurred		**19,048**		118,470
Paid related to:				
Current loss year		**61,725**		66,784
Prior loss years		**44,053**		56,501
Paid losses and loss adjustment expense		**105,778**		123,285
Ending net balance		**77,585**		164,315
Plus: reinsurance recoverable		**40**		86
Ending balance	**$**	**77,625**	$	164,401

Current year changes in estimates of the cost of prior year losses and LAE affect the current year statements of revenues, expenses and changes in net position. Increases in those estimates increase current year expense and are referred to as unfavorable development or prior year reserve shortages. Decreases in those estimates decrease current year expense and are referred to as favorable development or prior year reserve redundancies. Current year losses and LAE reflected on the statements of revenues, expenses and changes in net position of $19,048 had relatively favorable prior year development. During 2020, Association policyholders were impacted by Hurricanes Hanna, Laura and Delta which have an estimated combined gross ultimate loss and LAE of $92.1 million as of December 31, 2020. During 2021, the estimated reserves related to those storms were revised and contributed to favorable development in 2021 in excess of $15 million. The coverage area insured by the Association was previously impacted by Hurricane Harvey in 2017. Ultimate loss and LAE from Hurricane Harvey are estimated to be approximately $1,670,000 as of December 31, 2021, down $30 million from 2020 due to favorable development. Hurricane Ike ultimate reserves were reduced in 2021 resulting in $9 million in favorable development. Increases or decreases of this nature occur as the result of claim settlements and receipt and evaluation of additional information regarding unpaid claims. Recent development trends are also taken into account in evaluating the overall adequacy of reserves. Due to the inherently uncertain process involving loss and LAE reserve estimates, the final resolution of the ultimate liability may be different from that anticipated at the reporting date. The appointed actuary for the Association has opined that the loss and LAE reserves as of December 31, 2021 and 2020 make a reasonable provision for the Association's claim liabilities.

6. Governance

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

7. Service Contract with Texas FAIR Plan Association

During 2002, the Association entered into a service contract with the Texas Fair Plan Association ("TFPA") in which the Association is to be fully reimbursed for all expenditures, professional fees, consulting services, allocated employee time, lost investment income and other costs directly associated with the services provided by the Association on behalf of TFPA. During 2021 and 2020 the Association paid expenses for TFPA under its management contract and was reimbursed $13,186 and $14,314, respectively. As of December 31, 2021 and 2020, the Association incurred or paid expenses for which it has not been reimbursed of $1,159 and $1,132, respectively, on behalf of TFPA, and are included in other assets in the statements of net position. This arrangement is subject to a written agreement which requires that balances be settled within 30 days.

8. Borrowed Money – Bonds Payable

The Texas Public Finance Authority (the "Authority" or the "Issuer") has issued Bonds on behalf of the Association for the purposes of financing catastrophe loss costs in the amount of $500,000. The Bonds are issued pursuant to a master resolution adopted by the Board of Directors of the Authority on September 24, 2014 (the "Master Resolution"), and a first supplemental resolution adopted by the Board of Directors of the Authority on September 24, 2014 (the "First Supplemental Resolution", and together with the Master Resolution, the "Resolutions"). The Bonds constitute the initial series of Class 1 Public Securities of the Authority secured and payable from Class 1 Pledged Revenues irrevocably pledged under the Resolutions. The Association has pledged the Class 1 Pledged Revenues to the Authority pursuant to a Financing and Pledge Agreement dated as of September 1, 2014 between the Authority and the Association.

The Bonds were issued on September 30, 2014 for $500,000 of which $177,000 and $227,200 principal balance was outstanding as of December 31, 2021 and 2020, respectively, and is included in borrowed money – bonds and interest payable in the statements of net position. The bonds mature July 1, 2024 and can be redeemed in whole or in part by the Issuer beginning July 1, 2019. The original Bonds bear interest from 5.25% to 8.25% with an effective interest rate of 8.03%. Interest is payable semi-annually on January 1 and July 1 with the first payment made on January 1, 2015. The Bonds are secured by the Association's net premium and other revenue which is used to fund the debt service and related accounts held by the TTSTC.

There are various general and special covenants associated with the Bonds. The primary covenants, which exist as long as there are outstanding Class 1 Public Securities and administrative expenses, require that; (1) the Association will take actions that produce projected net coverage revenues in an amount not less than 125% of the obligations and administrative expenses due in the succeeding four quarters and; (2) that actual net coverage revenues for the preceding four quarters will be in an amount not less than 110% of the actual obligations and administrative expenses for the same period. Another covenant, which exists as long as the Bonds are outstanding, states that the Association will maintain the operating bank account subject to a deposit account control agreement to maintain a perfected security interest in the net premiums and other revenue held for the benefit of the bondholders. As of December 31, 2021, the Association estimates projected net coverage revenues will be 188% of the obligations and administrative expenses for the next four quarters ending December 31, 2022 which exceeds the required 125% threshold.

On May 11, 2020, the Association completed a voluntary early redemption of $45 million principal of the Bonds and paid $1.3 million interest associated with the redeemed securities. While the redemption was optional, the $46.3 million paid to redeem these securities is required to be included as a debt obligation impacting the preceding four quarters "look back" calculation. The coverage ratio for the four quarters ended December 31, 2020 is 44% or 66 percentage points below the specified ratio of 110% due to the inclusion of the $46.3 million redemption amount and losses from Hurricanes Hanna, Laura and Delta which struck the Association's coverage areas along the Texas coast during the 2020 hurricane season. Pursuant to the Bond documents, if either the actual net coverage revenue test or the projected net coverage revenue test falls below the applicable threshold (110% and 125%, respectively) the Association is required to disclose to the Authority the action or actions (including but not limited to rate changes, reinsurance costs adjustments, and other fiscal steps) necessary to meet the requirements in the future. Future periods are forecasted to produce sufficient projected net coverage revenues as the early redemption and non-catastrophic losses from the 2020 hurricane season are excluded from the coverage calculation due to the passage of time. As a result, neither a rate adjustment nor an adjustment to reinsurance costs are deemed necessary to produce future projected net coverage revenues equal to or in excess of 125% of the obligations and administrative expenses.

The Bonds are subject to optional make-whole redemption, in whole or in part, at the option of the Authority, at the request of the Association prior to July 1, 2019 at a redemption price equal to the greater of (i) 100% of the principal amount of the Bonds to be redeemed or (ii) the sum of the present values of the remaining schedule payments of principal and interest on the Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 100 basis points, plus in each case, accrued and unpaid interest on the Bonds being redeemed to the date fixed for redemption.

The Bonds are also subject to optional redemption prior to maturity on or after July 1, 2019, in whole or in part, at a redemption price equal to the principal amount of Bonds to be redeemed plus accrued interest to the date of redemption. On February 18, 2020 the Association Board of Directors approved an early redemption in the amount of $45 million and directed Association staff to request approval from the Commissioner of Insurance. On February 24, 2020, the Association received approval from the Commissioner of Insurance to redeem the requested $45 million of bond principal. The redemption was completed on May 11, 2020.

On December 7, 2021, the Association Board of Directors approved an early redemption of the remaining $177,000 of Bonds and directed the Association staff to request approval from the Commissioner of Insurance redeem the outstanding Bonds prior to their scheduled maturity dates. The redemption is expected to be completed in the second quarter of 2022.

As of December 31, 2021 and 2020, the Bonds had no unamortized premium or discount. Bond issuance costs are expensed as incurred.

Interest expense incurred is recorded as a nonoperating expense and was $16,674 and $21,999 for the years ended December 31, 2021 and 2020, respectively, and is included in the statements of revenues, expenses and changes in net position. Interest expense of $18,744 and $25,769 was paid for the years ended December 31, 2021 and 2020, respectively. Interest payable was $7,301 and $9,372 as of December 31, 2021 and 2020, respectively, and is included in borrowed money – bonds and interest payable in the statements of net position.

(Amounts in Thousands)

Changes in borrowed money - bonds payable for the year ended December 31, 2021 is as follows:

Description	Bonds Outstanding January 1, 2021	Bonds Issued	Bonds Matured	Bonds Outstanding December 31, 2021
Taxable Series 2014	**$ 227,200**	**$ -**	**$ 50,200**	**$ 177,000**

Changes in borrowed money - bonds payable for the year ended December 31, 2020 is as follows:

Description	Bonds Outstanding January 1, 2020	Bonds Issued	Bonds Matured/Redeemed	Bonds Outstanding December 31, 2020
Taxable Series 2014	$ 318,600	$ -	$ 91,400	$ 227,200

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

Years ending December 31,	Amount
2022	$ 54,400
2023	58,900
2024	63,700
2025	-
2026	-
On Demand	-
	$ 177,000

9. Statutory Fund

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

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

The Texas Comptroller of Public Accounts ("comptroller") administers the CRTF in accordance with Tex. Ins. Code, Chapter 2210. All money, including investment income, deposited in the CRTF, are state funds to be held by the comptroller outside the state treasury on behalf of, and with legal title in the 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 CRTF may be terminated only by law. On termination of the CRTF, all assets of the CRTF revert to the State of Texas to provide funding for the mitigation and preparedness plan established under Tex. Ins. Code, §2210.454.

For the years ended December 31, 2021 and 2020, statutory fund costs were $0, based on the direction of the TDI and based on its interpretation of the relevant statutes. TDI's directive requires the Association to determine its net gain from operations based on catastrophe-year incurred losses, rather than calendar year reported losses. Starting at the end of calendar year 2018, the Association is required to use the net gain from operations of the Association to make payments to the CRTF, procure reinsurance, or use alternative risk financing mechanisms. Although amounts held in the CRTF are not presented as assets in the statutory statements of admitted assets, liabilities, surplus and other funds, once contributed to the CRTF, these funds will be held in trust with the TTSTC and will be available for the exclusive use of the Association to pay losses and expenses of the Association as permitted by law. No contribution to the CRTF has been accrued as of December 31, 2021, as net gain from operations will be used to redeem the remaining outstanding principal on the Bonds in 2022 (See Note 8). No contribution to the CRTF has been accrued as of December 31, 2020, as net gain from operations was a deficit due to 2020 storm activity.

For the years ended December 31, 2021 and 2020, the CRTF held $182,712 and $179,174, respectively.

In August 2017, the Texas coverage area insured by the Association was struck by Hurricane Harvey. The ultimate loss and LAE from Hurricane Harvey are estimated to be approximately $1,670,000. The Act allows the Association to assess member companies Class 1 member assessments up to $500,000. A Class 1 member assessment was approved by the Commissioner of Insurance on May 25, 2018 for $175,000, a second Class 1 member assessment was approved on August 20, 2018 for $106,820, and a third Class 1 member assessment was approved on January 10, 2020 for $90,000 for a combined total of $371,820. As of December 31, 2020, $369,621 has been collected from the three assessments. One insurance group disputed whether they were subject to a 2018 assessment based on their interpretation of a 2017 legislative change. In 2020, the TDI Commissioner made a determination that the insurance group was not subject to the 2018 assessments. The outstanding assessment will be reallocated and collected from the other member companies. Further assessments will be requested if needed as Hurricane Harvey paid loss development matures. As of December 31, 2021 and 2020, the net position of the Association is $247 and $(143,282), respectively.

10. Depopulation

Depopulation measures were introduced in the 84th Texas Legislature in 2015 authorizing assumption reinsurance agreements between the Association and the private market to facilitate depopulation. The Association implemented the Assumption Program in 2016. As of December 31, 2020, four Assumption Program rounds have been completed. The program was restructured prior to round five and no longer includes a quota-share reinsurance period. The round five novation occurs on March 1, 2022 resulting in no financial activity for round five in either 2021 or 2020.

As of December 31, 2021 and 2020, funds held by company under reinsurance treaties was $0.

During 2021 and 2020, the Association recognized ceded written premiums of $0 and $740, respectively, as a result of the Assumption Program.

(Amounts in Thousands)

11. Employee Benefit Plans

Defined Benefit Plan

Plan Description. The Association is a participating employer in The Pension Plan for Insurance Organizations (PPIO) (the "Plan") 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 the 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.

Covered employees are the only class of employees covered under the pension plan and are employees who have completed 1,000 hours of service within a 12-month consecutive period. The benefits are paid based on specific events and in the form of a monthly benefit payment. A lump sum benefit is payable if its present value of the monthly benefit is less than $20,000. The key elements of the pension formula consist of a percentage of average earnings multiplied by years and months of service. There are no automatic post-employment benefit changes or automatic cost of living adjustments affecting benefit payments.

Employees covered by benefit terms: As of December 31, 2021 and 2020, the following employees were covered by the benefit terms:

December 31,	**2021**	2020
Inactive employees or beneficiaries currently receiving benefits	**55**	55
Inactive employees entitled to but not yet receiving benefits	**62**	61
Active employees	**217**	218
Total	**334**	334

Contributions. PPIO members are not required to contribute to the Plan. The Association is required to contribute at an actuarially determined rate: employer contributions is 17.46 percent and 16.33 percent of covered payroll for the years 2021 and 2020, respectively. The contribution requirements of plan members and the Association are established and may be amended by The Named Fiduciaries of the PPIO.

(Amounts in Thousands)

Net Pension Liability

The Association's net pension liability was measured as of December 31, 2021 and 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of these dates.

Actuarial assumptions. The total pension liability in the December 31, 2021 and 2020 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement:

December 31,	**2021**	2020
Inflation	**2.50%**	2.50%
Salary increases	**2.50%**	2.50%
Investment rate of return	**4.50%**	5.00%

As of December 31, 2021, mortality rates were based on the Pri-2012 separate employee, retiree and contingent annuitant rates, and the MP-2021 mortality improvement scale. As of December 31, 2020, mortality rates were based on the Pri-2012 separate employee, retiree and contingent annuitant rates, and the MP-2020 mortality improvement scale.

Long-term expected rate of return: The long-term expected rate of return on pension plan investments was determined using an expected geometric mean return and portfolio weighting method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The overall 20-year geometric mean portfolio real return is 1.57% and 2.06% during 2021 and 2020, respectively. The overall 20-year geometric median portfolio real return is 1.44% and 1.92% during 2021 and 2020, respectively. The overall 20-year geometric 75th percentile portfolio real return is 2.44% and 2.95% during 2021 and 2020, respectively. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The pension valuation assumes an annual inflation rate of 2.5%. The expected returns above assume passive investing and do not include any premium for active management.

(Amounts in Thousands)

The target allocation and best estimates of expected geometric mean returns for each major asset class during 2021 are summarized in the following table:

Asset Class	Target Allocation	Expected geometric mean returns
Large cap U.S. equity	18.9%	4.20%
Mid cap U.S. equity	5.8%	4.20%
Small cap U.S. equity	2.7%	3.82%
Real estate	4.4%	2.25%
International equity	9.5%	4.21%
Fixed income	58.2%	(0.85)%
Cash	0.5%	(0.79)%
Total	100.0%	

The target allocation and best estimates of expected geometric mean returns for each major asset class during 2020 are summarized in the following table:

Asset Class	Target Allocation	Expected geometric mean returns
Large cap U.S. equity	18.2%	4.29%
Mid cap U.S. equity	5.6%	4.30%
Small cap U.S. equity	2.7%	3.91%
Real estate	4.8%	2.66%
International equity	9.5%	4.29%
Fixed income	59.0%	(0.08)%
Cash	0.2%	(0.02%)
Total	100.0%	

Discount Rate: The discount rate used to measure the total pension liability was 4.50 percent during 2021 and 2020. Willis Towers Watson used their firm's proprietary capital market assumptions as of January 2021 for the various asset classes and applied those to the asset allocation of the PPIO as of January 1, 2021 to develop an overall average rate. As the Plan is a Qualified Plan under ERISA, the assumption has been made that the Plan will be sufficiently funded to pay benefits at all times. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. There are no non-employer contributing entities and there are no employee contributions.

(Amounts in Thousands)

Changes in Net Pension Liability. The Association's changes in net pension liability for the years ended December 31, 2021 and 2020 were as follows:

		Total Pension Liability (a)		Plan Fiduciary Net Position (b)		Net Pension Liability (a) – (b)
Balance, January 1, 2021	**$**	**29,479**	**$**	**25,956**	**$**	**3,523**
Changes for the year:						
Service cost		**2,106**		**-**		**2,106**
Interest		**1,407**		**-**		**1,407**
Demographic losses		**347**		**-**		**347**
Contributions - employer		**-**		**2,961**		**(2,961)**
Net investment income		**-**		**1,983**		**(1,983)**
Assumption changes		**78**		**-**		**78**
Benefit payments		**(625)**		**(625)**		**-**
Administrative expenses		**-**		**(148)**		**148**
Balance, December 31, 2021	**$**	**32,792**	**$**	**30,127**	**$**	**2,665**

		Total Pension Liability (a)		Plan Fiduciary Net Position (b)		Net Pension Liability (a) – (b)
Balance, January 1, 2020	$	26,054	$	21,548	$	4,506
Changes for the year:						
Service cost		1,606		-		1,606
Interest		1,366		-		1,366
Demographic losses		373		-		373
Contributions - employer		-		2,568		(2,568)
Net investment loss		-		2,426		(2,426)
Assumption changes		743		-		743
Benefit payments		(663)		(663)		-
Administrative expenses		-		77		(77)
Balance, December 31, 2020	$	29,479	$	25,956	$	3,523

(Amounts in Thousands)

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the Association as of December 31, 2021 and 2020, respectively, calculated using the discount rate of 4.50 percent as well as what the Association's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.50 percent) or 1-percentage-point higher (5.50 percent) than the current rate:

December 31, 2021	1% Increase (5.50%)	Current Discount Rate (4.50%)	1% Decrease (3.50%)
Net pension liability	**$ (1,699)**	**$ 2,665**	**$ 8,016**

December 31, 2020	1% Increase (5.50%)	Current Discount Rate (4.50%)	1% Decrease (3.50%)
Net pension liability	$ (431)	$ 3,523	$ 8,382

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

(Amounts in Thousands)

<u>*Pension Expense and Deferred Outflows and Inflows of Resources Related to Pension:*</u> For the years ended December 31, 2021 and 2020, the Association recognized pension expense of $2,468 and $1,854, respectively. During December 31, 2021 and 2020, the Association allocated pension expense of $892 and $882, respectively, to TFPA. Net pension expense included in underwriting expenses in the statements of revenues, expenses and changes in net position was $1,576 and $972 for the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, the Association reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

December 31, 2021		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	**$**	**861**	**$**	**43**
Changes in assumptions		**2,515**		**41**
Net difference between projected and actual earnings on plan investments		**-**		**2,127**
Total	**$**	**3,376**	**$**	**2,211**

December 31, 2020		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	$	701	$	113
Changes in assumptions		3,180		55
Net difference between projected and actual earnings on plan investments		-		2,183
Total	$	3,881	$	2,351

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

Years ending December 31,		Amount
2022	$	222
2023		(153)
2024		285
2025		471
2026		264
Thereafter		76
	$	1,165

(Amounts in Thousands)

Defined Contribution Plan:
The Association has a defined contribution 401(k) plan available to eligible employees after six months of employment. Matching contributions totaling $999 and $935 (before allocation to Texas FAIR Plan Association ("TFPA")) were made for the years ended December 31, 2021 and 2020, respectively. The Association's portion was approximately $693 and $644 for the years ended December 31, 2021 and 2020, respectively.

12. Lease Commitments

The Association leases office space under a non-cancellable operating lease agreement which expires in 2033. 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, 2021.

Years ending December 31,		Amount
2022	$	1,088
2023		857
2024		880
2025		905
2026 and thereafter		7,725
	$	11,455

Rental expense under the non-cancelable operating lease was approximately $1,497 and $1,481 for the years ended December 31, 2021 and 2020, respectively.

13. Commitments and Contingencies

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

The Association obtained a $500,000 committed line of credit with two of its primary financial institutions during 2021. The line of credit agreement was entered into June 1, 2021 subsequent to the Association's Board of Directors approval on May 18, 2021. No amounts have been drawn against the line of credit. Issuance fees for the line of credit were $500 and the Association paid the lenders a 0.475% commitment fee against the unused portion of the line of credit. The commitment was originally set to mature on May 31, 2022, however, the line of credit was terminated by the Association on December 27, 2021 without penalty.

The Association obtained a $500,000 committed line of credit with two of its primary financial institutions during 2020. The line of credit agreement was entered into June 1, 2020 subsequent to the Association's board of directors approval on May 12, 2020. No amounts were drawn against the line of credit. Issuance fees for the committed line of credit were $500 and the Association pays the lenders a 0.8% commitment fee against the unused portion of the line of credit. The commitment originally matured May 31, 2021, however the line of credit was terminated by the Association on December 28, 2020 without penalty.

14. Concentration of Credit Risk

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

The Association writes windstorm and hail coverage primarily in the 14 counties along the Texas coast in which it has approximately $65,800,000 and $61,000,000 of insurance exposure as of December 31, 2021 and 2020, respectively.

15. Fair Value Measurements

GASB Statement No. 72, Fair Value Measurement and Application, ("GASB Statement No. 72") requires the Association to make estimates of the fair value for financial assets and financial liabilities based on the framework established in the Fair Value Measurements and Disclosures accounting guidance. The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Association's significant market assumptions. The three levels of the hierarchy are as follows:

- Level 1 – Fair values are based on inputs using quoted prices (unadjusted) for identical assets or liabilities in active markets that can be accessed on the measurement date.

- Level 2 – Fair values are based on inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.

- Level 3 – Fair values are based on unobservable inputs for an asset or liability.

The Association's financial assets measured at estimated fair value on a recurring basis included cash as of December 31, 2021 and 2020 as follows:

- Cash of $177,437 and $196,419, respectively, is valued using quoted market prices (Level 1 inputs).
- Reverse repurchase agreements of $69,002 and $83,406, respectively, are valued using quoted market prices (Level 1 inputs).

In accordance with GASB Statement No. 72, cash equivalents that were measured at NAV have not been classified in the fair value hierarchy. The investment strategy for the Association is to hold highly liquid cash and cash equivalents for funding catastrophe events. The Association does not believe that the assets stated at NAV have any significant restrictions to liquidate or to be sold for less than NAV. The Association's financial assets measured at NAV included in cash equivalents as of December 31, 2021 and 2020 are as follows:

- Money market mutual funds of $247,388 and $201,851, respectively, are valued using NAV per share of $1.

The Association has no financial liabilities measured at estimated fair value on a recurring basis.

16. Subsequent Events

The Association has evaluated subsequent events occurring after December 31, 2021, the date of the most recent statements of net position through April 25, 2022, 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 financial statements.

Required Supplementary Information

Texas Windstorm Insurance Association

Schedules of Changes in Net Pension Liability and Related Ratios
(Amounts in Thousands)

December 31,	**2021**	2020	2019	2018	2017	2016	2015	2014	2013
Total pension liability:									
Service cost	**$ 2,106**	**$** 1,606	$ 1,396	$ 1,378	$ 1,116	$ 1,043	$ 880	$ 812	$ 867
Interest	**1,407**	1,366	1,233	1,109	1,018	951	848	716	673
Plan amendments	**-**	-	-	-	-	-	398	-	-
Demographic losses (gains)	**347**	373	317	133	(105)	58	146	(455)	1
Assumption changes	**78**	743	2,377	221	(113)	1,046	481	728	-
Benefit payments	**(625)**	(663)	(597)	(578)	(506)	(511)	(428)	(360)	(276)
Net change in total pension liability	**3,313**	3,425	4,726	2,263	1,410	2,587	2,325	1,441	1,265
Total pension liability – beginning	**29,479**	26,054	21,328	19,065	17,655	15,068	12,743	11,302	10,037
Total pension liability – ending	**$ 32,792**	**$** 29,479	$ 26,054	$ 21,328	$ 19,065	$ 17,655	$ 15,068	$ 12,743	$ 11,302
Plan fiduciary net position:									
Contributions – employer	**$ 2,961**	**$** 2,568	$ 2,360	$ 2,180	$ 1,594	$ 1,024	$ 931	$ 1,034	$ 1,034
Net investment income (loss)	**1,983**	2,426	3,702	(959)	1,870	869	(134)	759	1,076
Benefit payments	**(625)**	(663)	(597)	(578)	(506)	(511)	(428)	(360)	(276)
Administrative expenses	**(148)**	77	(88)	(69)	(72)	(75)	(53)	(55)	(49)
Net change in plan fiduciary net position	**4,171**	4,408	5,377	574	2,886	1,307	316	1,378	1,785
Plan fiduciary net position – beginning	**25,956**	21,548	16,171	15,597	12,711	11,404	11,088	9,710	7,925
Plan fiduciary net position – ending	**$ 30,127**	**$** 25,956	$ 21,548	$ 16,171	$ 15,597	$ 12,711	$ 11,404	$ 11,088	$ 9,710
Net pension liability - ending	**$ 2,665**	**$** 3,523	$ 4,506	$ 5,157	$ 3,468	$ 4,944	$ 3,664	$ 1,655	$ 1,592
Plan fiduciary net position as a percentage of the total pension liability	**91.87%**	88.05%	82.71%	75.82%	81.81%	72.00%	75.68%	87.01%	85.91%
Covered payroll	**$ 16,960**	**$** 15,730	$ 15,388	$ 15,086	$ 12,747	$ 13,214	$ 13,847	$ 13,365	$ 12,359
Net pension liability as a percentage of covered payroll	**15.71%**	22.40%	29.28%	34.18%	27.21%	37.41%	26.46%	12.38%	12.88%

See accompanying independent auditors' report.

Texas Windstorm Insurance Association

Schedules of Employer Contributions
(Amounts in Thousands)

Date	Actuarial Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2021	$ 2,961	$ 2,961	$ -	$ 16,960	17.46%
2020	$ 2,568	$ 2,568	$ -	$ 15,730	16.33%
2019	$ 2,360	$ 2,360	$ -	$ 15,388	15.34%
2018	$ 2,180	$ 2,180	$ -	$ 15,086	14.45%
2017	$ 1,594	$ 1,594	$ -	$ 12,747	12.50%
2016	$ 1,024	$ 1,024	$ -	$ 13,214	7.75%
2015	$ 931	$ 931	$ -	$ 13,847	6.72%
2014	$ 1,034	$ 1,034	$ -	$ 13,365	7.74%
2013	$ 1,034	$ 1,034	$ -	$ 12,359	8.37%

See accompanying independent auditors' report.

5E4. Internal Control Letter

Calhoun, Thomson+Matza LLP
Certified Public Accountants
Austin, Texas
512.439.8400
www.ctmllp.com

April 25, 2022

Board of Directors
Texas Windstorm Insurance Association
Austin, Texas

In planning and performing our audit of the financial statements of Texas Windstorm Insurance Association, (the "Association") as of and for the year ended December 31, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the board of directors, and for filing with the Texas Department of Insurance, and is not intended to be and should not be used by anyone other than these specified parties.

Calhoun, Thomson & Matza, LLP

6. Actuarial

6A. Reserve Adequacy

MEMORANDUM

DATE: April 20, 2022

TO: James C. Murphy, FCAS, MAAA
Chief Actuary | Vice President, Enterprise Analytics

FROM: Xiuyu Li, ACAS, MAAA
Senior Actuary | Manager, Actuarial Analysis

RE: Reserve Adequacy as of March 31, 2022

The TWIA actuarial staff has completed a review of Texas Windstorm Insurance Association loss and loss adjustment expense reserves as of March 31, 2022.

The ultimate loss and loss adjustment expense estimate for Hurricane Harvey has been reviewed based on information available to me as of March 31, 2022. The ultimate loss and loss adjustment expense estimate remains at $1.67B, which is the same as the estimate as of December 31, 2021.

The actual ultimate costs of Hurricane Harvey may differ substantially from the selected $1.67B. This variability arises from the assumptions we made regarding the adequacy of case reserves for open claims and the outcome of disputed claims. About 116 of the total 246 open claims are in some stage of litigation. There remains a material risk of adverse development due to the large variability associated with outstanding disputed claims, including those claims subject to litigation. The Actuarial team will continue to monitor current case reserve adequacy and litigation/disputes to ensure all outstanding obligations are properly reserved.

As of March 31, 2022, TWIA carried $75.7 million in total gross loss and loss adjustment expense reserves with $43K of the total gross ceded to carriers who have participated in the Association's Assumption Reinsurance Depopulation Program. The total gross loss and loss adjustment expense reserves include the reserves for Hurricane Ike, Harvey, Delta, Laura, Hanna, Nicholas, and other outstanding claims. Collectability risk has been reviewed and found to be immaterial relative to total gross reserves.

In my opinion, the Association's reserves met the requirements of the insurance laws of Texas, were consistent with reserves computed in accordance with accepted actuarial standards and principles, and made a reasonable provision for all combined unpaid loss and loss expense obligations of the Association under the terms of its contracts and agreements. While there remains a material risk of adverse development, reserves continue to make a reasonable provision for unpaid loss and loss adjustment expenses.

The complete actuarial analysis is available on request.

XL

6B. Policy Count/Exposures

Texas Windstorm Insurance Association
Statistical Report
As of March 31, 2022

	Policies In-Force		PIF Growth		Exposure In-Force		Exposure Growth		YTD Written Premium		Premium Growth	
County	3/31/21	3/31/22	Actual	Percentage	3/31/21	3/31/22	Actual	Percentage	3/31/21	3/31/22	Actual	Percentage
Aransas	5,185	5,650	465	9.00%	1,745,608,641	1,986,101,766	$240,493,125	13.80%	2,373,184	2,957,901	$584,717	24.60%
Brazoria	28,897	30,753	1,856	6.40%	8,515,434,514	9,379,400,188	$863,965,674	10.10%	11,464,026	13,141,632	$1,677,606	14.60%
Calhoun	3,555	3,761	206	5.80%	970,830,656	1,054,792,453	$83,961,797	8.60%	1,386,754	1,556,389	$169,635	12.20%
Cameron	9,831	9,548	-283	-2.90%	2,837,093,378	2,979,859,668	$142,766,290	5.00%	3,219,842	3,477,093	$257,251	8.00%
Chambers	3,853	4,126	273	7.10%	1,303,565,098	1,444,568,310	$141,003,212	10.80%	1,692,550	1,922,383	$229,833	13.60%
Galveston	58,786	63,615	4,829	8.20%	19,924,220,056	22,320,637,179	$2,396,417,123	12.00%	28,428,803	33,346,004	$4,917,201	17.30%
Harris	3,427	3,638	211	6.20%	1,060,691,562	1,177,252,158	$116,560,596	11.00%	910,753	1,171,922	$261,169	28.70%
Jefferson	24,139	24,346	207	0.90%	5,688,989,044	5,906,680,151	$217,691,107	3.80%	7,641,713	8,342,062	$700,349	9.20%
Kenedy	19	17	-2	-10.50%	4,995,326	3,263,141	-$1,732,185	-34.70%	18,188	19,234	$1,046	5.80%
Kleberg	745	714	-31	-4.20%	168,671,534	169,648,065	$976,531	0.60%	213,420	285,464	$72,044	33.80%
Matagorda	4,256	4,479	223	5.20%	1,093,761,043	1,190,711,060	$96,950,017	8.90%	1,541,166	1,691,366	$150,200	9.70%
Nueces	36,377	37,435	1,058	2.90%	10,487,937,967	11,317,060,377	$829,122,410	7.90%	13,753,570	16,542,364	$2,788,794	20.30%
Refugio	328	312	-16	-4.90%	93,387,389	91,920,538	-$1,466,851	-1.60%	128,357	151,818	$23,461	18.30%
San Patricio	5,558	5,835	277	5.00%	1,533,452,695	1,629,726,521	$96,273,826	6.30%	2,279,611	2,504,450	$224,839	9.90%
Willacy	342	328	-14	-4.10%	85,669,552	88,373,740	$2,704,188	3.20%	70,209	105,208	$34,999	49.80%
Total	185,298	194,557	9,259	5.00%	55,514,308,455	60,739,995,315	$5,225,686,860	9.40%	75,122,146	87,215,290	$12,093,144	16.10%

Texas Windstorm Insurance Association
Quarterly Liability Report
As of March 31, 2022

Class of Business	Policies Written During Qtr	Policies Written YTD	Risks Written During Qtr	Risks Written YTD	Premium Written During Qtr	Premium Written YTD	Liability at End of Quarter Direct	Liability at End of Quarter Indirect	In-Force at End of Quarter Policies	In-Force at End of Quarter Risks
Aransas										
Commercial	78	78	95	95	307,315	307,315	254,642,014	5,372,160	315	636
Manufactured Home	36	36	37	37	55,463	55,463	8,634,284	0	148	149
Residential	1,150	1,150	1,196	1,196	2,595,123	2,595,123	1,722,825,468	145,745,313	5,187	5,416
Total	1,264	1,264	1,328	1,328	2,957,901	2,957,901	1,986,101,766	151,117,473	5,650	6,201
Brazoria										
Commercial	143	143	263	263	1,228,524	1,228,524	382,388,368	9,033,794	658	1,087
Manufactured Home	41	41	41	41	74,650	74,650	11,923,542	0	178	178
Residential	6,471	6,471	6,578	6,578	11,838,458	11,838,458	8,985,088,278	1,168,026,103	29,917	30,535
SUM:	6,655	6,655	6,882	6,882	13,141,632	13,141,632	9,379,400,188	1,177,059,897	30,753	31,800
Calhoun										
Commercial	46	46	120	120	264,434	264,434	110,898,349	2,277,340	189	398
Manufactured Home	11	11	11	11	18,034	18,034	4,220,896	0	74	74
Residential	701	701	750	750	1,273,921	1,273,921	939,673,208	77,506,921	3,498	3,763
SUM:	758	758	881	881	1,556,389	1,556,389	1,054,792,453	79,784,261	3,761	4,235
Cameron										
Commercial	187	187	274	274	1,180,553	1,180,553	1,152,015,929	8,098,585	691	1,377
Manufactured Home	11	11	11	11	13,348	13,348	2,862,274	0	63	63
Residential	1,722	1,722	1,735	1,735	2,283,192	2,283,192	1,824,981,465	182,898,572	8,794	8,882
SUM:	1,920	1,920	2,020	2,020	3,477,093	3,477,093	2,979,859,668	190,997,157	9,548	10,322

Texas Windstorm Insurance Association
Quarterly Liability Report
As of March 31, 2022

Class of Business	Policies Written During Qtr	Policies Written YTD	Risks Written During Qtr	Risks Written YTD	Premium Written During Qtr	Premium Written YTD	Liability at End of Quarter Direct	Liability at End of Quarter Indirect	In-Force at End of Quarter Policies	In-Force at End of Quarter Risks
Chambers										
Commercial	23	23	25	25	121,852	121,852	55,317,688	574,900	99	141
Manufactured Home	13	13	13	13	23,412	23,412	3,182,843	0	47	47
Residential	882	882	919	919	1,777,119	1,777,119	1,386,067,779	184,484,750	3,980	4,170
SUM:	918	918	957	957	1,922,383	1,922,383	1,444,568,310	185,059,650	4,126	4,358
Galveston										
Commercial	474	474	857	857	6,443,838	6,443,838	2,539,456,245	53,475,740	1,979	3,541
Manufactured Home	38	38	38	38	45,091	45,091	12,335,935	0	202	203
Residential	13,487	13,487	13,774	13,774	26,857,075	26,857,075	19,768,844,999	2,202,806,819	61,434	62,811
SUM:	13,999	13,999	14,669	14,669	33,346,004	33,346,004	22,320,637,179	2,256,282,559	63,615	66,555
Harris										
Commercial	12	12	23	23	140,674	140,674	42,015,609	480,630	58	113
Manufactured Home	0	0	0	0	-29	-29	192,000	0	4	4
Residential	714	714	721	721	1,031,277	1,031,277	1,135,044,549	148,958,306	3,576	3,643
SUM:	726	726	744	744	1,171,922	1,171,922	1,177,252,158	149,438,936	3,638	3,760
Jefferson										
Commercial	120	120	166	166	713,663	713,663	292,932,557	8,239,199	617	951
Manufactured Home	8	8	8	8	15,963	15,963	2,804,950	0	37	37
Residential	4,595	4,595	4,665	4,665	7,612,436	7,612,436	5,610,942,644	718,085,247	23,692	24,085
SUM:	4,723	4,723	4,839	4,839	8,342,062	8,342,062	5,906,680,151	726,324,446	24,346	25,073

Texas Windstorm Insurance Association
Quarterly Liability Report
As of March 31, 2022

Class of Business	Policies Written During Qtr	Policies Written YTD	Risks Written During Qtr	Risks Written YTD	Premium Written During Qtr	Premium Written YTD	Liability at End of Quarter Direct	Liability at End of Quarter Indirect	In-Force at End of Quarter Policies	In-Force at End of Quarter Risks
Kenedy										
Commercial	1	1	5	5	13,960	13,960	694,441	0	1	5
Manufactured Home	0	0	0	0	0	0	0	0	0	0
Residential	2	2	4	4	5,274	5,274	2,568,700	35,800	16	22
SUM:	3	3	9	9	19,234	19,234	3,263,141	35,800	17	27
Kleberg										
Commercial	10	10	17	17	85,612	85,612	20,486,119	847,020	39	69
Manufactured Home	0	0	0	0	0	0	144,500	0	2	2
Residential	137	137	138	138	199,852	199,852	149,017,446	15,633,388	673	701
SUM:	147	147	155	155	285,464	285,464	169,648,065	16,480,408	714	772
Matagorda										
Commercial	33	33	41	41	113,492	113,492	77,333,247	1,758,525	152	240
Manufactured Home	5	5	5	5	8,305	8,305	1,292,107	0	20	20
Residential	952	952	974	974	1,569,569	1,569,569	1,112,085,706	113,060,223	4,307	4,440
SUM:	990	990	1,020	1,020	1,691,366	1,691,366	1,190,711,060	114,818,748	4,479	4,700
Nueces										
Commercial	430	430	760	760	3,849,975	3,849,975	1,765,124,105	40,559,320	1,792	3,391
Manufactured Home	3	3	3	3	7,693	7,693	1,825,500	0	38	38
Residential	7,627	7,627	7,711	7,711	12,684,696	12,684,696	9,550,110,772	1,076,908,511	35,605	36,152
SUM:	8,060	8,060	8,474	8,474	16,542,364	16,542,364	11,317,060,377	1,117,467,831	37,435	39,581

Texas Windstorm Insurance Association
Quarterly Liability Report
As of March 31, 2022

Class of Business	Policies Written During Qtr	Policies Written YTD	Risks Written During Qtr	Risks Written YTD	Premium Written During Qtr	Premium Written YTD	Liability at End of Quarter Direct	Liability at End of Quarter Indirect	In-Force at End of Quarter Policies	In-Force at End of Quarter Risks
Refugio										
Commercial	4	4	10	10	5,976	5,976	17,875,970	0	27	55
Manufactured Home	2	2	2	2	4,402	4,402	1,176,804	0	16	19
Residential	83	83	87	87	141,440	141,440	72,867,764	7,070,408	269	301
SUM:	89	89	99	99	151,818	151,818	91,920,538	7,070,408	312	375
San Patricio										
Commercial	56	56	89	89	298,900	298,900	99,143,144	1,943,615	211	358
Manufactured Home	8	8	8	8	16,234	16,234	2,833,112	0	43	43
Residential	1,247	1,247	1,258	1,258	2,189,316	2,189,316	1,527,750,265	183,094,126	5,581	5,689
SUM:	1,311	1,311	1,355	1,355	2,504,450	2,504,450	1,629,726,521	185,037,741	5,835	6,090
Willacy										
Commercial	5	5	18	18	13,616	13,616	15,563,222	99,900	27	60
Manufactured Home	2	2	2	2	2,620	2,620	326,045	0	6	6
Residential	49	49	52	52	88,972	88,972	72,484,473	4,786,801	295	318
SUM:	56	56	72	72	105,208	105,208	88,373,740	4,886,701	328	384
Total All Counties										
Commercial	1,622	1,622	2,763	2,763	14,782,384	14,782,384	6,825,887,007	132,760,727	6,855	12,422
Manufactured Home	178	178	179	179	285,186	285,186	53,754,792	0	878	883
Residential	39,819	39,819	40,562	40,562	72,147,720	72,147,720	53,860,353,516	6,229,101,289	186,824	190,928
SUM:	41,619	41,619	43,504	43,504	87,215,290	87,215,290	60,739,995,315	6,361,862,016	194,557	204,233

6C. 2022 Funding; Reinsurance

MEMORANDUM

DATE: May 2, 2022

TO: John Polak, General Manager

FROM: James Murphy, Chief Actuary | VP, Enterprise Analytics

RE: 2022 Funding Update

At its March 22, 2022 meeting the TWIA Board of Directors set the 100-year probable maximum loss (PML) for the 2022 hurricane season at $4.236 billion and directed staff to work with TWIA's reinsurance broker, Gallagher Re, to place $2.036 billion in traditional reinsurance and catastrophe bonds to bring total TWIA funding to the 100-year PML.

Since that meeting staff has worked with Gallagher Re on a reinsurance renewal submission, including meeting virtually with many of our leading reinsurers. Additionally, we are in the process of issuing new 2022 Alamo Re catastrophe bonds to replace the expiring 2019 bonds.

A funding chart illustrating the approved 2022 funding is attached. The final amounts for the traditional reinsurance and 2022 catastrophe bonds have not yet been determined and will be based on market conditions. Gallagher Re will be available at the upcoming May 17, 2022 Board of Directors meeting to provide additional information and answer any questions.

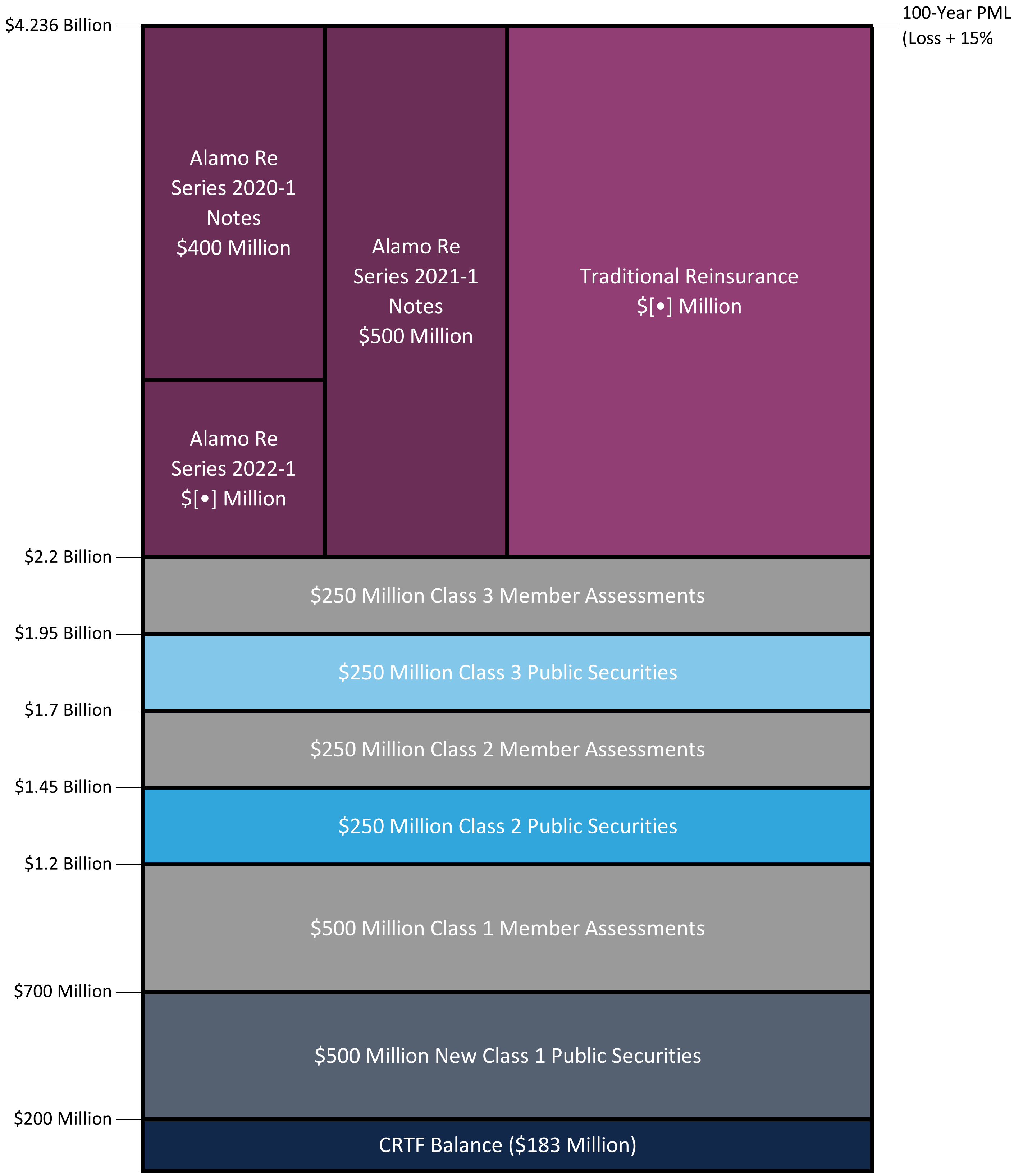
JM

Texas Windstorm Insurance Association

Board-Approved 2022 Funding

$4.236 Billion in Total Approved Funding

Reinsurance to be Effective 6/1/22 - 5/31/23



TEXAS WINDSTORM INSURANCE ASSOCIATION

Texas Windstorm Insurance Association

Meeting of the TWIA Board of Directors

May 17, 2022

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2022 Property Cat Reinsurance Market Conditions

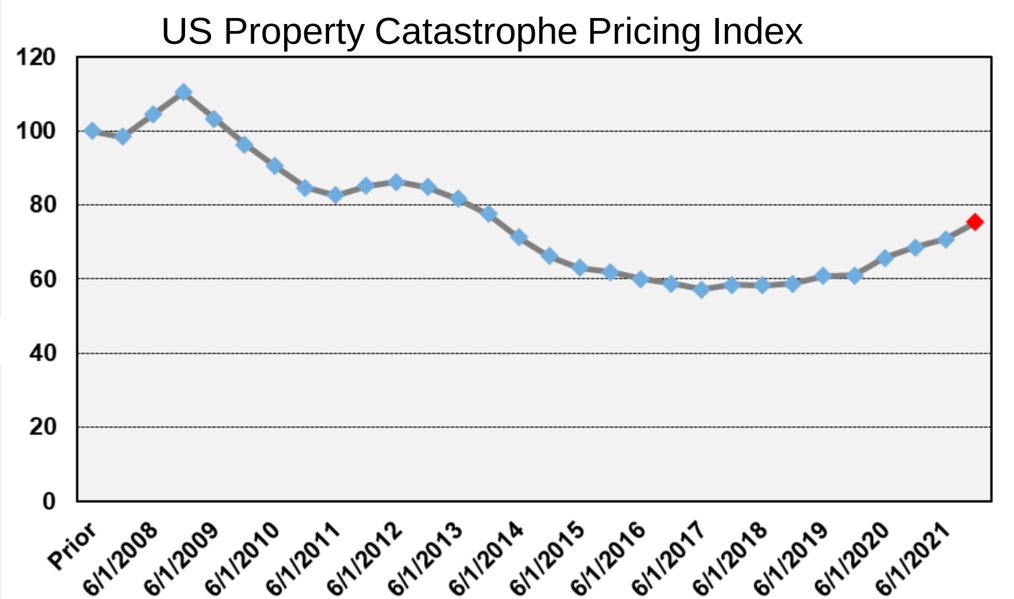
Commentary as of May 16, 2022

Still a "reasonably favorable" market for reinsurance buyers relative to the last 15 years

- Competing market with traditional vs. ILS (Cat Bonds)
- Loss-free deals are viewed favorably, but still faced with rate increases

An abundance of headwinds in 2022:

- Record cat losses in 2020 & 2021, a trend since 2017
- Large buyers of Cat….buying more at June 1, 2022
- Inflation on loss trend
- Retrocession rate increases
- All major reinsurers have reduced net PML in 2022
- Interest rates: risk free assets are now competing against risk assets



* Projected on June 1, 2022, excluding Florida weighted programs

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Property Cat Reinsurance Market on a Ledge

- Retrocession ("Retro") market experiencing significant rate increases for the 4th consecutive year along with reduced supply
  - Cat reinsurers must reduce net exposure offered to clients (ie. USA cat buyers)

- Widespread reductions in net PMLs by reinsurers
  - AXA: "cutting the catastrophe reinsurance exposure….by some 40% through renewals so far this year"
  - Axis: "reduced property cat premium by 45% at 1/1/22

- Interest rates begin to compete against risk assets
  - 10-year T-bill increased 78% since January 1, 2022 (1.68% to 3%)
  - Ren Re May 2, 2022: "Q1 2022, financial markets experienced historic increases in U.S. interest rates, which resulted in $673 million in mark-to-market losses in our investment portfolio. $585 million of which were retained and impacted our net income."

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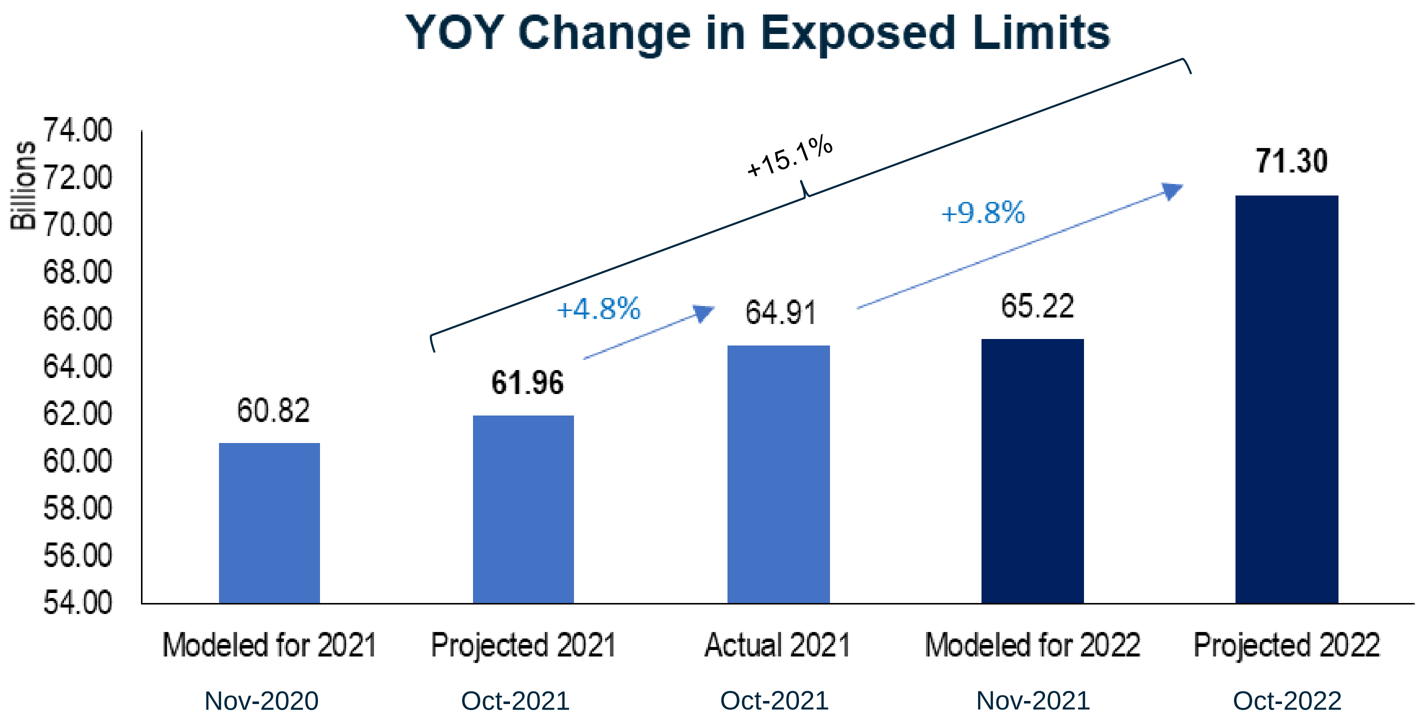
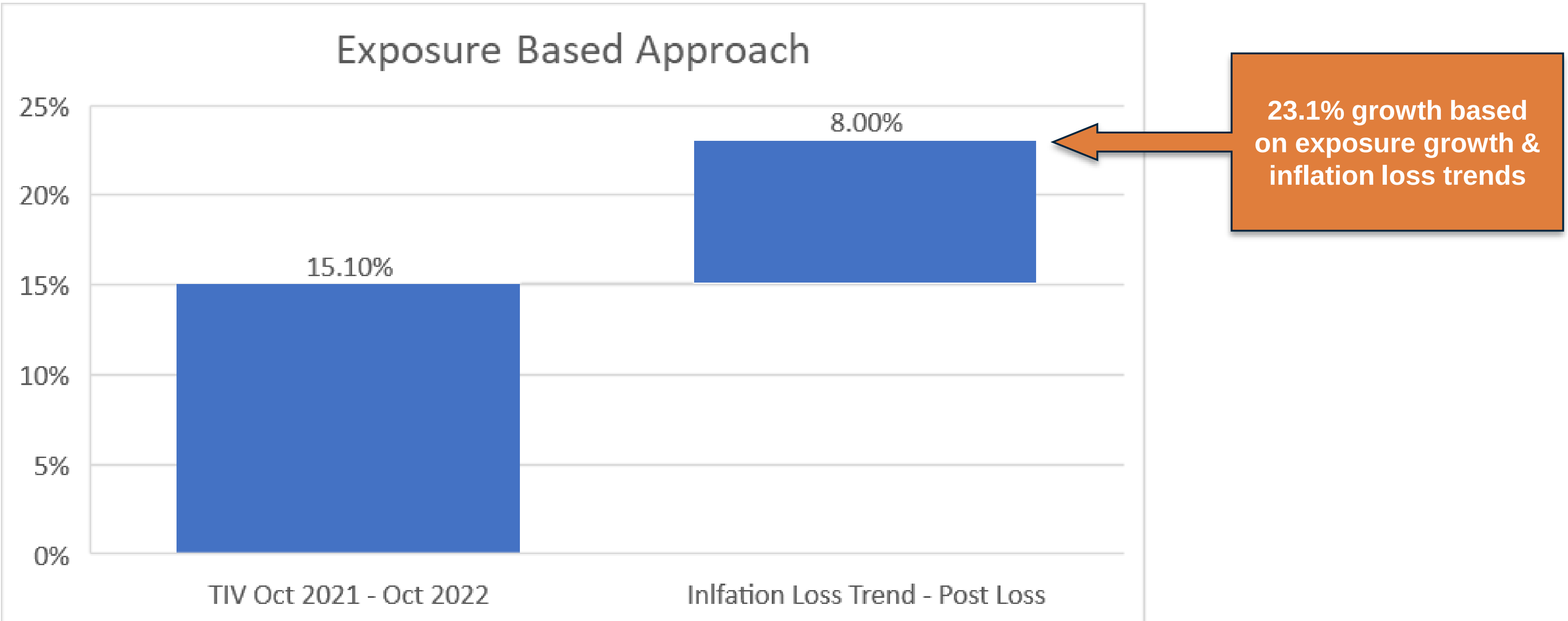
TWIA Exposures
Total Insured Limits (TIL)



- Reinsurers price on projected exposure
  - Projected October 2022 exposure increased 15% YOY

Reinsurers' View of TWIA in 2022 - Exposure



Note: Slide for illustrative purposes and individual view of exposure and model change will vary by reinsurer

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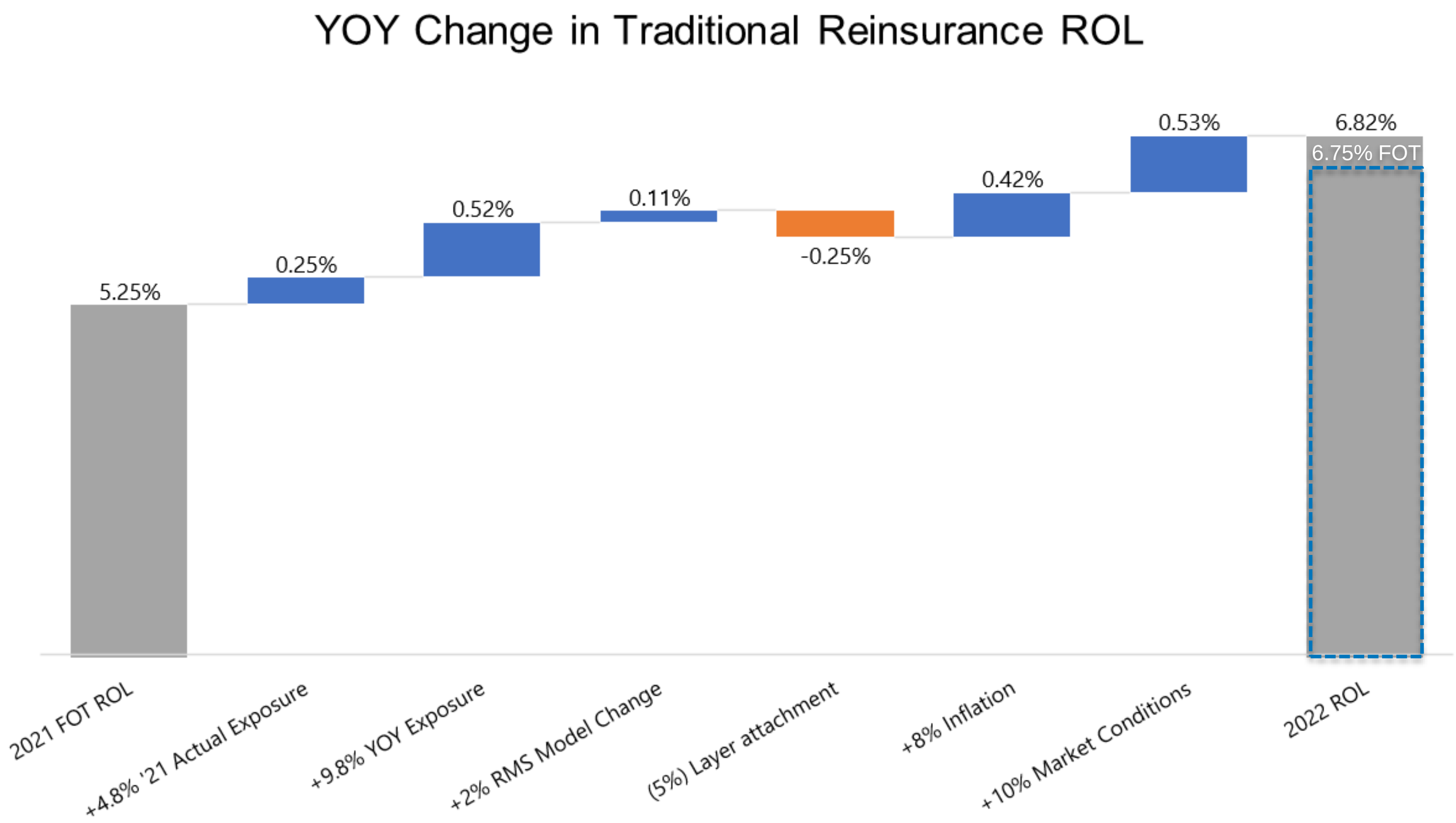
Traditional Reinsurance Pricing Change



- TWIA is placing $120M additional traditional limit YOY = +15%

Preliminary Cost of Reinsurance – 2022 / 2023

	A	B	C	D
	November 2020 Actual	**October 2021 Proj**	**November 2021 Actual** model vintage for reinsurers	**October 2022 Proj**
Total Insured Limit	60,818,781,425	61,962,256,600	65,223,101,644	71,300,000,000
TIL Change YOY		2%	7%	9%
Proj Oct 2021 vs Proj Oct 2022				15%

	2021	**2022**	**March 2022 Board meeting**	**May 2022 Board Meeting**
Budgetr*	114,000,000	102,064,000	Suggested min $110M	$119M - $120.5M
Actual Reinsurance Cost (adjusted)	102,000,000			

*source: TWIA (rounded figures)

- 2022 Reinsurance Budget: flat at $102M despite exposure growth +7% YOY
- Exposure +15% would suggest $117.3M of reinsurance expense on a “flat risk adjusted basis” YOY
- Target reinsurance cost $119M - $120.5M with coverage to 1-100 PML
  - Discussed with TWIA staff May 5, 2022

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Impact of Growth on Cost & Capacity

Traditional reinsurance premiums adjust for growth through TIL adjustment

Cat bond backed reinsurance premiums are fixed; however, growth in excess of 10% can create gaps in coverage

New cat bond partially addresses this by using projected rather than actual exposures

$900 million of old cat bonds potentially exposed to gaps if growth exceeds current projections

Illustration

Assumptions

200M xs 1B layer
Growth limitation if growth greater than 10%
Actual growth 20%
Growth limitation takes place by multiplying losses by 110% / 120%

Sample Impact

1.2B in losses
Adjusted to 1.1B in losses (11/12 times 1.2B)
Recovery reduced from 200M to 100M

Note: Limit doesn't change; recovery is the same for losses well above layer with full recovery at 1.31B in losses in this example

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7. Internal Audit Status & Update

MEMORANDUM

TO: The Board of Directors - Texas Windstorm Insurance Association

FROM: Bruce Zaret, Weaver - Internal Audit

DATE: May 17, 2022

SUBJECT: Status of Internal Audit Activities

The following is our internal audit update representing current and planned activities:

- **Current Activities:**

Activity Description	Status
Premium Taxes	Report issued
Actuarial	Report issued
Vendor Management	Report issued
Information Security	Report in drafting and review
Business Continuity of Operations – Information Technology	Report in drafting and review
Reinsurance	Fieldwork phase
Findings Follow-up Audit	Fieldwork phase
Model Audit Rule	Fieldwork phase

- **Upcoming Audits and Activities:**

Activity Description	Timing
HR and Payroll	2nd/3rd Quarter
Business Continuity of Operations – Business Processes	2nd/3rd Quarter
Plan of Operation	2nd/3rd Quarter

- **ELT meetings:**
  - Attended Executive Leadership Team and Operations meetings.

Texas Windstorm Insurance Association
Internal Audit Plan – Lookback (2020-2021) and Prospective (2022-2024)

Process Area	Last Report Date	2021 Inherent Risk Rating	2020	2021	2022	2023	2024
Information Security	May 2018	High		x		x	
Claims Processing	Nov. 2020	High	x		x		x
Reinsurance	Nov. 2020	High	x		x		x
Database and Application Administration	Oct. 2020	High	x			x	
Communications	Mar. 2021	High		x		x	
Actuarial (Pricing and Reserving)	Sept. 2021	High		x		x	
Human Resources Administration	Oct. 2019	Moderate			x		
Legal & Compliance	Mar. 2021	Moderate		x		x	
Underwriting	June 2020	Moderate	x			x	
Plan of Operation	N/A	Moderate			x		
Depopulation	Sept. 2020	Moderate	x		x		
Business Continuity of Operations	Feb. 2020	Moderate			x		
Governance	May 2021	Moderate		x			x
Financial Close and Reporting(1)	Dec. 2020	Moderate	x				x
Disaster Recovery	Feb. 2020	Moderate	x	x			x
Accounts Payable and Expense Processing(1)	Oct. 2019	Moderate				x	
Application Development	Sept. 2019	Moderate			x		
Information Technology Services	N/A	Moderate			x		
Vendor Management	Nov. 2021	Moderate		x			x
Accounts Receivable(1)	May 2020	Moderate				x	
Payroll	June 2019	Moderate			x		
Facilities and Services	Oct. 2020	Low	x			x	
Cash Management	Aug. 2021	Low		x			x
Premium Taxes	July, 2021	Low		x			x

Note 1: The audit frequency has been modified to every 48 months due to the area's risk level and the fact the Model Audit Rule includes procedures that address this area annually.

8. Underwriting
8A. Operational Review Update

MEMORANDUM

DATE: April 27, 2022

TO: John Polak, General Manager

FROM: Jessica Crass, Vice President, Underwriting

RE: Update on Underwriting Operational Highlights

Second Quarter 2022 Highlights

I. Service Results:

a. Underwriting continues to have consistent turnaround time on all transactions. Our goal is to issue 90% of new business submissions, endorsements, renewals, and cancellations within 10 days; we are surpassing this standard with over 98% of transactions processed within 10 days. Over 85% of applications/renewals were processed within 1 day.
b. Quality Assurance results on underwriting decisions continue to exceed established goals.
c. Telephone service response times and service quality scores continue to meet expectations.
d. Underwriting is operating below budget, largely due to managing headcount and more efficient use of virtual and aerial inspections.

II. Agency Compliance Audits:

a. Standard audits were completed for a sample of agencies doing business with TWIA in the third quarter of 2021 to verify compliance with the declination of coverage and flood insurance requirements. One policy is not currently compliant with the flood insurance requirement and staff are working with the agency to bring that policy into compliance.
b. Standard audits were completed for a sample of agencies doing business with TWIA in the fourth quarter of 2021 to verify compliance with the declination of coverage and flood insurance requirements

    i. All agencies have completed their responses.

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    ii. Ninety-four percent of policies reviewed were compliant with the requirement for proof of declination of coverage. Staff are working with the agencies to bring the remaining policies into compliance.
    iii. Three percent of the policies/properties selected for review required flood insurance. Only one policy is not currently compliant with the flood insurance requirement and staff are working with the agency to bring that policy into compliance.
    iv. All agents audited have an active property and casualty insurance license.

c. Standard audits were completed for a sample of agencies doing business with TWIA in the first quarter of 2022 to verify compliance with the declination of coverage and flood insurance requirements

    i. Eighty percent of agencies have completed their responses. Staff are pursuing a response from the remaining agencies and escalating issues as necessary.
    ii. Of the agencies who have responded, 89% of policies reviewed were compliant with the requirement for proof of declination of coverage. Staff are working with the agencies to bring the remaining policies into compliance.
    iii. Three percent of the policies/properties selected for review required flood insurance. Of the agencies who have responded to date, only one policy is not currently compliant with the flood insurance requirement and staff are working with the agency to bring that policy into compliance.
    iv. All agents audited have an active property and casualty insurance license.

d. The sample selection of agencies and policies for the second quarter 2022 audits are underway.

8B. Depopulation

There is no exhibit for this topic

9. Claims

9A. Claims Operations

TWIA Claims Operations 2022

TWIA Claims - 2022 Results (through Q1)					
Key Cycle Times (In days)	**Industry Average, TX**	**TWIA**	**TWIA Plan**	**Variance to Plan**	**% Variance to Plan**
FNOL to Inspect Property	5.3	2.7	<3	-0.3	-10%
Inspect Property to Receipt by TWIA	4.7	1.7	<8	-6.3	-79%
Total Cycle Time FNOL to Payment - Daily	N/A	7.2	<12	-4.8	-30%
Total Cycle Time FNOL to Payment - Cat	N/A	7.1	<12	-4.9	-31%
TDI Complaint Ratio					
2021	0.17% - 21 complaints from 12,535 new claims				
2022	0.38% - 5 complaints from 1,322 new claims				

Year	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22
Actual Volume	892	675	610	468	672	551	576	301	5,885	1,052	563	290	396	313	613
Actuarial Projected	614	428	428	1,716	1,716	428	428	615	615	615	298	298	639	445	445
Staffing Plan	521	521	521	521	521	521	521	521	521	521	521	521	546	546	546
Open Inventory	8,763	8,814	8,545	8,180	7,785	6,829	5,972	4,383	8,822	8,733	8,190	7,279	6,520	6,120	5,511

Historical TWIA Claim Volume	
Year	Claims
2005	12,783
2006	1,862
2007	4,195
2008	99,813
2009	4,812
2010	4,801
2011	10,608
2012	8,601
2013	10,541
2014	2,843
2015	18,889
2016	8,393
2017	80,257
2018	7,242
2019	6,704
2020	14,432
2021	12,535
2022	1,322

2017 Hurricane Harvey

TWIA Harvey	As of 4/26/22
Claims	76,722
Open	225
Closed	76,497
% Closed	99.70%
Paid Indemnity	$1,374,874,429
Paid Expenses	$149,804,895

2021 Hurricane Nicholas

TWIA Nicholas	As of 4/13/22
Claims	6,647
Open	2,520
Closed	4,127
% Closed	62.1%
Paid Indemnity	$36,422,200
Paid Expenses	$6,809,396

9B. Claims Litigation

TWIA Litigation Tracking Activity

Litigation Quarter Summary
First Quarter 2022

1st Quarter 2022	Summary of TWIA Claims in Suit			
		New	Settled	Closed
	January	3	0	11
	February	0	0	14
	March	3	0	20
	Total	**6**	**0**	**45**

1st Quarter 2022	Summary of TWIA Claims with LORs			
		New	Settled	Closed
	January	44	0	17
	February	36	0	37
	March	35	0	25
	Total	**115**	**0**	**79**

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TWIA Claims Litigation
March 2022

Mar-22	TWIA Claims in Suit				
	Category	Beginning Inventory	New	Closed	Ending Inventory
	Pre-HB3	8	0	0	8
	HB3	220	3	(20)	203
	TOTAL	228	3	(20)	211

Mar-22	TWIA Claims with LORs					
	Category	Beginning Inventory	New	Closed	Converted to Suit	Ending Inventory
	Pre-HB3	0	0	0	0	0
	HB3	521	35	(25)	(2)	529
	TOTAL	521	35	(25)	(2)	529

Mar-22	TWIA Claims with Suits/LORs: Detail of Ending Inventory										
	Category	Active Unsettled Claims					Settled & Funded (Awaiting closing documents and final invoices)					GRAND TOTAL
		Suits		LORs			Suits		LORs			
		Res	Comm	Res	Comm	Total	Res	Comm	Res	Comm	Total	
	Pre-HB3	2	6	0	0	8	0	0	0	0	0	8
	HB3	178	24	487	40	729	1	0	2	0	3	732
	TOTAL	180	30	487	40	737	1	0	2	0	3	740

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TWIA Active Pre-HB3 Claims w/ Suits/LORs: Breakdown by Firm and County

Mar-22

Firm	Chambers	Galveston	Jefferson	Total
Buzbee	2	4	0	6
Hodge Law Firm	0	1	0	1
Mostyn	0	0	1	1
TOTAL	2	5	1	8

TWIA Active HB3 Claims with Suits/LORs: Breakdown by County

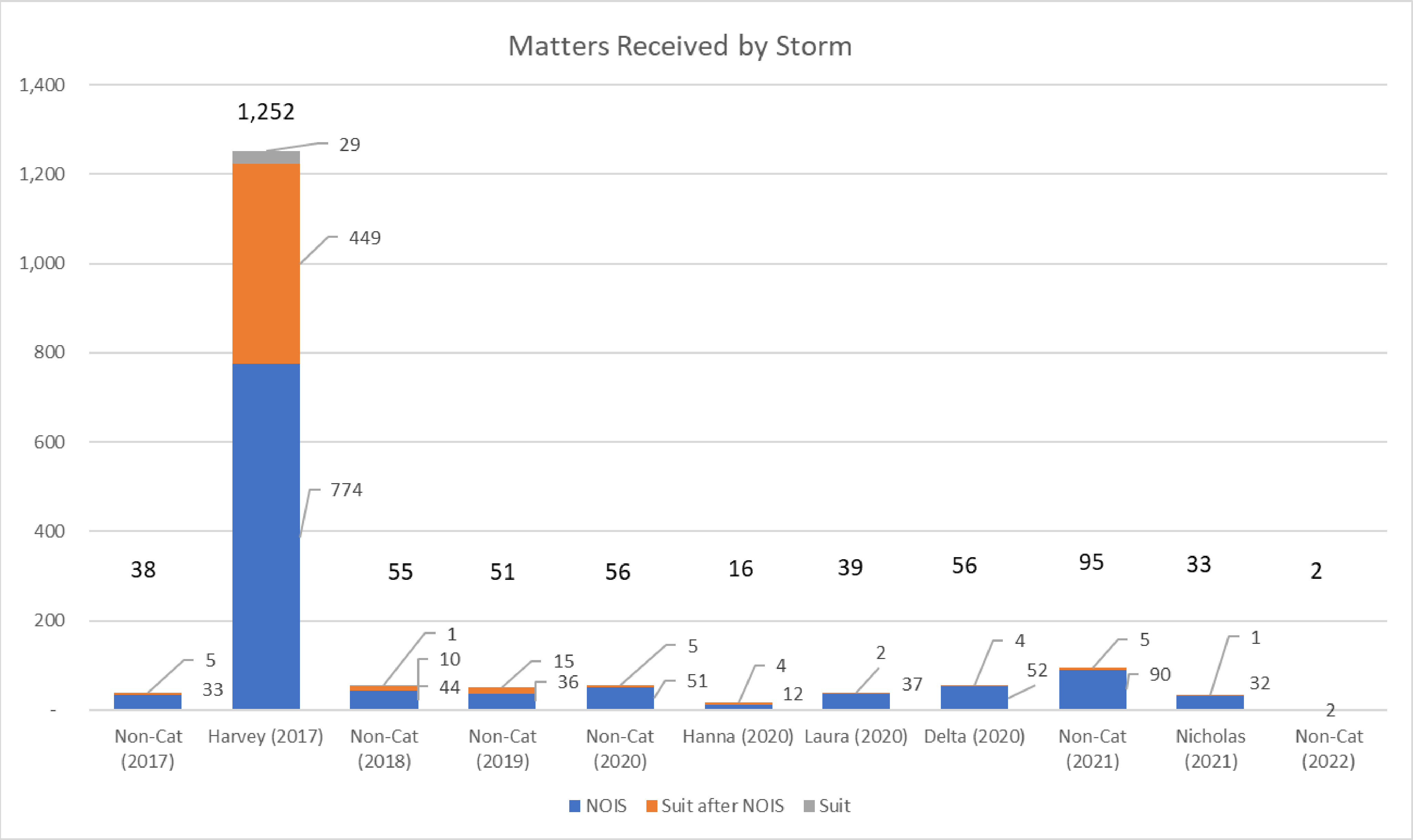
Mar-22

Aransas	Brazoria	Calhoun	Cameron	Chambers	Galveston	Harris	Jefferson	Kleberg	Matagorda	Nueces	Refugio	San Patricio	Grand Total
27	74	6	82	2	139	19	246	1	18	92	3	20	729

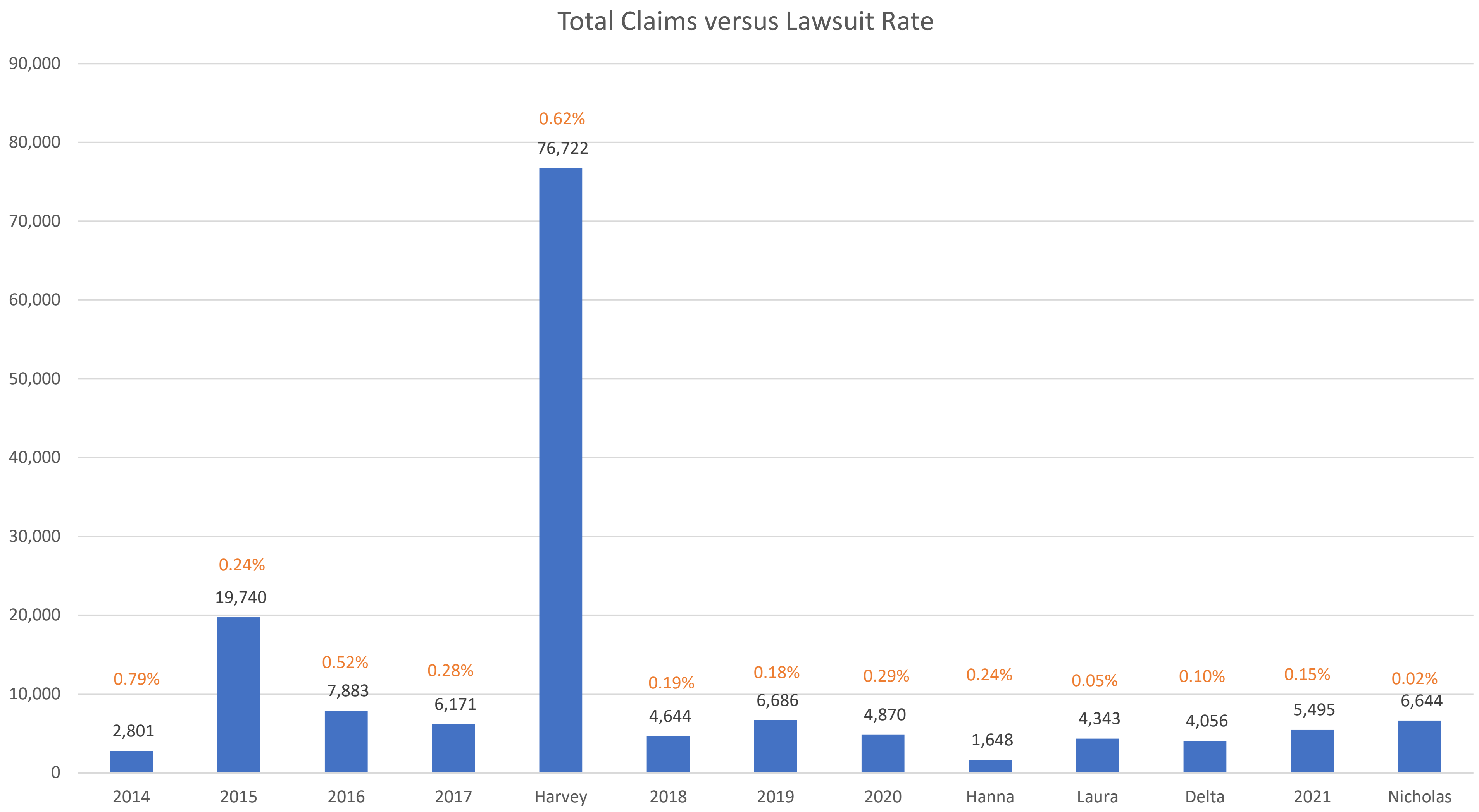
TWIA Active HB3 Claims with Suits/LORs: Breakdown by Plaintiff Firm

Mar-22

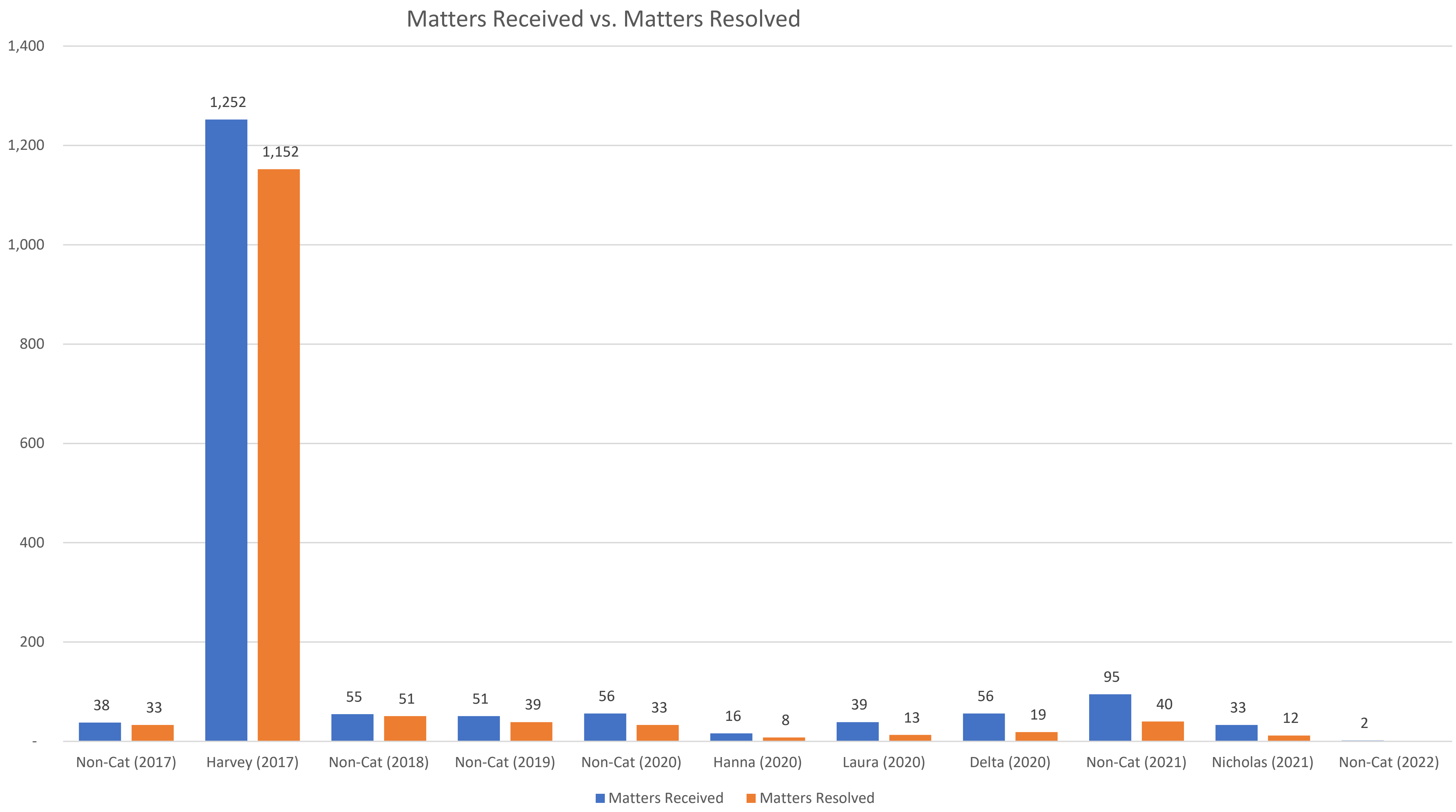
Firm	#
Furlow Law Firm	128
Baker Law	123
Daly & Black	110
Chad T. Wilson	67
Scott Law Offices	35
Lindsay, Lindsay & Parsons	25
Carrigan & Anderson	25
Omar Ochoa Law Firm	19
Hodge Law Firm	19
Palker Law Firm	18
Lane Law Firm	14
Remaining 65 firms	146
TOTAL	729



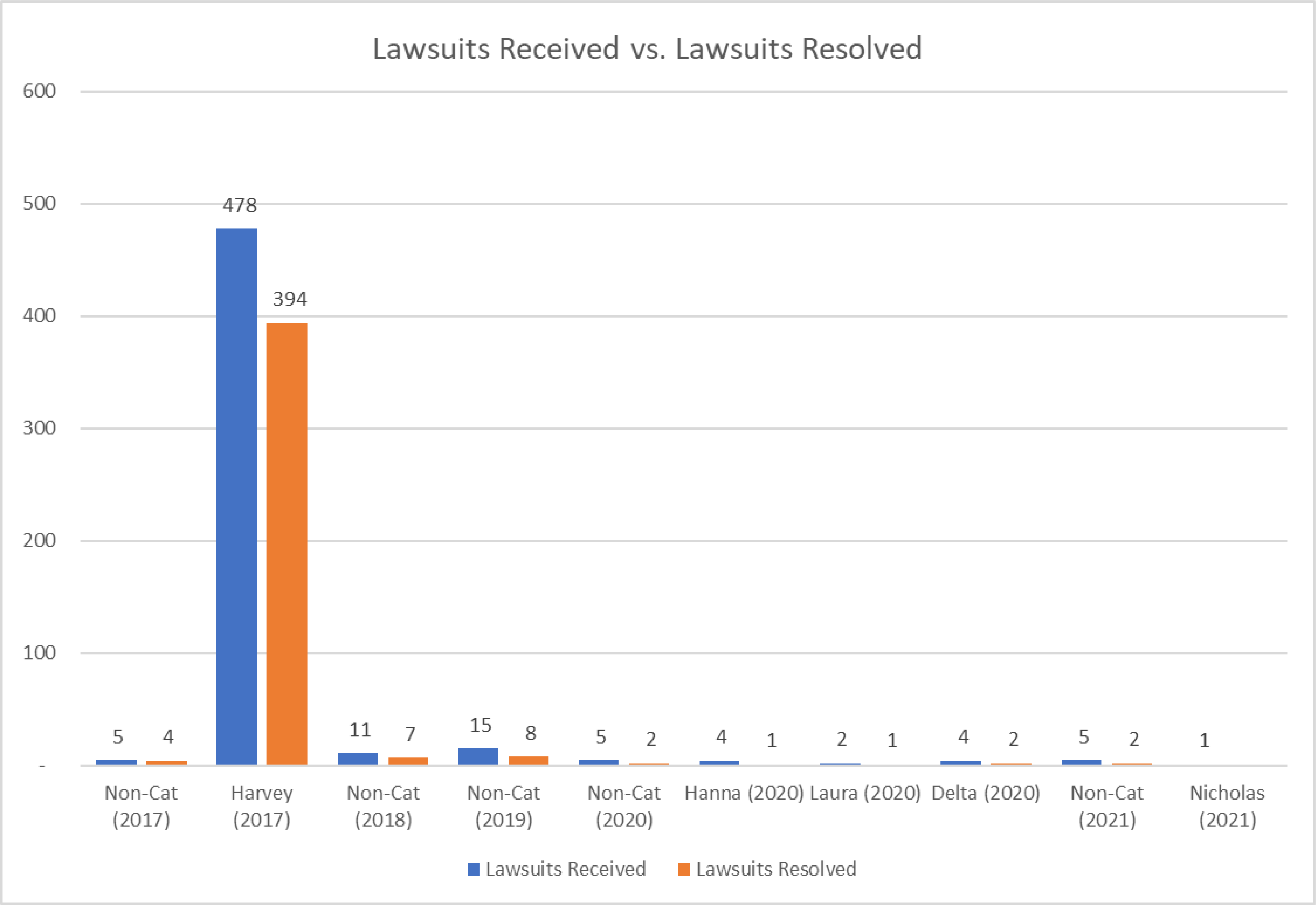
Matters Received by Storm
1,400
1,200
1,000
800
600
400
200
-
1,252
29
449
774
38
5
33
55
1
10
44
51
15
36
56
5
51
16
4
12
39
2
37
56
4
52
95
5
90
33
1
32
2
2
Non-Cat (2017)
Harvey (2017)
Non-Cat (2018)
Non-Cat (2019)
Non-Cat (2020)
Hanna (2020)
Laura (2020)
Delta (2020)
Non-Cat (2021)
Nicholas (2021)
Non-Cat (2022)
NOIS
Suit after NOIS
Suit



Lawsuit Rate for Ike was ~ 11.7%



Matters Received vs. Matters Resolved
1,400
1,200
1,000
800
600
400
200
-
1,252
1,152
38
33
55
51
51
39
56
33
16
8
39
13
56
19
95
40
33
12
2
Non-Cat (2017)
Harvey (2017)
Non-Cat (2018)
Non-Cat (2019)
Non-Cat (2020)
Hanna (2020)
Laura (2020)
Delta (2020)
Non-Cat (2021)
Nicholas (2021)
Non-Cat (2022)
Matters Received
Matters Resolved


Lawsuits Received vs. Lawsuits Resolved
600
500
400
300
200
100
-
478
394
5
4
11
7
15
8
5
2
4
1
2
1
4
2
5
2
1
Non-Cat (2017)
Harvey (2017)
Non-Cat (2018)
Non-Cat (2019)
Non-Cat (2020)
Hanna (2020)
Laura (2020)
Delta (2020)
Non-Cat (2021)
Nicholas (2021)
Lawsuits Received
Lawsuits Resolved

10. TWIA Operations
10A. IT Systems Updates

TEXAS WINDSTORM INSURANCE ASSOCIATION

TEXAS FAIR PLAN ASSOCIATION

MEMORANDUM

DATE: May 16, 2022

TO: John Polak, General Manager

FROM: Camron Malik, CIO / VP IT

RE: TWIA Information Technology status

The TWIA Elevate program completed User Acceptance Testing (UAT) and went live on April18th. The deployment included upgraded policy, billing and claims systems with new portals for agents and policyholders. In addition, the system was programmed to allow migration of policies on renewal. The release was a success and completed the technology roadmap to put the organization on a modern platform which will improve operational efficiency, enable self-service for policyholders and provide an improved experience for agents.

The Elevate program was a long, almost 2 and half year journey which took us through

- A pandemic
- Move to working remotely
- The 2020 hurricane season
- The 2021 winter storm Uri
- Implementation of Legislative changes. E.g. payments on a legacy system
- Implementation of new technology to transition to a hybrid work environment

We now look towards future enhancements and defect fixes based on empirical usage. The first of our production support releases is scheduled for mid-May and will address any issues that were missed in testing and identified during deployment. All other Infrastructure, Operations and support efforts are on track, with excellent quality.

10B. RFP’s for Professional Services

There is no exhibit for this topic

10C. Expert Panel Guidelines; Contract Renewal

There is no exhibit for this topic

10D. Communications Update

TEXAS WINDSTORM INSURANCE ASSOCIATION

MEMORANDUM

DATE:	April 29, 2022
TO:	TWIA Board of Directors
FROM:	Jennifer Armstrong, Vice President, Communications & Legislative Affairs
RE:	Communications & Legislative Affairs Operational Highlights

I. Legislative & Regulatory Affairs

a) Legislative Implementation: As of April 18, the Association has effectively implemented all applicable legislation passed during the 87th Legislative Session. During Q1 2022, efforts continued to be focused primarily on coordinating with TDI on the 10-day grace period rules for premium payments required by House Bill 2920 as part of the ELEVATE systems upgrade project.

An exhibit on the implementation of all TWIA-related bills from the 87th session is enclosed.

i. Premium Payment Grace Period Rules for Renewals: In March, TDI adopted a rule establishing a 10-day grace period for TWIA renewal premium payments. The rule was required by House Bill 2920, passed by the Legislature last year. TWIA implemented the grace period as part of the ELEVATE systems upgrade launched on April 18.

ii. Catastrophe Modeling Services: The Board's action in January to secure the services of a firm to conduct catastrophe modeling services separate from the firm selected as the Association's reinsurance broker completed implementation of the applicable provisions of House Bill 769.

b) Stakeholder Meetings: *An exhibit listing Q1 2022 meetings with TDI and legislators is enclosed.*

i. Legislative Meeting: On February 23, David Durden and Jennifer Armstrong met with the chief of staff for Rep. Mayes Middleton (Galveston County). A summary of this meeting was included in the February email update to Board members. *(See enclosed exhibit listing meetings with TDI and legislative offices.)*

ii. New TWIA Ombudsman at TDI: Manuel Villareal, who served as TDI's TWIA Ombudsman since the Legislature created the position in 2011, retired in February. TDI appointed his replacement, Eric Casas, who has a background in media relations and most recently worked in the Department's Independent Dispute Resolution unit. TWIA staff met with Casas and other TDI staff on March 4 and held additional meetings with him beginning in April to provide information on TWIA's operations.

c) New House District 38 Representative: Erin Elizabeth Gamez is the new state representative for District 38, based in Cameron County, succeeding Eddie Lucio, III. Lucio, who had previously announced that he would not run for re-election, resigned his seat early, effective January 31. Governor Abbott called a special election for May 7 to fill the remainder of Rep. Lucio's term. Rep.

Gamez was the only candidate to file for the seat and was sworn into office in March. She is also the Democratic nominee for the seat in the next legislative session and faces no Republican opponent in the general election.

d) Stakeholder Inquiries: From January 1 through March 31, 2022, we received and responded to seven legislative inquiries.

e) Operational Updates: We continue to provide regular operational email updates to the Board, the Texas Department of Insurance (TDI), legislative staff, and coastal elected officials and stakeholders.

II. ELEVATE Project

a) In Q1 2022, CLA staff continued execution of the ELEVATE program in preparation for the April 18 launch date:

   i. Executed five distinct change management components (Launch Comms, Manager Groups, Systems Upgrade Previews, Post-Launch Response Team, Direct Mail Campaign) and the corresponding communication plans which were tailored to different Association audiences/stakeholder groups to increase the adoption of process and system changes.

      - Systems Upgrade Previews: One of the five components, these events featured a series of video demos showing the upcoming system changes, a question and answer session, and a post-event survey.

   ii. Assessed systems changes and determined which required updates to and/or new website content. Developed and implemented that content, created web test web pages to support UAT, and synced with deployment team for a coordinated go live weekend.

   iii. Facilitated the development of, promoted, and participated in eight pre-launch agent training sessions held in early to mid-April to teach agents how to use the upgraded system and two post-launch town hall sessions held later in the month to gather agent feedback and answer their questions.

III. Hurricane Preparedness & Coastal Outreach

a) In Q1 2022, post-pandemic coastal outreach planning began. We have been invited to four local coastal hurricane preparedness events in the coming months.

b) We continue to use our digital channels (Facebook and NextDoor) to engage stakeholders with explanatory content about pre-season storm preparation, TWIA coverage, and our claims process.

IV. Media Relations

a) All TWIA media outreach in Q1 2022 was driven by Board activity. Media coverage in this period fell to a more normal volume and tone than was seen in the same quarter of 2021, when coverage had been dominated by negative reactions to the rate filing rejected by TDI in January 2021. More than 80% of coverage in Q1 2022 was neutral or positive.

b) The leading topic of coverage was decisions by the Board on TWIA's reinsurance purchase at 43%. Second most common was the topic of storm preparedness and insurance availability at 30%. This was somewhat higher than normal, driven by an Austin TV story on local storms that included information from TDI about TWIA. This story ran on a dozen co-owned TV stations across the country.

V. Agent Advisory Group

a) The Agent Advisory Group held their Q1 2022 meeting on February 14.

   i. Staff provided a recap of the January 12 meeting with a smaller group of AAG members to discuss additional ways TWIA can support agents to educate their condominium unit owner and association clients about their TWIA coverage needs.

   ii. Staff also shared an update on the Agent Commission Study, highlighting key parts of the presentation made to the TWIA Board of Directors at its December 2021 meeting.

      - As part of the study, staff also presented the results of a January survey of the AAG on agents' role in the TWIA claims process.

   iii. We also updated the AAG on the status of the Temporary Wellington Residential Interest-Free 10-Pay Plan and upcoming agent preview events and training sessions for ELEVATE.

b) The TWIA General Manager appointed two new members to the AAG.

   i. Cordero Bowleg of USAA was appointed in January, filling the spot previously held by Robee Berry.

   ii. E. Jay Sherlock of J.S. Edwards & Sherlock was appointed in April, filling a previously vacant position.

c) The next AAG meeting is scheduled for May 2.

Legislative Implementation Program

Provision Status as of April 29, 2022

House Bill 769			
Legislative Change	**Effective Date**	**TWIA Status**	**TDI Status**
Board Vacancy on Rate Vote	September 1, 2021	In Compliance	Complete
Sec. 1. TWIA Board is prohibited from voting on a proposed rate increase if there is a Board vacancy of more than 60 days. • TWIA staff briefed the Board on statutory changes to the ratemaking process at the August 2021 Board meeting and has updated the Board Training Manual to reflect these changes. • TDI adopted changes to TWIA's Plan of Operation on 11/12/2021 to implement this provision.			
Reinsurance Purchase Requirements	September 1, 2021	In Compliance	Complete
Sec. 2, 3. TWIA is prohibited from purchasing reinsurance from an insurer or broker that obtains the catastrophe modeling TWIA uses to determine the probable maximum loss or make rate decisions. • The TWIA Board selected a reinsurance broker and a separate vendor to provide catastrophe modeling analysis for the 2022 storm season. • TDI adopted changes to TWIA's Plan of Operation on 11/12/2021 to implement this provision.			

House Bill 2920			
Legislative Change	**Effective Date**	**TWIA Status**	**TDI Status**
Premium Payment Grace Period	September 1, 2021	In Compliance	Complete
Sec. 1. By June 2022 TDI must adopt rules, with advice from TWIA, establishing a grace period of not more than 10 days after the due date for the receipt of payment of premium for the renewal of a policy. • TWIA implemented this provision as part of the Project ELEVATE systems upgrade launched 4/18/2022. • TDI issued a rule establishing the grace period on 04/11/2022.			

TEXAS WINDSTORM INSURANCE ASSOCIATION

Legislative Implementation Program

Provision Status as of April 29, 2022

House Bill 3564			
Legislative Change	**Effective Date**	**TWIA Status**	**TDI Status**
Windstorm Certificate of Compliance Recension	June 14, 2021	N/A	Complete

Sec. 1, 2. TDI may no longer rescind a certificate of compliance after it has been issued. Applies only to certificates issued on or after effective date of Act.

- Makes no changes to TWIA's processes.
- TDI has developed administrative alternatives to allow for corrections of faulty certificates of compliance.

Senate Bill 1448			
Legislative Change	**Effective Date**	**TWIA Status**	**TDI Status**
Commissioner Approval of Rate Increases	September 1, 2021	In Compliance	Complete

Sec. 1, 2. Requires annual and non-annual filings for a rate greater than the rate in effect on the filing date be approved by the Insurance Commissioner.

- Previously, TWIA could "file and use" a rate increase of up to 5%.
- TWIA staff briefed the Board on statutory changes to the ratemaking process at the August 2021 Board meeting and has updated the Board Training Manual to reflect these changes.

Two-Thirds Vote for Rate Increase	September 1, 2021	In Compliance	N/A

Sec. 1, 2. Requires a two-thirds vote of the TWIA Board to raise rates on annual or non-annual rate filings.

- TWIA staff briefed the Board on statutory changes to the ratemaking process at the August 2021 Board meeting and has updated the Board Training Manual to reflect these changes.

Funding & Structure Study	September 1, 2021	Pending	N/A

Sec. 3. Permits the Windstorm Insurance Legislative Oversight Board to study TWIA funding and structure issues and issue a report to the Legislature due November 15, 2022.

- TWIA is prepared to assist the Legislative Oversight Board in its deliberations.

TWIA/TFPA Merger Study	September 1, 2021	Pending	N/A

Sec. 4. Extends deadline to January 1, 2023 for the Windstorm Insurance Legislative Oversight Board to evaluate a merger of TWIA and TFPA and produce a report to the Legislature.

- TWIA is prepared to assist the Legislative Oversight Board in its deliberations.

Q1 2022 Legislative & Regulatory Meetings

Legislative / Regulatory Office	Staff Member	TWIA Staff	Purpose
January 2022			
There are no legislative or regulatory meetings to report for January.			
February 2022			
Attending Legislators & Staff: • **Rep. Ed Thompson** • **Scot Kibbe (Governor's Office)** • **Deb Mamula (Lt. Governor's Office)** • **Kenisha Schuster (TDI)** • **Shane Saum (Sen. Kolkhorst)** • **Cari Christman (Sen. Taylor)** • **Casey Christman (Rep. Huberty)** • **Alex Gamez (Rep. Hunter)** • **Loradel Mariano (Rep. Munoz)**		**David Durden, Jessica Crass, David Williams, Jim Murphy, Stuart Harbour & Anna Stafford**	Invited legislators and legislative staff to the Q1 2022 TWIA Board Meeting Materials Briefing, focusing on those agenda items of expected interest to staff and legislators: 2022 reinsurance program; Series 2014 bond redemption; ELEVATE status; and Wellington 10-Pay Plan.
Rep. Mayes Middleton	**Andrew Herrell**	**Jennifer Armstrong & David Durden**	Met with Rep. Middleton's chief of staff to discuss early redemption of Series 2014 bonds; August 2021 rate filing; TWIA communication with stakeholders.
March 2022			
TDI	**Eric Casas, Randall Evans, Kenisha Schuster & Cindy Wright**	**Jennifer Armstrong, David Durden & Anna Stafford**	Introduction to new TDI TWIA Ombudsman; planning for future meetings to provide orientation.

10E. General Manager Retirement and Search for New General Manager

There is no exhibit for this topic

14. Future Meetings

August 2, 2022 – Moody Gardens Hotel – Galveston, TX

December 2022 - TBD