

Essent Group Ltd.  
Form 10-Q  
August 10, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the period ended June 30, 2015

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-36157

ESSENT GROUP LTD.  
(Exact name of registrant as specified in its charter)

Bermuda  
(State or other jurisdiction of  
incorporation or organization)  
Clarendon House  
2 Church Street  
Hamilton HM11, Bermuda  
(Address of principal executive offices and zip code)

Not Applicable  
(I.R.S. Employer  
Identification Number)

(441) 297-9901  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232-405 of

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this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of the registrant’s common shares outstanding as of August 3, 2015 was 92,655,155.

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Essent Group Ltd. and Subsidiaries

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Unless the context otherwise indicates or requires, the terms “we,” “our,” “us,” “Essent,” and the “Company,” as used in this Quarterly Report on Form 10-Q, refer to Essent Group Ltd. and its directly and indirectly owned subsidiaries, including our primary operating subsidiary, Essent Guaranty, Inc., as a combined entity, except where otherwise stated or where it is clear that the terms mean only Essent Group Ltd. exclusive of its subsidiaries.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, or Quarterly Report, includes forward-looking statements pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts or present facts or conditions, such as statements regarding our future financial condition or results of operations, our prospects and strategies for future growth, the introduction of new merchandise, and the implementation of our marketing and branding strategies. In many cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential” or the negative of these terms or other comparable terminology.

The forward-looking statements contained in this Quarterly Report reflect our views as of the date of this Quarterly Report about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause events or our actual activities or results to differ significantly from those expressed in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, actions, levels of activity, performance or achievements. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements, including, but not limited to, those factors described below, factors described in Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Quarterly Report, and factors described in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission. These factors include, without limitation, the following:

- changes in or to Fannie Mae and Freddie Mac, which we refer to collectively as the GSEs, whether through Federal legislation, restructurings or a shift in business practices;
- failure to continue to meet the mortgage insurer eligibility requirements of the GSEs;
- competition for our customers;
  - decline in new insurance written, or NIW, and franchise value due to loss of a significant customer;
- lenders or investors seeking alternatives to private mortgage insurance;
- increase in the number of loans insured through Federal government mortgage insurance programs, including those offered by the Federal Housing Administration;
- decline in the volume of low down payment mortgage originations;
- uncertainty of loss reserve estimates;
- decrease in the length of time our insurance policies are in force;
- deteriorating economic conditions;

- the definition of “Qualified Mortgage” reducing the size of the mortgage origination market or creating incentives to use government mortgage insurance programs;

• the definition of “Qualified Residential Mortgage” reducing the number of low down payment loans or lenders and investors seeking alternatives to private mortgage insurance;

• the implementation of the Basel III Capital Accord, which may discourage the use of private mortgage insurance;

• management of risk in our investment portfolio;

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- fluctuations in interest rates;
- inadequacy of the premiums we charge to compensate for our losses incurred;
- dependence on management team and qualified personnel;
- disturbance to our information technology systems;
- change in our customers' capital requirements discouraging the use of mortgage insurance;
- declines in the value of borrowers' homes;
- limited availability of capital;
- unanticipated claims arise under and risks associated with our contract underwriting program;
- industry practice that loss reserves are established only upon a loan default;
- disruption in mortgage loan servicing;
- risk of future legal proceedings;
- customers' technological demands;
- our non-U.S. operations becoming subject to U.S. Federal income taxation;
- becoming considered a passive foreign investment company for U.S. Federal income tax purposes;
- scope of recently enacted legislation is uncertain; and
- potential inability of our insurance subsidiaries to pay dividends.

Readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on these forward-looking statements. All of the forward-looking statements we have included in this Quarterly Report are based on information available to us on the date of this Quarterly Report. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as otherwise required by law.

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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

## Essent Group Ltd. and Subsidiaries

## Condensed Consolidated Balance Sheets (Unaudited)

	June 30, 2015	December 31, 2014
(In thousands, except per share amounts)		
<b>Assets</b>		
Investments available for sale, at fair value		
Fixed maturities (amortized cost: 2015 — \$1,063,073; 2014 — \$840,213)	\$1,064,013	\$846,925
Short-term investments (amortized cost: 2015 — \$95,366; 2014 — \$210,688)	95,366	210,688
Total investments	1,159,379	1,057,613
Cash	25,590	24,411
Accrued investment income	6,943	5,748
Accounts receivable	14,972	15,810
Deferred policy acquisition costs	10,546	9,597
Property and equipment (at cost, less accumulated depreciation of \$40,841 in 2015 and \$39,260 in 2014)	8,631	5,841
Prepaid federal income tax	95,173	59,673
Other assets	6,254	2,768
Total assets	\$1,327,488	\$1,181,461
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Reserve for losses and LAE	\$11,931	\$8,427
Unearned premium reserve	178,205	156,948
Accrued payroll and bonuses	8,763	14,585
Net deferred tax liability	64,161	37,092
Securities purchases payable	26,897	227
Other accrued liabilities	9,758	8,444
Total liabilities	299,715	225,723
Commitments and contingencies		
<b>Stockholders' Equity</b>		
Common shares, \$0.015 par value:		
Authorized - 233,333; issued — 92,659 shares in 2015 and 92,546 shares in 2014	1,390	1,388
Additional paid-in capital	897,167	893,285
Accumulated other comprehensive income	787	4,667
Retained earnings	128,429	56,398
Total stockholders' equity	1,027,773	955,738
Total liabilities and stockholders' equity	\$1,327,488	\$1,181,461

See accompanying notes to condensed consolidated financial statements.





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## Essent Group Ltd. and Subsidiaries

## Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<b>Revenues:</b>				
Net premiums written	\$92,399	\$63,505	\$174,656	\$115,697
Increase in unearned premiums	(14,038	) (13,163	) (21,257	) (20,605
Net premiums earned	78,361	50,342	153,399	95,092
Net investment income	4,720	3,080	9,000	4,978
Realized investment gains, net	568	68	1,217	468
Other income	418	793	462	1,566
Total revenues	84,067	54,283	164,078	102,104
<b>Losses and expenses:</b>				
Provision for losses and LAE	2,314	966	4,313	1,868
Other underwriting and operating expenses	27,148	23,648	54,646	47,107
Total losses and expenses	29,462	24,614	58,959	48,975
Income before income taxes	54,605	29,669	105,119	53,129
Income tax expense	17,412	10,114	33,088	18,568
Net income	\$37,193	\$19,555	\$72,031	\$34,561
<b>Earnings per share:</b>				
Basic	\$0.41	\$0.23	\$0.80	\$0.42
Diluted	\$0.41	\$0.23	\$0.79	\$0.41
<b>Weighted average shares outstanding:</b>				
Basic	90,344	83,276	90,265	83,071
Diluted	91,674	84,706	91,594	84,701
Net income	\$37,193	\$19,555	\$72,031	\$34,561
<b>Other comprehensive income (loss):</b>				
Change in unrealized (depreciation) appreciation of investments, net of tax (benefit) expense of (\$4,002) and \$2,095 in the three months ended June 30, 2015 and 2014 and (\$1,892) and \$2,465 in the six months ended June 30, 2015 and 2014	(8,769	) 4,915	(3,880	) 5,394
Total other comprehensive income (loss)	(8,769	) 4,915	(3,880	) 5,394
Comprehensive income	\$28,424	\$24,470	\$68,151	\$39,955

See accompanying notes to condensed consolidated financial statements.

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## Essent Group Ltd. and Subsidiaries

## Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

(In thousands)	Common Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2014	\$1,297	\$754,390	\$ (1,447 )	\$ (32,099 )	\$—	\$722,141
Net income				88,497		88,497
Other comprehensive income (loss)			6,114			6,114
Issuance of common shares net of issuance cost of \$6,761	90	126,649				126,739
Issuance of management incentive shares	2	414				416
Forfeiture of management incentive shares	—	—				—
Stock-based compensation expense		12,520				12,520
Excess tax benefits from stock-based compensation expense		1,809				1,809
Treasury stock acquired					(2,498 )	(2,498 )
Cancellation of treasury stock	(1 )	(2,497 )			2,498	—
Balance at December 31, 2014	\$1,388	\$893,285	\$ 4,667	\$ 56,398	\$—	\$955,738
Net income				72,031		72,031
Other comprehensive income (loss)			(3,880 )			(3,880 )
Issuance of management incentive shares	6	(6 )				—
Forfeiture of management incentive shares	(1 )	1				—
Stock-based compensation expense		6,596				6,596
Excess tax benefits from stock-based compensation expense		2,332				2,332
Treasury stock acquired					(5,078 )	(5,078 )
Cancellation of treasury stock	(3 )	(5,075 )			5,078	—
Other equity transactions		34				34
Balance at June 30, 2015	\$1,390	\$897,167	\$ 787	\$ 128,429	\$—	\$1,027,773

See accompanying notes to condensed consolidated financial statements.



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## Essent Group Ltd. and Subsidiaries

## Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)	Six Months Ended June 30,	
	2015	2014
<b>Operating Activities</b>		
Net income	\$72,031	\$34,561
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on the sale of investments, net	(1,217	) (468
Depreciation and amortization	1,581	1,217
Amortization of discount on payments due under Asset Purchase Agreement	—	34
Stock-based compensation expense	6,596	6,148
Amortization of premium on investment securities	4,835	2,835
Deferred income tax provision	28,961	17,312
Excess tax benefits from stock-based compensation	(2,332	) (1,683
Change in:		
Accrued investment income	(1,195	) (2,663
Accounts receivable	(1,162	) (1,743
Deferred policy acquisition costs	(949	) (1,366
Prepaid federal income tax	(35,500	) (26,000
Other assets	(3,486	) 825
Reserve for losses and LAE	3,504	1,436
Unearned premium reserve	21,257	20,605
Accrued liabilities	(3,078	) (5,803
Net cash provided by operating activities	89,846	45,247
<b>Investing Activities</b>		
Net change in short-term investments	115,322	(159,089
Purchase of investments available for sale	(417,541	) (427,964
Proceeds from maturity of investments available for sale	7,525	16,832
Proceeds from sales of investments available for sale	212,208	67,209
Purchase of property and equipment, net	(2,932	) (1,671
Net cash used in investing activities	(85,418	) (504,683
<b>Financing Activities</b>		
Treasury stock acquired	(5,078	) (2,385
Payment of offering costs	(537	) (837
Excess tax benefits from stock-based compensation	2,332	1,683
Payments under Asset Purchase Agreement	—	(2,500
Other financing activities	34	—
Net cash used in financing activities	(3,249	) (4,039
Net increase (decrease) in cash	1,179	(463,475
Cash at beginning of year	24,411	477,655
Cash at end of period	\$25,590	\$14,180
<b>Supplemental Disclosure of Cash Flow Information</b>		
Income tax (payments) refunds	\$(5,000	) \$—

Noncash Transactions

Issuance of management incentive shares	\$—	\$416
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See accompanying notes to condensed consolidated financial statements.

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Essent Group Ltd. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

In these notes to condensed consolidated financial statements, “Essent”, “Company”, “we”, “us”, and “our” refer to Essent Group Ltd. and its subsidiaries, unless the context otherwise requires.

Note 1. Nature of Operations and Basis of Presentation

Essent Group Ltd. (“Essent Group”) is a Bermuda-based holding company, which, through its wholly-owned subsidiaries, offers private mortgage insurance and reinsurance for mortgages secured by residential properties located in the United States. Mortgage insurance facilitates the sale of low-down payment (generally less than 20%) mortgage loans into the secondary mortgage market, primarily to two government-sponsored enterprises (“GSEs”), Fannie Mae and Freddie Mac. Essent Group was incorporated in Bermuda in July 2008. In March 2014, Essent Group formed Essent Irish Intermediate Holdings Limited (“Essent Irish Intermediate”) as a wholly-owned subsidiary. In April 2014, Essent Group contributed all of the outstanding stock of Essent US Holdings, Inc. (“Essent Holdings”) to Essent Irish Intermediate. The primary mortgage insurance operations are conducted through Essent Holdings’ regulated and licensed wholly-owned subsidiaries, Essent Guaranty, Inc. (“Essent Guaranty”) and Essent Guaranty of PA, Inc. (“Essent PA”). Essent Group also has a wholly-owned Bermuda domiciled Class 3A Insurer licensed pursuant to Section 4 of the Bermuda Insurance Act 1978, Essent Reinsurance Ltd. (“Essent Re”), which offers mortgage-related insurance and reinsurance.

We have prepared the condensed consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). We have condensed or omitted certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) pursuant to such rules and regulations. In the opinion of management, the statements include all adjustments (which include normal recurring adjustments) required for a fair statement of financial position, results of operations and cash flows for the interim periods presented. These statements should be read in conjunction with the consolidated financial statements and notes thereto, including Note 1 and Note 2 to the consolidated financial statements, included in our Annual Report on Form 10-K for the year ended December 31, 2014, which discloses the principles of consolidation and a summary of significant accounting policies. The results of operations for the interim periods are not necessarily indicative of the results for the full year. We evaluated the need to recognize or disclose events that occurred subsequent to June 30, 2015 prior to the issuance of these condensed consolidated financial statements.

Certain amounts in prior years have been reclassified to conform to the current year presentation.

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Essent Group Ltd. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

## Note 2. Investments Available for Sale

Investments available for sale consist of the following:

June 30, 2015 (In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	\$166,269	\$630	\$(718)	) \$166,181
U.S. agency securities	3,176	20	—	) 3,196
U.S. agency mortgage-backed securities	103,599	1,028	(391)	) 104,236
Municipal debt securities(1)	260,051	2,816	(1,980)	) 260,887
Corporate debt securities	363,658	1,361	(1,387)	) 363,632
Mortgage-backed securities	51,292	252	(794)	) 50,750
Asset-backed securities	130,025	269	(166)	) 130,128
Money market funds	80,369	—	—	) 80,369
Total investments available for sale	\$1,158,439	\$6,376	\$(5,436)	) \$1,159,379
December 31, 2014 (In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	\$73,432	\$927	\$(143)	) \$74,216
U.S. agency securities	4,491	29	—	) 4,520
U.S. agency mortgage-backed securities	82,190	1,564	(214)	) 83,540
Municipal debt securities(1)	191,723	4,147	(324)	) 195,546
Corporate debt securities	295,507	2,123	(801)	) 296,829
Mortgage-backed securities	66,396	574	(884)	) 66,086
Asset-backed securities	126,474	136	(422)	) 126,188
Money market funds	210,688	—	—	) 210,688
Total investments available for sale	\$1,050,901	\$9,500	\$(2,788)	) \$1,057,613

At June 30, 2015, approximately 67.6% of municipal debt securities were special revenue bonds, 28.9% were general obligation bonds, 2.4% were certificate of participation bonds and 1.1% were tax allocation bonds. At (1) December 31, 2014, approximately 59.7% of municipal debt securities were special revenue bonds, 37.5% were general obligation bonds, 1.5% were tax allocation bonds, 0.8% were certificate of participation bonds and 0.5% were special assessment bonds.

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Essent Group Ltd. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

The amortized cost and fair value of investments available for sale at June 30, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Because most mortgage-backed securities and asset-backed securities provide for periodic payments throughout their lives, they are listed below in separate categories.

(In thousands)	Amortized Cost	Fair Value
U.S. Treasury securities:		
Due in 1 year	\$ 19,853	\$ 19,879
Due after 1 but within 5 years	66,117	66,250
Due after 5 but within 10 years	80,299	80,052
Subtotal	166,269	166,181
U.S. agency securities:		
Due in 1 year	1,155	1,161
Due after 1 but within 5 years	2,021	2,035
Subtotal	3,176	3,196
Municipal debt securities:		
Due in 1 year	545	544
Due after 1 but within 5 years	74,765	74,846
Due after 5 but within 10 years	91,891	92,933
Due after 10 years	92,850	92,564
Subtotal	260,051	260,887
Corporate debt securities:		
Due in 1 year	8,851	8,874
Due after 1 but within 5 years	253,211	253,397
Due after 5 but within 10 years		