Essent Group Ltd.
Form 10-Q
August 06, 2018


UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the period ended June 30, 2018

o 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 | Not Applicable |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

Clarendon House
2 Church Street
Hamilton HM11, Bermuda
(Address of principal executive offices and zip code)

(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 ý No o

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | o |
| Non-accelerated filer | o | (Do not check if a smaller reporting company) | |
| | | Smaller reporting company | o |
| | | Emerging growth company | o |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.  o

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

The number of the registrant’s common shares outstanding as of August 1, 2018 was 98,127,712.

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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 subsidiaries, Essent Guaranty, Inc. and Essent Reinsurance Ltd., 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 products and services, 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, in Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Quarterly Report, and in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2017 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 on the basis of price, terms and conditions or otherwise, or the 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 impact of recently enacted U.S. Federal tax reform on us, our shareholders and our operations;
- 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; 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)

| (In thousands, except per share amounts) | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Assets | | |
| Investments available for sale, at fair value | | |
| Fixed maturities (amortized cost: 2018 — $2,273,485; 2017 — $1,994,200) | $2,229,002 | $1,992,371 |
| Short-term investments (amortized cost: 2018 — $326,984; 2017 — $312,714) | 327,011 | 312,694 |
| Total investments | 2,556,013 | 2,305,065 |
| Cash | 24,664 | 43,524 |
| Accrued investment income | 15,655 | 12,807 |
| Accounts receivable | 35,276 | 29,752 |
| Deferred policy acquisition costs | 15,947 | 15,354 |
| Property and equipment (at cost, less accumulated depreciation of $52,200 in 2018 and $50,466 in 2017) | 7,295 | 6,979 |
| Prepaid federal income tax | 174,335 | 252,157 |
| Other assets | 20,246 | 8,730 |
| Total assets | $2,849,431 | $2,674,368 |
| | | |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Reserve for losses and LAE | $50,016 | $46,850 |
| Unearned premium reserve | 283,785 | 259,672 |
| Net deferred tax liability | 147,808 | 127,636 |
| Credit facility borrowings (at carrying value, less unamortized deferred costs of $1,659 in 2018 and $1,409 in 2017) | 223,341 | 248,591 |
| Securities purchases payable | 14,464 | 14,999 |
| Other accrued liabilities | 26,446 | 36,184 |
| Total liabilities | 745,860 | 733,932 |
| Commitments and contingencies (see Note 7) | | |
| Stockholders' Equity | | |
| Common shares, $0.015 par value: | | |
| Authorized - 233,333; issued and outstanding - 98,128 shares in 2018 and 98,434 shares in 2017 | 1,472 | 1,476 |
| Additional paid-in capital | 1,103,448 | 1,127,137 |
| Accumulated other comprehensive loss | (39,248) | (3,252) |
| Retained earnings | 1,037,899 | 815,075 |
| Total stockholders' equity | 2,103,571 | 1,940,436 |
| Total liabilities and stockholders' equity | $2,849,431 | $2,674,368 |

See accompanying notes to condensed consolidated financial statements.

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Essent Group Ltd. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In thousands, except per share amounts) | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | |
| Net premiums written | $168,404 | $134,063 | $333,629 | $253,360 |
| Increase in unearned premiums | (11,446) | (7,500) | (24,113) | (9,146) |
| Net premiums earned | 156,958 | 126,563 | 309,516 | 244,214 |
| Net investment income | 15,134 | 9,400 | 28,848 | 17,835 |
| Realized investment gains, net | 439 | 544 | 636 | 1,199 |
| Other income | 1,237 | 1,099 | 2,231 | 1,950 |
| Total revenues | 173,768 | 137,606 | 341,231 | 265,198 |
| | | | | |
| Losses and expenses: | | | | |
| Provision for losses and LAE | 1,813 | 1,770 | 7,122 | 5,463 |
| Other underwriting and operating expenses | 36,428 | 35,686 | 74,552 | 72,018 |
| Interest expense | 2,618 | 1,189 | 5,068 | 1,905 |
| Total losses and expenses | 40,859 | 38,645 | 86,742 | 79,386 |
| | | | | |
| Income before income taxes | 132,909 | 98,961 | 254,489 | 185,812 |
| Income tax expense | 21,154 | 26,843 | 31,665 | 47,096 |
| Net income | $111,755 | $72,118 | $222,824 | $138,716 |
| | | | | |
| Earnings per share: | | | | |
| Basic | $1.15 | $0.79 | $2.29 | $1.52 |
| Diluted | 1.14 | 0.77 | 2.28 | 1.49 |
| | | | | |
| Weighted average shares outstanding: | | | | |
| Basic | 97,426 | 91,381 | 97,362 | 91,320 |
| Diluted | 97,866 | 93,162 | 97,908 | 93,093 |
| | | | | |
| Net income | $111,755 | $72,118 | $222,824 | $138,716 |
| | | | | |
| Other comprehensive income (loss): | | | | |
| Change in unrealized (depreciation) appreciation of investments, net of tax (benefit) expense of ($1,418) and $3,649 in the three months ended June 30, 2018 and 2017 and ($6,611) and $5,710 in the six months ended June 30, 2018 and 2017 | (7,246) | 8,470 | (35,996) | 13,320 |
| Total other comprehensive (loss) income | (7,246) | 8,470 | (35,996) | 13,320 |
| Comprehensive income | $104,509 | $80,588 | $186,828 | $152,036 |

See accompanying notes to condensed consolidated financial statements.

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 | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| Balance at January 1, 2017 | $ 1,397 | $ 918,296 | $ (12,255) | $ 436,335 | $ — | $ 1,343,773 |
| Net income | | | | 379,747 | | 379,747 |
| Other comprehensive income | | | 8,068 | | | 8,068 |
| Issuance of common shares, net of issuance cost of $1,802 | 75 | 197,623 | | | | 197,698 |
| Issuance of management incentive shares | 8 | (8) | | | | — |
| Stock-based compensation expense | | 18,688 | | | | 18,688 |
| Cumulative effect of ASU 2016-09 adoption | | 111 | | (72) | | 39 |
| Treasury stock acquired | | | | | (7,577) | (7,577) |
| Cancellation of treasury stock | (4) | (7,573) | | | 7,577 | — |
| Reclassification of certain income tax effects resulting from tax reform | | | 935 | (935) | | — |
| Balance at December 31, 2017 | $ 1,476 | $ 1,127,137 | $ (3,252) | $ 815,075 | $ — | $ 1,940,436 |
| Net income | | | | 222,824 | | 222,824 |
| Other comprehensive loss | | | (35,996) | | | (35,996) |
| Issuance of management incentive shares | 6 | (6) | | | | — |
| Stock-based compensation expense | | 7,432 | | | | 7,432 |
| Treasury stock acquired | | | | | (31,125) | (31,125) |
| Cancellation of treasury stock | (10) | (31,115) | | | 31,125 | — |
| Balance at June 30, 2018 | $ 1,472 | $ 1,103,448 | $ (39,248) | $ 1,037,899 | $ — | $ 2,103,571 |

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, 2018 | 2017 |
|---|---|---|
| Operating Activities | | |
| Net income | $222,824 | $138,716 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Gain on the sale of investments, net | (636) | (1,199) |
| Depreciation and amortization | 1,734 | 1,970 |
| Stock-based compensation expense | 7,432 | 9,288 |
| Amortization of premium on investment securities | 7,013 | 5,833 |
| Deferred income tax provision | 26,783 | 32,948 |
| Change in: | | |
| Accrued investment income | (2,848) | (1,288) |
| Accounts receivable | (3,174) | (4,134) |
| Deferred policy acquisition costs | (593) | (637) |
| Prepaid federal income tax | 77,822 | (34,085) |
| Other assets | (11,379) | (1,877) |
| Reserve for losses and LAE | 3,166 | 1,656 |
| Unearned premium reserve | 24,113 | 9,146 |
| Other accrued liabilities | (9,601) | (11,934) |
| Net cash provided by operating activities | 342,656 | 144,403 |
| | | |
| Investing Activities | | |
| Net change in short-term investments | (14,317) | 1,364 |
| Purchase of investments available for sale | (505,400) | (396,919) |
| Proceeds from maturity of investments available for sale | 52,545 | 36,318 |
| Proceeds from sales of investments available for sale | 164,355 | 151,583 |
| Purchase of property and equipment | (2,050) | (1,806) |
| Net cash used in investing activities | (304,867) | (209,460) |
| | | |
| Financing Activities | | |
| Credit facility borrowings | 15,000 | 75,000 |
| Credit facility repayments | (40,000) | — |
| Treasury stock acquired | (31,125) | (7,239) |
| Payment of issuance costs for credit facility | (524) | (2,565) |
| Net cash (used in) provided by financing activities | (56,649) | 65,196 |
| | | |
| Net (decrease) increase in cash | (18,860) | 139 |
| Cash at beginning of year | 43,524 | 27,531 |
| Cash at end of period | $24,664 | $27,670 |
| | | |
| Supplemental Disclosure of Cash Flow Information | | |
| Income tax payments | $(10,400) | $(16,700) |
| Interest payments | (4,700) | (1,772) |

| | | |
|---|---|---|
| Noncash Transactions | | |
| Repayment of borrowings with term loan proceeds (see Note 6) | $(100,000) | $(125,000) |

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 Gro 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.

The primary mortgage insurance operations are conducted through Essent Guaranty, Inc. ("Essent Guaranty"), a wholly-owned subsidiary approved as a qualified mortgage insurer by the GSEs and is licensed to write mortgage insurance in all 50 states and the District of Columbia. A significant portion of our premium revenue relates to master policies with certain lending institutions. For the six months ended June 30, 2018 one lender represented 10% of our total revenue. The loss of this customer could have a significant impact on our revenues and results of operations.

Essent Guaranty reinsures 25% of GSE-eligible new insurance written to Essent Reinsurance Ltd. ("Essent Re"), an affiliated Bermuda domiciled Class 3A Insurer licensed pursuant to Section 4 of the Bermuda Insurance Act 1978 that provides insurance and reinsurance coverage of mortgage credit risk. Essent Re also provides insurance and reinsurance to Freddie Mac and Fannie Mae. In 2016, Essent Re formed Essent Agency (Bermuda) Ltd., a wholly-owned subsidiary, which provides underwriting services to third-party reinsurers. In accordance with certain state law requirements, Essent Guaranty also reinsures that portion of the risk that is in excess of 25% of the mortgage balance with respect to any loan insured, after consideration of other reinsurance, to Essent Guaranty of PA, Inc. ("Essent PA"), an affiliate.

In addition to offering mortgage insurance, we provide contract underwriting services on a limited basis through CUW Solutions, LLC ("CUW Solutions"), a Delaware limited liability company, that provides, among other things, mortgage contract underwriting services to lenders and mortgage insurance underwriting services to affiliates.

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, 2017, 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, 2018 prior to the issuance of these condensed consolidated financial statements.

Within the Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2017, the financing activities were revised to reflect the repayment of credit facility borrowings with term loan proceeds of $125 million as a non-cash transaction to be consistent with the December 31, 2017 presentation. The term loan proceeds were directly applied at closing to pay down credit facility borrowings. We will similarly revise our September 30, 2017 presentation by this same amount when we issue our September 30, 2018 Form 10-Q. This revision did not impact net cash provided by financing activities or the net increase in cash or any other financial statements or disclosures for the six months ended June 30, 2017 or for the nine months ended September 30, 2017.

Note 2. Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This update is intended to provide a consistent approach in recognizing revenue. In accordance with the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In December 2016, the FASB clarified that all contracts that are within the scope of Topic 944, Financial Services-Insurance, are excluded from the scope of ASU 2014-09. The Company adopted this ASU effective January 1, 2018. The adoption of this ASU did not have a material effect on the Company's consolidated operating results or financial position.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This update requires certain equity investments (except those accounted for under the equity method of accounting or result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. An entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. A qualitative assessment for impairment is required for equity investments without readily determinable fair values. This update also requires public entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. In addition, an entity is required to evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale investment securities in combination with the entity’s other deferred tax assets. The Company adopted this ASU effective January 1, 2018. The adoption of this ASU did not have a material effect on the Company's consolidated operating results or financial position.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This update will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The new guidance will also require additional disclosures about the amount, timing and uncertainty of cash flows arising from leases. The provisions of this update are effective for annual and interim periods beginning after December 15, 2018. The Company expects a gross-up of its consolidated balance sheets as a result of recognizing lease liabilities and right of use assets. The Company is still evaluating the impact the adoption of this ASU will have on the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326). This update is intended to provide financial statement users with more information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The new guidance requires financial assets measured at amortized cost to be presented at the net amount expected to be collected through the use of an allowance for credit losses. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance rather than as a write-down of the amortized cost of the securities. The provisions of this update are effective for annual and interim periods beginning after December 15, 2019. While the Company is still evaluating this ASU, we do not expect it to impact our accounting for insurance losses and loss adjustment expenses ("LAE") as these items are not within the scope of this ASU.

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Essent Group Ltd. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 3. Investments Available for Sale

Investments available for sale consist of the following:

| June 30, 2018 (In thousands) | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| U.S. Treasury securities | $254,439 | $ 9 | $(8,244 ) | $246,204 |
| U.S. agency securities | 33,657 | — | (902 ) | 32,755 |
| U.S. agency mortgage-backed securities | 510,995 | 121 | (18,112 ) | 493,004 |
| Municipal debt securities(1) | 484,996 | 3,653 | (4,952 ) | 483,697 |
| Non-U.S. government securities | 24,984 | 12 | (293 ) | 24,703 |
| Corporate debt securities(2) | 668,379 | 216 | (14,821 ) | 653,774 |
| Residential and commercial mortgage securities | 88,154 | 333 | (850 ) | 87,637 |
| Asset-backed securities | 257,856 | 301 | (952 ) | 257,205 |
| Money market funds | 277,009 | 25 | — | 277,034 |
| Total investments available for sale | $2,600,469 | $ 4,670 | $(49,126 ) | $2,556,013 |
| December 31, 2017 (In thousands) | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| U.S. Treasury securities | $231,905 | $ 2 | $(4,102 ) | $227,805 |
| U.S. agency securities | 33,669 | — | (555 ) | 33,114 |
| U.S. agency mortgage-backed securities | 462,986 | 567 | (7,516 ) | 456,037 |
| Municipal debt securities(1) | 457,418 | 9,098 | (1,261 ) | 465,255 |
| Corporate debt securities(2) | 610,516 | 4,249 | (3,037 ) | 611,728 |
| Residential and commercial mortgage securities | 78,974 | 791 | (358 ) | 79,407 |
| Asset-backed securities | 167,638 | 467 | (183 ) | 167,922 |
| Money market funds | 263,808 | — | (11 ) | 263,797 |
| Total investments available for sale | $2,306,914 | $ 15,174 | $(17,023 ) | $2,305,065 |

| (1) The following table summarizes municipal debt securities as of : | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Special revenue bonds | 63.8 % | 63.6 % |
| General obligation bonds | 30.9 | 30.7 |
| Certificate of participation bonds | 4.0 | 4.4 |
| Tax allocation bonds | 0.8 | 0.8 |
| Special tax bonds | 0.5 | 0.5 |
| Total | 100.0 % | 100.0 % |

| (2) The following table summarizes corporate debt securities as of : | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Financial | 40.9 % | 45.9 % |
| Consumer, non-cyclical | 19.1 | 16.2 |
| Communications | 10.3 | 7.3 |
| Energy | 7.7 | 7.8 |
| Industrial | 5.7 | 6.3 |
| Consumer, cyclical | 5.4 | 5.3 |

| | | |
|---|---|---|
| Utilities | 4.5 | 5.3 |
| Technology | 3.7 | 3.9 |
| Basic materials | 2.7 | 2.0 |
| Total | 100.0% | 100.0 % |

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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, 2018, 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 U.S. agency mortgage-backed securities, residential and commercial mortgage 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 | $51,968 | $51,950 |
| Due after 1 but within 5 years | 96,571 | 94,776 |
| Due after 5 but within 10 years | 76,179 | 71,405 |
| Due after 10 years | 29,721 | 28,073 |
| Subtotal | 254,439 | 246,204 |
| U.S. agency securities: | | |
| Due in 1 year | — | — |
| Due after 1 but within 5 years | 33,657 | 32,755 |
| Subtotal | 33,657 | 32,755 |
| Municipal debt securities: | | |
| Due in 1 year | 36,266 | 36,248 |
| Due after 1 but within 5 years | 87,971 | 87,632 |
| Due after 5 but within 10 years | 194,975 | 194,611 |
| Due after 10 years | 165,784 | 165,206 |
| Subtotal | 484,996 | 483,697 |
| Non-U.S. government securities: | | |
| Due in 1 year | — | — |
| Due after 1 but within 5 years | 4,174 | 4,187 |
| Due after 5 but within 10 years | 20,810 | 20,516 |
| Subtotal | 24,984 | 24,703 |
| Corporate debt securities: | | |
| Due in 1 year | 68,461 | 68,122 |
| Due after 1 but within 5 years | 360,593 | 354,309 |
| Due after 5 but within 10 years | 220,975 | 213,211 |
| Due after 10 years | 18,350 | 18,132 |
| Subtotal | 668,379 | 653,774 |
| U.S. agency mortgage-backed securities | 510,995 | 493,004 |
| Residential and commercial mortgage securities | 88,154 | 87,637 |
| Asset-backed securities | 257,856 | 257,205 |
| Money market funds | 277,009 | 277,034 |
| Total investments available for sale | $2,600,469 | $2,556,013 |

Gross gains and losses realized on the sale of investments available for sale were as follows:

| (In thousands) | Three Months Ended June 30, 2018 | 2017 | Six Months Ended June 30, 2018 | 2017 |
|---|---|---|---|---|
| Realized gross gains | $518 | $749 | $1,309 | $1,430 |
| Realized gross losses | 79 | 205 | 673 | 231 |

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The fair value of investments in an unrealized loss position and the related unrealized losses were as follows:

| June 30, 2018 (In thousands) | Less than 12 months Fair Value | Less than 12 months Gross Unrealized Losses | 12 months or more Fair Value | 12 months or more Gross Unrealized Losses | Total Fair Value | Total Gross Unrealized Losses |
|---|---|---|---|---|---|---|
| U.S. Treasury securities | $132,201 | $(3,722) | $61,975 | $(4,522) | $194,176 | $(8,244) |
| U.S. agency securities | 17,097 | (407) | 15,658 | (495) | 32,755 | (902) |
| U.S. agency mortgage-backed securities | 267,109 | (6,923) | 197,760 | (11,189) | 464,869 | (18,112) |
| Municipal debt securities | 252,919 | (4,180) | 22,679 | (772) | 275,598 | (4,952) |
| Non-U.S. government securities | 20,516 | (293) | — | — | 20,516 | (293) |
| Corporate debt securities | 517,897 | (11,324) | 88,857 | (3,497) | 606,754 | (14,821) |
| Residential and commercial mortgage securities | 42,432 | (495) | 5,881 | (355) | 48,313 | (850) |
| Asset-backed securities | 169,257 | (873) | 8,210 | (79) | 177,467 | (952) |
| Total | $1,419,428 | $(28,217) | $401,020 | $(20,909) | $1,820,448 | $(49,126) |

| December 31, 2017 (In thousands) | Less than 12 months Fair Value | Less than 12 months Gross Unrealized Losses | 12 months or more Fair Value | 12 months or more Gross Unrealized Losses | Total Fair Value | Total Gross Unrealized Losses |
|---|---|---|---|---|---|---|
| U.S. Treasury securities | $151,119 | $(1,240) | $69,454 | $(2,862) | $220,573 | $(4,102) |
| U.S. agency securities | 17,320 | (190) | 15,794 | (365) | 33,114 | (555) |
| U.S. agency mortgage-backed securities | 180,443 | (1,394) | 217,944 | (6,122) | 398,387 | (7,516) |
| Municipal debt securities | 124,171 | (817) | 23,492 | (444) | 147,663 | (1,261) |
| Corporate debt securities | 214,371 | (1,213) | 94,261 | (1,824) | 308,632 | (3,037) |
| Residential and commercial mortgage securities | 29,842 | (179) | 5,988 | (179) | 35,830 | (358) |
| Asset-backed securities | 58,798 | (133) | 5,828 | (50) | 64,626 | (183) |
| Money market funds | 59,489 | (11) | — | — | 59,489 | (11) |
| Total | $835,553 | $(5,177) | $432,761 | $(11,846) | $1,268,314 | $(17,023) |

The gross unrealized losses on these investment securities are principally associated with the changes in market interest rates and credit spreads subsequent to their purchase. Each issuer is current on its scheduled interest and principal payments. We assess our intent to sell these securities and whether we will be required to sell these securities before the recovery of their amortized cost basis when determining whether an impairment is other-than-temporary. There were no other-than-temporary impairments in each of the three and six months ended June 30, 2018 and 2017.

The fair value of investments deposited with insurance regulatory authorities to meet statutory requirements was $8.6 million as of June 30, 2018 and December 31, 2017. In connection with its insurance and reinsurance activities, Essent Re is required to maintain assets in trusts for the benefit of its contractual counterparties. The fair value of the investments on deposit in these trusts was $729.0 million at June 30, 2018 and $615.8 million at December 31, 2017. In connection with an excess-of-loss reinsurance agreement (see Note 4), Essent Guaranty is required to maintain assets on deposit for the benefit of the reinsurer. The fair value of the assets on deposit was $3.3 million at June 30, 2018.

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Net investment income consists of:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| Fixed maturities | $14,496 | $9,963 | $28,139 | $18,982 |
| Short-term investments | 1,298 | 74 | 2,049 | 133 |
| Gross investment income | 15,794 | 10,037 | 30,188 | 19,115 |
| Investment expenses | (660 ) | (637 ) | (1,340 ) | (1,280 ) |
| Net investment income | $15,134 | $9,400 | $28,848 | $17,835 |

Note 4. Reinsurance

In the ordinary course of business, our insurance subsidiaries may use reinsurance to provide protection against adverse loss experience and to expand our capital sources. Reinsurance recoverables are recorded as assets, predicated on a reinsurer's ability to meet their obligations under the reinsurance agreements. If the reinsurers are unable to satisfy their obligations under the agreements, our insurance subsidiaries would be liable for such defaulted amounts.

On March 22, 2018, Essent Guaranty entered into a fully collateralized reinsurance agreement with Radnor Re 2018-1 Ltd. ("Radnor Re"), an unaffiliated special purpose insurer domiciled in Bermuda, that provides for up to $424.4 million of aggregate excess-of-loss reinsurance coverage at inception for new defaults on a portfolio of mortgage insurance policies issued between January 1, 2017 and December 31, 2017. For the reinsurance coverage period, Essent Guaranty and its affiliates will retain the first layer of $224.7 million of aggregate losses, and Radnor Re will then provide second layer coverage up to the outstanding reinsurance coverage amount. Essent Guaranty and its affiliates retain losses in excess of the outstanding reinsurance coverage amount. The reinsurance premium due to Radnor Re is calculated by multiplying the outstanding reinsurance coverage amount at the beginning of a period by a coupon rate, which is the sum of one-month LIBOR plus a risk margin, and then subtracting actual investment income collected on the assets in the reinsurance trust during that period. The aggregate excess of loss reinsurance coverage decreases over a ten-year period as the underlying covered mortgages amortize. Essent Guaranty has rights to terminate the reinsurance agreement, which includes an option to terminate after five years from issuance. If the reinsurance agreement is not terminated after five years from issuance, the risk margin component of the reinsurance premium payable to Radnor Re increases by 50%. Radnor Re financed the coverage by issuing mortgage insurance-linked notes in an aggregate amount of $424.4 million to unaffiliated investors. The notes have ten-year legal maturities and are non-recourse to any assets of Essent Guaranty or its affiliates. The proceeds of the notes were deposited into a reinsurance trust for the benefit of Essent Guaranty that will be the source of reinsurance claim payments to Essent Guaranty and principal repayments on the mortgage insurance-linked notes.

The effect of reinsurance on net premiums written and earned is as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| Net premiums written: | | | | |
| Direct | $171,989 | $134,063 | $337,508 | $253,360 |
| Ceded | (3,585 ) | — | (3,879 ) | — |

| | | | | |
|---|---|---|---|---|
| Net premiums written | $168,404 | $134,063 | $333,629 | $253,360 |
| | | | | |
| Net premiums earned: | | | | |
| Direct | $160,543 | $126,563 | $313,395 | $244,214 |
| Ceded | (3,585 ) | — | (3,879 ) | — |
| Net premiums earned | $156,958 | $126,563 | $309,516 | $244,214 |

The amount of monthly reinsurance premium ceded will fluctuate due to changes in one-month LIBOR and changes in money market rates that affect investment income collected on the assets in the reinsurance trust. As the reinsurance premium

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will vary based on changes in these rates, we concluded that the reinsurance agreement contains an embedded derivative that will be accounted for separately like a freestanding derivative. The fair value of this derivative at June 30, 2018 and the change in its fair value from inception of the reinsurance agreement to June 30, 2018 was not material.

In connection with entering the reinsurance agreement with Radnor Re, we concluded that the risk transfer requirements for reinsurance accounting were met as Radnor Re is assuming significant insurance risk and a reasonable possibility of a significant loss. In addition, we assessed whether Radnor Re was a variable interest entity ("VIE") and the appropriate accounting for Radnor Re if it was a VIE. A VIE is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured such that equity investors lack the ability to make significant decisions relating to the entity's operations through voting rights or do not substantively participate in the gains and losses of the entity. A VIE is consolidated by its primary beneficiary. The primary beneficiary is the entity that has both (1) the power to direct the activities of the VIE that most significantly affect the entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. While also considering these factors, the consolidation conclusion depends on the breadth of the decision-making ability and ability to influence activities that significantly affect the economic performance of the VIE. We concluded that Radnor Re is a VIE. However, given that Essent Guaranty (1) does not have the unilateral power to direct the activities that most significantly affect Radnor Re's economic performance and (2) does not have the obligation to absorb losses or the right to receive benefits that could be potentially significant to Radnor Re, Radnor Re is not consolidated in these financial statements.

The following table presents total assets of Radnor Re as well as our maximum exposure to loss associated with Radnor Re, representing the estimated net present value of investment earnings on the assets in the reinsurance trust, each as of June 30, 2018:

| (In thousands) | Total VIE Assets | Maximum Exposure to Loss On - Balance Sheet | Off - Balance Sheet | Total |
|---|---|---|---|---|
| Radnor Re 2018-1 Ltd. | $424,412 | $— | $18,226 | $18,226 |
| Total | $424,412 | $— | $18,226 | $18,226 |

Note 5. Reserve for Losses and Loss Adjustment Expenses

The following table provides a reconciliation of the beginning and ending reserve balances for losses and loss adjustment expenses ("LAE") for the six months ended June 30:

| ($ in thousands) | 2018 | 2017 |
|---|---|---|
| Reserve for losses and LAE at beginning of period | $46,850 | $28,142 |
| Less: Reinsurance recoverables | — | — |
| Net reserve for losses and LAE at beginning of period | 46,850 | 28,142 |
| Add provision for losses and LAE, net of reinsurance, occurring in: | | |
| Current period | 16,528 | 12,116 |

| | | |
|---|---|---|
| Prior years | (9,406 ) | (6,653 ) |
| Net incurred losses and LAE during the current period | 7,122 | 5,463 |
| Deduct payments for losses and LAE, net of reinsurance, occurring in: | | |
| Current period | 211 | 97 |
| Prior years | 3,745 | 3,710 |
| Net loss and LAE payments during the current period | 3,956 | 3,807 |
| Net reserve for losses and LAE at end of period | 50,016 | 29,798 |
| Plus: Reinsurance recoverables | — | — |
| Reserve for losses and LAE at end of period | $50,016 | $29,798 |
| | | |
| Loans in default at end of period | 3,519 | 1,776 |

For the six months ended June 30, 2018, $3.7 million was paid for incurred claims and claim adjustment expenses attributable to insured events of prior years. There has been a $9.4 million favorable prior year development during the six months ended June 30, 2018. Reserves remaining as of June 30, 2018 for prior years are $33.7 million as a result of re-estimation of unpaid losses and loss adjustment expenses. For the six months ended June 30, 2017, $3.7 million was paid for incurred claims and claim adjustment expenses attributable to insured events of prior years. There was a $6.7 million favorable prior year development during the six months ended June 30, 2017. Reserves remaining as of June 30, 2017 for prior years were $17.8 million as a result of re-estimation of unpaid losses and loss adjustment expenses. In both periods, the favorable prior years' loss development was the result of a re-estimation of amounts ultimately to be paid on prior year defaults in the default inventory, including the impact of previously identified defaults that cured. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

During the third quarter of 2017, certain regions of the U.S. experienced hurricanes which have impacted our insured portfolio’s performance. Specifically, on August 26, 2017, Hurricane Harvey made landfall in southeastern Texas and on September 10, 2017, Hurricane Irma made landfall in southern Florida and caused property damage in certain counties. Loans in default identified as hurricane-related defaults totaled 2,288 as of December 31, 2017. During the first half of 2018, the number of hurricane-related defaults declined to 801 as of June 30, 2018 primarily due to hurricane-related loans in default that cured. Based on prior industry experience, we expect the ultimate number of hurricane-related defaults that result in claims will be less than the default-to-claim experience of non-hurricane-related defaults. In addition, under our master policy, our exposure may be limited on hurricane-related claims. For example, we are permitted to exclude a claim entirely where damage to the property underlying a mortgage was the proximate cause of the default and adjust a claim where the property underlying a mortgage in default is subject to unrestored physical damage. Accordingly, when establishing our loss reserves as of June 30, 2018 and December 31, 2017, we applied a lower estimated claim rate to the hurricane-related defaults than the claim rate we apply to other notices in our default inventory. The reserve for losses and LAE on hurricane-related defaults was $11.1 million at June 30, 2018 and December 31, 2017. The impact on our reserves in future periods will be dependent upon the performance of the hurricane-related defaults and our expectations for the amount of ultimate losses on these delinquencies.

## Note 6. Debt Obligations

### Credit Facility

Essent Group and its subsidiaries, Essent Irish Intermediate Holdings Limited and Essent US Holdings, Inc. (collectively, the "Borrowers"), are parties to a secured credit facility (the “Credit Facility”) which provides for a revolving credit facility, term loans and an uncommitted line that may be exercised at the Borrowers’ option so long as the Borrowers receive commitments from the lenders. Borrowings under the Credit Facility may be used for working capital and general corporate purposes, including, without limitation, capital contributions to Essent’s insurance and reinsurance subsidiaries. Borrowings accrue interest at a floating rate tied to a standard short-term borrowing index, selected at the Company’s option, plus an applicable margin. A commitment fee is due quarterly on the average daily amount of the undrawn revolving commitment. The applicable margin and the commitment fee are based on the senior unsecured debt rating or long-term issuer rating of Essent Group to the extent available, or the insurer financial strength rating of Essent Guaranty. The current annual commitment fee rate is 0.35%. The obligations under the Credit Facility are secured by certain assets of the Borrowers, excluding the stock and assets of its insurance and reinsurance subsidiaries. The Credit Facility contains several covenants, including financial covenants relating to minimum net worth, capital and liquidity levels, maximum debt to capitalization level and Essent Guaranty's compliance with the PMIERs (see Note 12). The borrowings under the Credit Facility contractually mature on May 17, 2021. This description is not intended to be complete in all respects and is qualified in its entirety by the terms of the Credit Facility, including its covenants.

On May 2, 2018, the Credit Facility was amended to increase the committed capacity by $125 million to $500 million and to increase the uncommitted line by $25 million to $100 million. The revolving component of the Credit Facility was increased from $250 million to $275 million, and the Borrowers issued $100 million of additional term loans, resulting in $225 million of term loans outstanding. The proceeds of $100 million of additional term loans were used to pay down borrowings outstanding under the revolving component of the Credit Facility. The interest rate, contractual maturity and other terms of the Credit Facility are otherwise unchanged from those described above. As of June 30, 2018, the Company was in compliance with the covenants and $225 million had been borrowed under the Credit Facility with a weighted average interest rate of 4.05%. As of December 31, 2017, $250 million had been borrowed with a weighted average interest rate of 3.49%.

Note 7. Commitments and Contingencies

Obligations under Guarantees

Under the terms of CUW Solutions' contract underwriting agreements with lenders and subject to contractual limitations on liability, we agree to indemnify certain lenders against losses incurred in the event that we make an error in determining whether loans processed meet specified underwriting criteria, to the extent that such error materially restricts or impairs the salability of such loan, results in a material reduction in the value of such loan or results in the lender repurchasing the loan. The indemnification may be in the form of monetary or other remedies. We paid less than $0.1 million related to remedies for each of the six months ended June 30, 2018 and 2017. As of June 30, 2018, management believes any potential claims for indemnification related to contract underwriting services through June 30, 2018 are not material to our consolidated financial position or results of operations.

In addition to the indemnifications discussed above, in the normal course of business, we enter into agreements or other relationships with third parties pursuant to which we may be obligated under specified circumstances to indemnify the counterparties with respect to certain matters. Our contractual indemnification obligations typically arise in the context of agreements entered into by us to, among other things, purchase or sell services, finance our business and business transactions, lease real property and license intellectual property. The agreements we enter into in the normal course of business generally require us to pay certain amounts to the other party associated with claims or losses if they result from our breach of the agreement, including the inaccuracy of representations or warranties. The agreements we enter into may also contain other indemnification provisions that obligate us to pay amounts upon the occurrence of certain events, such as the negligence or willful misconduct of our employees, infringement of third-party intellectual property rights or claims that performance of the agreement constitutes a violation of law. Generally, payment by us under an indemnification provision is conditioned upon the other party making a claim, and typically we can challenge the other party’s claims. Further, our indemnification obligations may be limited in time and/or amount, and in some instances, we may have recourse against third parties for certain payments made by us under an indemnification agreement or obligation. As of June 30, 2018, contingencies triggering material indemnification obligations or payments have not occurred historically and are not expected to occur. The nature of the indemnification provisions in the various types of agreements and relationships described above are believed to be low risk and pervasive, and we consider them to have a remote risk of loss or payment. We have not recorded any provisions on the condensed consolidated balance sheets related to indemnifications.

Note 8. Stock-Based Compensation

The following table summarizes nonvested common share and nonvested common share unit activity for the six months ended June 30, 2018:

| | Time and Performance-Based Share Awards | | Time-Based Share Awards | | Share Units | |
|---|---|---|---|---|---|---|
| (Shares in thousands) | Number of Shares | Weighted Average Grant Date Fair Value | Number of Shares | Weighted Average Grant Date Fair Value | Number of Share Units | Weighted Average Grant Date Fair Value |

| | | | | | | |
|---|---|---|---|---|---|---|
| Outstanding at beginning of year | 1,595 | $ 17.03 | 410 | $ 21.12 | 536 | $ 29.13 |
| Granted | 113 | 45.02 | 73 | 45.02 | 141 | 42.37 |
| Vested | (1,226 ) | 14.71 | (271) | 18.55 | (220) | 28.32 |
| Forfeited | — | N/A | — | N/A | (5 ) | 31.95 |
| Outstanding at June 30, 2018 | 482 | $ 29.49 | 212 | $ 32.63 | 452 | $ 33.62 |

In February 2018, certain members of senior management were granted nonvested common shares under the Essent Group Ltd. 2013 Long-Term Incentive Plan ("2013 Plan") that were subject to time-based and performance-based vesting. The time-based share awards granted in February 2018 vest in three equal installments on March 1, 2019, 2020 and 2021. The performance-based share awards granted in February 2018 vest based upon our compounded annual book value per share growth percentage during a three-year performance period that commenced on January 1, 2018 and vest on March 1, 2021. The portion of these nonvested performance-based share awards that will be earned based upon the achievement of compounded annual book value per share growth is as follows:

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| Performance level | Compounded Annual Book Value Per Share Growth | | Nonvested Common Shares Earned | |
|---|---|---|---|---|
| | <15 | % | 0 | % |
| Threshold | 15 | % | 25 | % |
| | 16 | % | 50 | % |
| | 17 | % | 75 | % |
| Maximum | ≥18 | % | 100 | % |

In the event that the compounded annual book value per share growth falls between the performance levels shown above, the nonvested common shares earned will be determined on a straight-line basis between the respective levels shown.

In connection with our incentive program covering bonus awards for performance year 2017, in February 2018, time-based share awards and share units were issued to certain employees that vest in three equal installments on March 1, 2019, 2020 and 2021. In May 2018, time-based share units were granted to non-employee directors that vest one year from the date of grant.

The total fair value on the vesting date of nonvested shares or share units that vested was $74.9 million and $21.1 million for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, there was $25.1 million of total unrecognized compensation expense related to nonvested shares or share units outstanding at June 30, 2018 and we expect to recognize the expense over a weighted average period of 2.1 years.

Employees have the option to tender shares to Essent Group to pay the minimum employee statutory withholding taxes associated with shares upon vesting. Common shares tendered by employees to pay employee withholding taxes totaled 711,729 in the six months ended June 30, 2018. The tendered shares were recorded at cost and included in treasury stock. All treasury stock has been cancelled as of June 30, 2018.

Compensation expense, net of forfeitures, and related tax effects recognized in connection with nonvested shares was as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| Compensation expense | $3,827 | $4,669 | $7,432 | $9,288 |
| Income tax benefit | 713 | 1,502 | 1,385 | 2,985 |

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Note 9. Earnings per Share (EPS)

The following table reconciles the net income and the weighted average common shares outstanding used in the computations of basic and diluted earnings per common share:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In thousands, except per share amounts) | 2018 | 2017 | 2018 | 2017 |
| Net income | $111,755 | $72,118 | $222,824 | $138,716 |
| Less: dividends declared | — | — | — | — |
| Net income available to common shareholders | $111,755 | $72,118 | $222,824 | $138,716 |
| Basic earnings per share | $1.15 | $0.79 | $2.29 | $1.52 |
| Diluted earnings per share | $1.14 | $0.77 | $2.28 | $1.49 |
| Basic weighted average shares outstanding | 97,426 | 91,381 | 97,362 | 91,320 |
| Dilutive effect of nonvested shares | 440 | 1,781 | 546 | 1,773 |
| Diluted weighted average shares outstanding | 97,866 | 93,162 | 97,908 | 93,093 |

There were 318,556 and 16,497 antidilutive shares for the three months ended June 30, 2018 and 2017, respectively and 242,860 and 89,309 antidilutive shares for the six months ended June 30, 2018 and 2017, respectively.

The nonvested performance-based share awards are considered contingently issuable for purposes of the EPS calculation. Based on the compounded annual book value per share growth as of June 30, 2018 and 2017, 100% of the dilutive performance-based share awards would be issuable under the terms of the arrangements at each date if June 30 was the end of the contingency period.

Note 10. Accumulated Other Comprehensive Income (Loss)

The following table presents the rollforward of accumulated other comprehensive income (loss) for the three and six months ended June 30, 2018 and 2017:

| | Three Months Ended June 30, 2018 | | |
|---|---|---|---|
| (In thousands) | Before Tax | Tax Effect | Net of Tax |
| Balance at beginning of period | $(35,792) | $ 3,790 | $(32,002) |
| Other comprehensive income (loss): | | | |
| Unrealized holding gains (losses) on investments: | | | |
| Unrealized holding losses arising during the period | (8,225) | 1,325 | (6,900) |
| Less: Reclassification adjustment for gains included in net income (1) | (439) | 93 | (346) |
| Net unrealized losses on investments | (8,664) | 1,418 | (7,246) |
| Other comprehensive loss | (8,664) | 1,418 | (7,246) |
| Balance at end of period | $(44,456) | $ 5,208 | $(39,248) |

| | Six Months Ended June 30, 2018 | | |
|---|---|---|---|
| (In thousands) | Before Tax | Tax Effect | Net of Tax |
| Balance at beginning of year | $(1,849) | $ (1,403) | $(3,252) |
| Other comprehensive income (loss): | | | |
| Unrealized holding gains (losses) on investments: | | | |
| Unrealized holding losses arising during the period | (41,971) | 6,445 | (35,526) |
| Less: Reclassification adjustment for gains included in net income (1) | (636) | 166 | (470) |
| Net unrealized losses on investments | (42,607) | 6,611 | (35,996) |
| Other comprehensive loss | (42,607) | 6,611 | (35,996) |
| Balance at end of period | $(44,456) | $ 5,208 | $(39,248) |

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| (In thousands) | Three Months Ended June 30, 2017 Before Tax | Tax Effect | Net of Tax |
|---|---|---|---|
| Balance at beginning of period | $(7,525) | $ 120 | $(7,405) |
| Other comprehensive income (loss): | | | |
| Unrealized holding gains (losses) on investments: | | | |
| Unrealized holding gains arising during the period | 12,663 | (3,833) | 8,830 |
| Less: Reclassification adjustment for gains included in net income (1) | (544) | 184 | (360) |
| Net unrealized gains on investments | 12,119 | (3,649) | 8,470 |
| Other comprehensive income | 12,119 | (3,649) | 8,470 |
| Balance at end of period | $4,594 | $ (3,529) | $1,065 |

| (In thousands) | Six Months Ended June 30, 2017 Before Tax | Tax Effect | Net of Tax |
|---|---|---|---|
| Balance at beginning of year | $(14,436) | $ 2,181 | $(12,255) |
| Other comprehensive income (loss): | | | |
| Unrealized holding gains (losses) on investments: | | | |
| Unrealized holding gains arising during the period | 20,229 | (6,122) | 14,107 |
| Less: Reclassification adjustment for gains included in net income (1) | (1,199) | 412 | (787) |
| Net unrealized gains on investments | 19,030 | (5,710) | 13,320 |
| Other comprehensive income | 19,030 | (5,710) | 13,320 |
| Balance at end of period | $4,594 | $ (3,529) | $1,065 |

(1) Included in net realized investment gains on our condensed consolidated statements of comprehensive income.

Note 11. Fair Value of Financial Instruments

We carry certain of our financial instruments at fair value. We define fair value as the current amount that would be exchanged to sell an asset or transfer a liability, other than in a forced liquidation.

Fair Value Hierarchy

ASC No. 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. The level within the fair value hierarchy to measure the financial instrument shall be determined based on the lowest level input that is significant to the fair value measurement. The three levels of the fair value hierarchy are as follows:

- Level 1 — Quoted prices for identical instruments in active markets accessible at the measurement date.

- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and valuations in which all significant inputs are observable in active markets. Inputs are observable for substantially the full term of the financial instrument.

- Level 3 — Valuations derived from one or more significant inputs that are unobservable.

Determination of Fair Value

When available, we generally use quoted market prices to determine fair value and classify the financial instrument in Level 1. In cases where quoted market prices for similar financial instruments are available, we utilize these inputs for valuation techniques and classify the financial instrument in Level 2. In cases where quoted market prices are not available, fair values are based on estimates using discounted cash flows, present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rates and estimates of future cash flows and we classify the financial instrument in Level 3. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

We used the following methods and assumptions in estimating fair values of financial instruments:

- Investments available for sale — Investments available for sale are valued using quoted market prices in active markets, when available, and those investments are classified as Level 1 of the fair value hierarchy. Level 1 investments available for sale include investments such as U.S. Treasury securities and money market funds. Investments available for sale are classified as Level 2 of the fair value hierarchy if quoted market prices are not available and fair values are estimated using quoted prices of similar securities or recently executed transactions for the securities. U.S. agency securities, U.S. agency mortgage-backed securities, municipal debt securities, non-U.S. government securities, corporate debt securities, residential and commercial mortgage securities and asset-backed securities are classified as Level 2 investments.

We use independent pricing sources to determine the fair value of securities available for sale in Level 1 and Level 2 of the fair value hierarchy. We use one primary pricing service to provide individual security pricing based on observable market data and receive one quote per security. To ensure securities are appropriately classified in the fair value hierarchy, we review the pricing techniques and methodologies of the independent pricing service and believe that their policies adequately consider market activity, either based on specific transactions for the issue valued or based on modeling of securities with similar credit quality, duration, yield and structure that were recently traded. U.S. agency securities, U.S. agency mortgage-backed securities, municipal debt securities, non-U.S. government securities and corporate debt securities are valued by our primary vendor using recently executed transactions and proprietary models based on observable inputs, such as interest rate spreads, yield curves and credit risk. Residential and commercial mortgage securities and asset-backed securities are valued by our primary vendor using proprietary models based on observable inputs, such as interest rate spreads, prepayment speeds and credit risk. As part of our evaluation of investment prices provided by our primary pricing service, we obtained and reviewed their pricing methodologies which include a description of how each security type is evaluated and priced. We review the reasonableness of prices received from our primary pricing service by comparison to prices obtained from additional pricing sources. We have not made any adjustments to the prices obtained from our primary pricing service.

Assets and Liabilities Measured at Fair Value

All assets measured at fair value are categorized in the table below based upon the lowest level of significant input to the valuations. All fair value measurements at the reporting date were on a recurring basis.

| June 30, 2018 (In thousands) | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Recurring fair value measurements | | | | |
| Financial Assets: | | | | |
| U.S. Treasury securities | $ 246,204 | $— | $ — | $246,204 |

| | | | | |
|---|---|---|---|---|
| U.S. agency securities | — | 32,755 | — | 32,755 |
| U.S. agency mortgage-backed securities | — | 493,004 | — | 493,004 |
| Municipal debt securities | — | 483,697 | — | 483,697 |
| Non-U.S. government securities | — | 24,703 | — | 24,703 |
| Corporate debt securities | — | 653,774 | — | 653,774 |
| Residential and commercial mortgage securities | — | 87,637 | — | 87,637 |
| Asset-backed securities | — | 257,205 | — | 257,205 |
| Money market funds | 277,034 | — | — | 277,034 |
| Total assets at fair value | $ 523,238 | $2,032,775 | $ — | $2,556,013 |

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| December 31, 2017 (In thousands) | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Recurring fair value measurements | | | | |
| Financial Assets: | | | | |
| U.S. Treasury securities | $ 227,805 | $— | $ — | $227,805 |
| U.S. agency securities | — | 33,114 | — | 33,114 |
| U.S. agency mortgage-backed securities | — | 456,037 | — | 456,037 |
| Municipal debt securities | — | 465,255 | — | 465,255 |
| Corporate debt securities | — | 611,728 | — | 611,728 |
| Residential and commercial mortgage securities | — | 79,407 | — | 79,407 |
| Asset-backed securities | — | 167,922 | — | 167,922 |
| Money market funds | 263,797 | — | — | 263,797 |
| Total assets at fair value | $ 491,602 | $1,813,463 | $ — | $2,305,065 |

Note 12. Statutory Accounting

Our U.S. insurance subsidiaries prepare statutory-basis financial statements in accordance with the accounting practices prescribed or permitted by their respective state's department of insurance, which is a comprehensive basis of accounting other than GAAP. We did not use any prescribed or permitted statutory accounting practices (individually or in the aggregate) that resulted in reported statutory surplus or capital that was significantly different from the statutory surplus or capital that would have been reported had National Association of Insurance Commissioners' statutory accounting practices been followed. The following table presents Essent Guaranty's and Essent PA's statutory net income, statutory surplus and contingency reserve liability as of and for the six months ended June 30:

| (In thousands) | 2018 | 2017 |
|---|---|---|
| Essent Guaranty | | |
| Statutory net income | $182,784 | $124,304 |
| Statutory surplus | 798,183 | 613,028 |
| Contingency reserve liability | 792,447 | 572,647 |
| | | |
| Essent PA | | |
| Statutory net income | $4,861 | $5,461 |
| Statutory surplus | 47,495 | 44,190 |
| Contingency reserve liability | 45,985 | 39,959 |

Net income determined in accordance with statutory accounting practices differs from GAAP. In 2018 and 2017, the more significant differences between net income determined under statutory accounting practices and GAAP for Essent Guaranty and Essent PA relate to policy acquisition costs and income taxes. Under statutory accounting practices, policy acquisition costs are expensed as incurred while such costs are capitalized and amortized to expense over the life of the policy under GAAP. We are eligible for a tax deduction, subject to certain limitations for amounts required by state law or regulation to be set aside in statutory contingency reserves when we purchase non-interest-bearing United States Mortgage Guaranty Tax and Loss Bonds (“T&L Bonds”) issued by the Treasury Department. Under statutory accounting practices, this deduction reduces the tax provision recorded by Essent Guaranty and Essent PA and, as a result, increases statutory net income and surplus as compared to net income and equity determined in accordance with GAAP.

At June 30, 2018 and 2017, the statutory capital of our U.S. insurance subsidiaries, which is defined as the total of statutory surplus and contingency reserves, was in excess of the statutory capital necessary to satisfy their regulatory requirements.

Effective December 31, 2015, Fannie Mae and Freddie Mac, at the direction of the Federal Housing Finance Agency, implemented new coordinated Private Mortgage Insurer Eligibility Requirements, which we refer to as the "PMIERs." The PMIERs represent the standards by which private mortgage insurers are eligible to provide mortgage insurance on loans owned or guaranteed by Fannie Mae and Freddie Mac. The PMIERs include financial strength requirements incorporating a risk-based framework that require approved insurers to have a sufficient level of liquid assets from which to pay claims. The PMIERs also include enhanced operational performance expectations and define remedial actions that apply should an approved insurer fail to comply with these requirements. As of June 30, 2018 and December 31, 2017, Essent Guaranty, our GSE-approved mortgage insurance company, was in compliance with the PMIERs.

Statement of Statutory Accounting Principles No. 58, Mortgage Guaranty Insurance, requires mortgage insurers to establish a special contingency reserve for statutory accounting purposes included in total liabilities equal to 50% of earned premium for that year. During the six months ended June 30, 2018, Essent Guaranty increased its contingency reserve by $113.7 million and Essent PA increased its contingency reserve by $2.8 million. This reserve is required to be maintained for a period of 120 months to protect against the effects of adverse economic cycles. After 120 months, the reserve is released to unassigned funds. In the event an insurer’s loss ratio in any calendar year exceeds 35%, however, the insurer may, after regulatory approval, release from its contingency reserves an amount equal to the excess portion of such losses. Essent Guaranty and Essent PA did not release any amounts from their contingency reserves in the six months ended June 30, 2018 or 2017.

Under The Insurance Act 1978, as amended, and related regulations of Bermuda (the "Insurance Act"), Essent Re is required to annually prepare statutory financial statements and a statutory financial return in accordance with the financial reporting provisions of the Insurance Act, which is a basis other than GAAP. The Insurance Act also requires that Essent Re maintain minimum share capital of $1 million and must ensure that the value of its general business assets exceeds the amount of its general business liabilities by an amount greater than the prescribed minimum solvency margins and enhanced capital requirement pertaining to its general business. At December 31, 2017, all such requirements were met.

Essent Re's statutory capital and surplus was $716.4 million as of June 30, 2018 and $662.6 million as of December 31, 2017. Essent Re's statutory net income was $65.0 million and $43.8 million for the six months ended June 30, 2018 and 2017, respectively. Statutory capital and surplus as of June 30, 2018 and December 31, 2017 and statutory net income in the six months ended June 30, 2018 and 2017 determined in accordance with statutory accounting practices were not significantly different than the amounts determined under GAAP.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read together with the "Selected Financial Data" and our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K as of and for the year ended December 31, 2017 as filed with the Securities and Exchange Commission and referred to herein as the "Annual Report," and our condensed consolidated financial statements and related notes as of and for the three and six months ended June 30, 2018 included in Part I, Item 1 of this Quarterly Report on Form 10-Q, which we refer to as the "Quarterly Report." In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from management's expectations. Factors that could cause such differences are discussed in the sections entitled "Special Note Regarding Forward-Looking Statements" in this Quarterly Report and Part I, Item 1A "Risk Factors" in our Annual Report. We are not undertaking any obligation to update any forward-looking statements or other statements we may make in the following discussion or elsewhere in this document even though these statements may be affected by events or circumstances occurring after the forward-looking statements or other statements were made.

Overview

We are an established and growing private mortgage insurance company. We were formed to serve the U.S. housing finance industry at a time when the demands of the financial crisis and a rapidly changing business environment created the need for a new, privately funded mortgage insurance company. We believe that our success in acquiring customers and growing our insurance in force has been driven by the unique opportunity we offer lenders to partner with a well-capitalized mortgage insurer, unencumbered by business originated prior to the financial crisis, that provides fair and transparent claims payment practices, and consistency and speed of service. Essent Guaranty, Inc. ("Essent Guaranty"), our wholly-owned insurance subsidiary, is licensed to write coverage in all 50 states and the District of Columbia. The financial strength of Essent Guaranty is rated Baa1 with a stable outlook by Moody's Investor Services ("Moody's") and BBB+ with a stable outlook by S&P Global Ratings ("S&P").

Our holding company is domiciled in Bermuda and our U.S. insurance business is headquartered in Radnor, Pennsylvania. We operate additional underwriting and service centers in Winston-Salem, North Carolina and Irvine, California. We have a highly experienced, talented team with 392 employees as of June 30, 2018. We generated new insurance written, or NIW, of approximately $12.9 billion and $22.2 billion for the three and six months ended June 30, 2018, respectively, compared to approximately $11.4 billion and $19.4 billion for the three and six months ended June 30, 2017, respectively. As of June 30, 2018, we had approximately $122.5 billion of insurance in force. Our top ten customers represented approximately 40.3%, 45.8%, 35.1% and 36.6% of NIW on a flow basis for the six months ended June 30, 2018 and the years ended December 31, 2017, 2016 and 2015, respectively.

We also offer mortgage-related insurance and reinsurance through our wholly-owned Bermuda-based subsidiary, Essent Reinsurance Ltd., which we refer to as "Essent Re." As of June 30, 2018, Essent Re provided insurance or reinsurance relating to the risk in force on loans in reference pools acquired by Freddie Mac and Fannie Mae covering approximately $592.5 million of risk, including in connection with Freddie Mac's Agency Credit Insurance Structure ("ACIS") and Fannie Mae's Credit Insurance Risk Transfer ("CIRT") programs. Essent Re has also reinsured 25% of Essent Guaranty's GSE-eligible mortgage insurance NIW originated since July 1, 2014 under a quota share reinsurance agreement. The insurer financial strength rating of Essent Re is BBB+ with a stable outlook by S&P.

Legislative and Regulatory Developments

Our results are significantly impacted by, and our future success may be affected by, legislative and regulatory developments affecting the housing finance industry. See Part I, Item 1 "Business—Regulation" and Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations—Legislative and Regulatory

Developments” in our Annual Report for a discussion of the laws and regulations to which we are subject as well as legislative and regulatory developments affecting the housing finance industry.

Effective December 31, 2015, Fannie Mae and Freddie Mac, at the direction of the Federal Housing Finance Agency ("FHFA"), implemented new coordinated Private Mortgage Insurer Eligibility Requirements, which we refer to as the "PMIERs." The PMIERs represent the standards by which private mortgage insurers are eligible to provide mortgage insurance on loans owned or guaranteed by Fannie Mae and Freddie Mac. The PMIERs include financial strength requirements incorporating a risk-based framework that require approved insurers to have a sufficient level of liquid assets from which to pay claims. The PMIERs also include enhanced operational performance expectations and define remedial actions that apply should an approved insurer fail to comply with these requirements. As of June 30, 2018, Essent Guaranty, our GSE-approved

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mortgage insurance company, was in compliance with the PMIERs. See additional discussion in "— Liquidity and Capital Resources —Private Mortgage Insurer Eligibility Requirements."

The GSEs have indicated to us that updated PMIERs are expected to be finalized during the third quarter of 2018 and become effective at the end of the first quarter of 2019.

Factors Affecting Our Results of Operations

Net Premiums Written and Earned

Premiums associated with our U.S. mortgage insurance business are based on insurance in force ("IIF") during all or a portion of a period. A change in the average IIF during a period causes premiums to increase or decrease as compared to prior periods. Average premium rates in effect during a given period will also cause premiums to differ when compared to earlier periods. IIF at the end of a reporting period is a function of the IIF at the beginning of such reporting period plus NIW less policy cancellations (including claims paid) during the period. As a result, premiums are generally influenced by:

- NIW, which is the aggregate principal amount of the new mortgages that are insured during a period. Many factors affect NIW, including, among others, the volume of low down payment home mortgage originations and the competition to provide credit enhancement on those mortgages;

- Cancellations of our insurance policies, which are impacted by payments on mortgages, home price appreciation, or refinancings, which in turn are affected by mortgage interest rates. Cancellations are also impacted by the levels of claim payments and rescissions;

- Premium rates, which represent the amount of the premium due as a percentage of IIF. Premium rates are based on the risk characteristics of the loans insured, the percentage of coverage on the loans, competition from other mortgage insurers and general industry conditions; and

- Premiums ceded or assumed under reinsurance arrangements. Prior to March 2018, we had not ceded any premiums under third-party reinsurance contracts. In March 2018, Essent Guaranty entered into a third-party reinsurance agreement. See Note 4 to our condensed consolidated financial statements.

Premiums are paid either on a monthly installment basis ("monthly premiums"), in a single payment at origination ("single premiums"), or in some cases as an annual premium. For monthly premiums, we receive a monthly premium payment which is recorded as net premiums earned in the month the coverage is provided. Monthly premium payments are based on the original mortgage amount rather than the amortized loan balance. Net premiums written may be in excess of net premiums earned due to single premium policies. For single premiums, we receive a single premium payment at origination, which is recorded as "unearned premium" and earned over the estimated life of the policy, which ranges from 36 to 156 months depending on the term of the underlying mortgage and loan-to-value ratio at date of origination. If single premium policies are cancelled due to repayment of the underlying loan and the premium is non-refundable, the remaining unearned premium balance is immediately recognized as earned premium revenue. Substantially all of our single premium policies in force as of June 30, 2018 were non-refundable. Premiums collected on annual policies are recognized as net premiums earned on a straight-line basis over the year of coverage. For the six months ended June 30, 2018, monthly and single premium policies comprised 83.0% and 17.0% of our NIW, respectively.

Premiums associated with our GSE risk share transactions are based on the level of risk in force.

Persistency and Business Mix

The percentage of IIF that remains on our books after any 12-month period is defined as our persistency rate. Because our insurance premiums are earned over the life of a policy, higher persistency rates can have a significant impact on our profitability. The persistency rate on our portfolio was 83.0% at June 30, 2018. Generally, higher prepayment speeds lead to lower persistency.

Prepayment speeds and the relative mix of business between single premium policies and monthly premium policies also impact our profitability. Our premium rates include certain assumptions regarding repayment or prepayment speeds of the mortgages. Because premiums are paid at origination on single premium policies, assuming all other factors remain constant, if loans are prepaid earlier than expected, our profitability on these loans is likely to increase and, if loans are repaid slower than expected, our profitability on these loans is likely to decrease. By contrast, if monthly premium loans are repaid earlier than

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anticipated, our premium earned with respect to those loans and therefore our profitability declines. Currently, the expected return on single premium policies is less than the expected return on monthly policies.

Net Investment Income

Our investment portfolio was predominantly comprised of investment-grade fixed income securities and money market funds as of June 30, 2018. The principal factors that influence investment income are the size of the investment portfolio and the yield on individual securities. As measured by amortized cost (which excludes changes in fair market value, such as from changes in interest rates), the size of our investment portfolio is mainly a function of increases in capital and cash generated from or used in operations which is impacted by net premiums received, investment earnings, net claim payments and expenses. Realized gains and losses are a function of the difference between the amount received on the sale of a security and the security's amortized cost, as well as any "other-than-temporary" impairments recognized in earnings. The amount received on the sale of fixed income securities is affected by the coupon rate of the security compared to the yield of comparable securities at the time of sale.

Other Income

In connection with the acquisition of our mortgage insurance platform, we entered into a services agreement with Triad Guaranty Inc. and its wholly-owned subsidiary, Triad Guaranty Insurance Corporation, which we refer to collectively as "Triad," to provide certain information technology maintenance and development and customer support-related services. In return for these services, we receive a fee which is recorded in other income. This fee is adjusted monthly based on the number of Triad's mortgage insurance policies in force and, accordingly, will decrease over time as Triad's existing policies are cancelled. The services agreement was automatically extended until November 30, 2018 and provides for one subsequent one-year renewal at Triad's option.

Other income also includes revenues associated with contract underwriting services and underwriting services to third-party reinsurers. The level of contract underwriting revenue is dependent upon the number of customers who have engaged us for this service and the number of loans underwritten for these customers. Revenue from underwriting services to third-party reinsurers is dependent upon the number of customers who have engaged us for this service and the number of transactions underwritten for these customers.

Provision for Losses and Loss Adjustment Expenses

The provision for losses and loss adjustment expenses reflects the current expense that is recorded within a particular period to reflect actual and estimated loss payments that we believe will ultimately be made as a result of insured loans that are in default.

Losses incurred are generally affected by:

- the overall state of the economy, which broadly affects the likelihood that borrowers may default on their loans and have the ability to cure such defaults;
- changes in housing values, which affect our ability to mitigate our losses through the sale of properties with loans in default as well as borrower willingness to continue to make mortgage payments when the value of the home is below or perceived to be below the mortgage balance;
- the product mix of IIF, with loans having higher risk characteristics generally resulting in higher defaults and claims;
- the size of loans insured, with higher average loan amounts tending to increase losses incurred;

- the loan-to-value ratio, with higher average loan-to-value ratios tending to increase losses incurred;
- the percentage of coverage on insured loans, with deeper average coverage tending to increase losses incurred;
- credit quality of borrowers, including higher debt-to-income ratios and lower FICO scores, which tend to increase incurred losses;
- the level and amount of reinsurance coverage maintained with third parties;

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- the rate at which we rescind policies. Because of tighter underwriting standards generally in the mortgage lending industry and terms set forth in our master policy, we expect that our level of rescission activity will be lower than rescission activity seen in the mortgage insurance industry for vintages originated prior to the financial crisis; and

- the distribution of claims over the life of a book. The average age of our insurance portfolio is young with 73% of our IIF as of June 30, 2018 having been originated since January 1, 2016. As a result, based on historical industry performance, we expect the number of defaults and claims we experience, as well as our provision for losses and loss adjustment expenses, to increase as our portfolio seasons. See "— Mortgage Insurance Earnings and Cash Flow Cycle" below.

We establish loss reserves for delinquent loans when we are notified that a borrower has missed at least two consecutive monthly payments ("Case Reserves"), as well as estimated reserves for defaults that may have occurred but not yet been reported to us ("IBNR Reserves"). We also establish reserves for the associated loss adjustment expenses ("LAE"), consisting of the estimated cost of the claims administration process, including legal and other fees. Using both internal and external information, we establish our reserves based on the likelihood that a default will reach claim status and estimated claim severity. See Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies" included in our Annual Report for further information.

We believe, based upon our experience and industry data, that claims incidence for mortgage insurance is generally highest in the third through sixth years after loan origination. As of June 30, 2018, 73% of our IIF relates to business written since January 1, 2016 and was less than three years old. Although the claims experience on new insurance written by us to date has been favorable, we expect incurred losses and claims to increase as a greater amount of this book of insurance reaches its anticipated period of highest claim frequency. The actual default rate and the average reserve per default that we experience as our portfolio matures is difficult to predict and is dependent on the specific characteristics of our current in-force book (including the credit score of the borrower, the loan-to-value ratio of the mortgage, geographic concentrations, etc.), as well as the profile of new business we write in the future. In addition, the default rate and the average reserve per default will be affected by future macroeconomic factors such as housing prices, interest rates and employment.

During the third quarter of 2017, certain regions of the U.S. experienced hurricanes which have impacted our insured portfolio's performance. Specifically, on August 26, 2017, Hurricane Harvey made landfall in southeastern Texas and on September 10, 2017, Hurricane Irma made landfall in southern Florida and caused property damage in certain counties. Loans in default identified as hurricane-related defaults totaled 2,288 as of December 31, 2017. During the first half of 2018, the number of hurricane-related defaults declined to 801 as of June 30, 2018 primarily due to hurricane-related loans in default that cured. Based on prior industry experience, we expect the ultimate number of hurricane-related defaults that result in claims will be less than the default-to-claim experience of non-hurricane-related defaults. In addition, under our master policy, our exposure may be limited on hurricane-related claims. For example, we are permitted to exclude a claim entirely where damage to the property underlying a mortgage was the proximate cause of the default and adjust a claim where the property underlying a mortgage in default is subject to unrestored physical damage. Accordingly, when establishing our loss reserves as of June 30, 2018 and December 31, 2017, we applied a lower estimated claim rate to the hurricane-related defaults than the claim rate we apply to other notices in our default inventory. The impact on our reserves in future periods will be dependent upon the performance of the hurricane-related defaults and our expectations for the amount of ultimate losses on these delinquencies.

Third Party Reinsurance

We use third-party reinsurance to provide protection against adverse loss experience and to expand our capital sources. When we enter into a reinsurance agreement, the reinsurer receives a premium and, in exchange, agrees to insure an agreed upon portion of incurred losses. These arrangements have the impact of reducing our earned premiums, but also reduce our risk in force ("RIF"), which provides capital relief, and may include capital relief under the PMIERs financial strength requirements. Our incurred losses are reduced by any incurred losses ceded in accordance with the reinsurance agreement. For additional information regarding reinsurance, see Note 4 to our condensed consolidated financial statements.

Other Underwriting and Operating Expenses

Our other underwriting and operating expenses include components that are substantially fixed, as well as expenses that generally increase or decrease in line with the level of NIW.

Our most significant expense is compensation and benefits for our employees, which represented 61% and 62% of other underwriting and operating expenses for the three and six months ended June 30, 2018, respectively, compared to 63% and 64% of other underwriting and operating expenses for the three and six months ended June 30, 2017, respectively.

Compensation and benefits expense includes base and incentive cash compensation, stock compensation expense, benefits and payroll taxes.

Underwriting and other expenses include legal, consulting, other professional fees, premium taxes, travel, entertainment, marketing, licensing, supplies, hardware, software, rent, utilities, depreciation and amortization and other expenses. We anticipate that as we continue to add new customers and increase our IIF, our expenses will also continue to increase. In addition, as a result of the increase in our IIF, we expect that our net premiums earned will grow faster than our underwriting and other expenses resulting in a decline in our expense ratio for the full year 2018 as compared to 2017.

Interest Expense

Interest expense is incurred as a result of borrowings under our secured credit facility (the “Credit Facility”). Borrowings under the Credit Facility may be used for working capital and general corporate purposes, including, without limitation, capital contributions to Essent’s insurance and reinsurance subsidiaries. Borrowings accrue interest at a floating rate tied to a standard short-term borrowing index, selected at the Company’s option, plus an applicable margin.

Income Taxes

Income taxes are incurred based on the amount of earnings or losses generated in the jurisdictions in which we operate and the applicable tax rates and regulations in those jurisdictions. Our U.S. insurance subsidiaries are generally not subject to income taxes in the states in which we operate; however, our non-insurance subsidiaries are subject to state income taxes. In lieu of state income taxes, our insurance subsidiaries pay premium taxes that are recorded in other underwriting and operating expenses.

Essent Group Ltd. and its wholly-owned subsidiary, Essent Re, are domiciled in Bermuda, which does not have a corporate income tax. Effective July 2014, Essent Re began to reinsure 25% of GSE-eligible new insurance written of Essent Guaranty, an affiliate. Essent Re also provides insurance and reinsurance to Freddie Mac and Fannie Mae.

The amount of income tax expense or benefit recorded in future periods will be dependent on the jurisdictions in which we operate and the tax laws and regulations in effect.

Mortgage Insurance Earnings and Cash Flow Cycle

In general, the majority of any underwriting profit (premium revenue minus losses) that a book generates occurs in the early years of the book, with the largest portion of any underwriting profit realized in the first year. Subsequent years of a book generally result in modest underwriting profit or underwriting losses. This pattern generally occurs because relatively few of the claims that a book will ultimately experience typically occur in the first few years of the book, when premium revenue is highest, while subsequent years are affected by declining premium revenues, as the number of insured loans decreases (primarily due to loan prepayments), and by increasing losses.

Key Performance Indicators

Insurance In Force

As discussed above, premiums we collect and earn are generated based on our IIF, which is a function of our NIW and cancellations. The following table includes a summary of the change in our IIF for the three and six months ended June 30, 2018 and 2017 for our U.S. mortgage insurance portfolio. In addition, this table includes RIF at the end of each period.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| IIF, beginning of period | $115,250,949 | $87,993,227 | $110,461,950 | $83,265,522 |
| NIW | 12,850,642 | 11,368,276 | 22,186,792 | 19,402,429 |
| Cancellations | (5,600,345) | (3,867,113) | (10,147,496) | (7,173,561) |
| IIF, end of period | $122,501,246 | $95,494,390 | $122,501,246 | $95,494,390 |
| Average IIF during the period | $118,658,900 | $91,477,761 | $115,878,005 | $88,552,878 |
| RIF, end of period | $30,154,694 | $23,665,045 | $30,154,694 | $23,665,045 |

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The following is a summary of our IIF at June 30, 2018 by vintage:

| ($ in thousands) | $ | % |
|---|---|---|
| 2018 (through June 30) | $21,835,292 | 17.8 % |
| 2017 | 40,026,987 | 32.7 |
| 2016 | 27,835,544 | 22.7 |
| 2015 | 15,117,741 | 12.3 |
| 2014 | 9,291,291 | 7.6 |
| 2013 and prior | 8,394,391 | 6.9 |
| | $122,501,246 | 100.0% |

Average Net Premium Rate

Our average net premium rate is dependent on a number of factors, including: (1) the risk characteristics and average coverage on the mortgages we insure; (2) the mix of monthly premiums compared to single premiums in our portfolio; (3) cancellations of non-refundable single premiums during the period; (4) changes to our pricing; and (5) premiums ceded. For each of the three and six months ended June 30, 2018, our average net premium rate was 0.51%, as compared to 0.53% for each of the three and six months ended June 30, 2017. In June 2018, we announced a reduction in pricing on our published rates effective for future NIW. This change will have no impact on existing IIF at June 30, 2018; however, we anticipate that the pricing reductions will reduce our average net premium rate in future periods.

Persistency Rate

The measure for assessing the impact of policy cancellations on IIF is our persistency rate, defined as the percentage of IIF that remains on our books after any twelve-month period. See additional discussion regarding the impact of the persistency rate on our performance in "— Factors Affecting Our Results of Operations — Persistency and Business Mix."

Risk-to-Capital

The risk-to-capital ratio has historically been used as a measure of capital adequacy in the U.S. mortgage insurance industry and is calculated as a ratio of net risk in force to statutory capital. Net risk in force represents total risk in force net of reinsurance ceded and net of exposures on policies for which loss reserves have been established. Statutory capital for our U.S. insurance companies is computed based on accounting practices prescribed or permitted by the Pennsylvania Insurance Department. See additional discussion in "— Liquidity and Capital Resources — Insurance Company Capital."

As of June 30, 2018, our combined net risk in force for our U.S. insurance companies was $23.5 billion and our combined statutory capital was $1.7 billion, resulting in a risk-to-capital ratio of 14.0 to 1. The amount of capital required varies in each jurisdiction in which we operate; however, generally, the maximum permitted risk-to-capital ratio is 25.0 to 1. State insurance regulators are currently examining their respective capital rules to determine whether, in light of the financial crisis, changes are needed to more accurately assess mortgage insurers' ability to withstand stressful economic conditions. As a result, the capital metrics under which they assess and measure capital adequacy may change in the future. Independent of the state regulator and GSE capital requirements, management continually assesses the risk of our insurance portfolio and current market and economic conditions to determine the appropriate levels of capital to support our business.

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Results of Operations

The following table sets forth our results of operations for the periods indicated:

| Summary of Operations | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | |
| Net premiums written | $168,404 | $134,063 | $333,629 | $253,360 |
| Increase in unearned premiums | (11,446) | (7,500) | (24,113) | (9,146) |
| Net premiums earned | 156,958 | 126,563 | 309,516 | 244,214 |
| Net investment income | 15,134 | 9,400 | 28,848 | 17,835 |
| Realized investment gains, net | 439 | 544 | 636 | 1,199 |
| Other income | 1,237 | 1,099 | 2,231 | 1,950 |
| Total revenues | 173,768 | 137,606 | 341,231 | 265,198 |
| | | | | |
| Losses and expenses: | | | | |
| Provision for losses and LAE | 1,813 | 1,770 | 7,122 | 5,463 |
| Other underwriting and operating expenses | 36,428 | 35,686 | 74,552 | 72,018 |
| Interest expense | 2,618 | 1,189 | 5,068 | 1,905 |
| Total losses and expenses | 40,859 | 38,645 | 86,742 | 79,386 |
| Income before income taxes | 132,909 | 98,961 | 254,489 | 185,812 |
| Income tax expense | 21,154 | 26,843 | 31,665 | 47,096 |
| Net income | $111,755 | $72,118 | $222,824 | $138,716 |

Three and Six Months Ended June 30, 2018 Compared to the Three and Six Months Ended June 30, 2017

For the three months ended June 30, 2018, we reported net income of $111.8 million, compared to net income of $72.1 million for the three months ended June 30, 2017. For the six months ended June 30, 2018, we reported net income of $222.8 million, compared to net income of $138.7 million for the six months ended June 30, 2017. The increase in our operating results in 2018 over the same periods in 2017 was primarily due to the increase in net premiums earned associated with the growth of our IIF, the increase in net investment income and the decrease in income taxes primarily due to the reduction of the U.S. statutory corporate income tax rate, partially offset by increases in other underwriting and operating expenses and interest expense.

Net Premiums Written and Earned

Net premiums earned increased in the three months ended June 30, 2018 by 24%, compared to the three months ended June 30, 2017 primarily due to the increase in our average IIF from $91.5 billion at June 30, 2017 to $118.7 billion at June 30, 2018, partially offset by a decrease in average net premium rate from 0.53% for the three months ended June 30, 2017 to 0.51% for the three months ended June 30, 2018. Net premiums earned increased in the six months ended June 30, 2018 by 27% compared to the six months ended June 30, 2017 due to the increase in our average IIF from $88.6 billion at June 30, 2017 to $115.9 billion at June 30, 2018, partially offset by a decrease in the average net premium rate from 0.53% in the six months ended June 30, 2017 to 0.51% in the six months ended June 30, 2018. The decrease in the average net premium rate during the three and six months ended June 30, 2018 is primarily due to an increase in premiums ceded under third-party reinsurance agreements and a decrease in premiums earned on the cancellation of non-refundable single premium policies in the respective periods.

Net premiums written increased in the three and six months ended June 30, 2018 by 26% and 32%, respectively, over the three and six months ended June 30, 2017. The increase was due primarily to the increase in average IIF of 30% and 31% for the three and six months ended June 30, 2018, respectively, as compared to the same periods in 2017, partially offset by an increase in premiums ceded in the three and six months ended June 30, 2018.

In the three months ended June 30, 2018 and 2017, unearned premiums increased by $11.4 million and $7.5 million, respectively. The change in unearned premiums was a result of net premiums written on single premium policies of $31.7 million and $25.6 million, respectively, which was partially offset by $20.3 million and $18.1 million, respectively, of unearned

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premium that was recognized in earnings during the periods. In the six months ended June 30, 2018 and 2017, unearned premiums increased by $24.1 million and $9.1 million, respectively. This was a result of net premiums written on single premium policies of $62.9 million and $43.8 million, respectively, which was partially offset by $38.8 million and $34.7 million, respectively, of unearned premium that was recognized in earnings during the periods.

Net Investment Income

Our net investment income was derived from the following sources for the periods indicated:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| Fixed maturities | $14,496 | $9,963 | $28,139 | $18,982 |
| Short-term investments | 1,298 | 74 | 2,049 | 133 |
| Gross investment income | 15,794 | 10,037 | 30,188 | 19,115 |
| Investment expenses | (660 ) | (637 ) | (1,340 ) | (1,280 ) |
| Net investment income | $15,134 | $9,400 | $28,848 | $17,835 |

The increase in net investment income for the three and six months ended June 30, 2018 as compared to the same periods in 2017 was due to the increase in the weighted average balance of our investment portfolio and the increase in the pre-tax investment income yield. The average cash and investment portfolio balance increased to $2.6 billion for the three months ended June 30, 2018 from $1.8 billion for the three months ended June 30, 2017. The average cash and investment portfolio balance was $2.5 billion for the six months ended June 30, 2018 compared to $1.7 billion for the six months ended June 30, 2017. The increase in the average cash and investment portfolio in both periods was primarily due to investing cash flows from operations and proceeds from the public offering of common shares completed in August 2017. The pre-tax investment income yield increased from 2.2% in each of the three and six months ended June 30, 2017 to 2.5% and 2.4% in the three and six months ended June 30, 2018, respectively, primarily due to an increase in the portion of our investment portfolio invested in spread and duration assets and higher yields on new investments. The pre-tax investment income yields are calculated based on amortized cost and exclude investment expenses. See "— Liquidity and Capital Resources" for further details of our investment portfolio.

Other Income

Other income includes fees earned for information technology and customer support services provided to Triad, contract underwriting revenues and underwriting services to third-party reinsurers. The increase in other income for the three and six months ended June 30, 2018 as compared to the same periods in 2017, was primarily due to the increase in underwriting services to third-party reinsurers, partially offset by decreases in contract underwriting revenues and Triad service fees associated with the reduction in the number of Triad's mortgage insurance policies in force. The fees earned from Triad will continue to decrease over time as Triad's existing policies are cancelled.

Provision for Losses and Loss Adjustment Expenses

The provision for losses and LAE was $1.8 million in each of the three months ended June 30, 2018 and 2017, and $7.1 million and $5.5 million in the six months ended June 30, 2018 and 2017, respectively. The increase in the provision for losses and LAE in the six months ended June 30, 2018 as compared to the same period in 2017 was primarily due to the increase in the number of non-hurricane-related insured loans in default. Loans in default identified as hurricane-related defaults were 801 as of June 30, 2018 as compared to 1,768 as of March 31, 2018 and 2,288 as of December 31, 2017. The following table presents a rollforward of insured loans in default for the periods indicated:

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| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Beginning default inventory | 4,442 | 1,777 | 4,783 | 1,757 |
| Plus: new defaults | 1,701 | 1,105 | 3,695 | 2,305 |
| Less: cures | (2,572) | (1,063) | (4,842) | (2,177) |
| Less: claims paid | (52) | (43) | (115) | (108) |
| Less: rescissions and denials, net | — | — | (2) | (1) |
| Ending default inventory | 3,519 | 1,776 | 3,519 | 1,776 |

The increase in the number of defaults at June 30, 2018 compared to June 30, 2017 was primarily due to the hurricane-related defaults remaining in the default inventory, as well as the increase in our IIF and policies in force, along with further seasoning of our insurance portfolio.

The following table includes additional information about our loans in default as of the dates indicated:

| | As of June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Case reserves (in thousands) | $45,773 | $27,268 |
| Total reserves (in thousands) | $50,016 | $29,798 |
| Ending default inventory | 3,519 | 1,776 |
| Average case reserve per default (in thousands) | $13.0 | $15.4 |
| Average total reserve per default (in thousands) | $14.2 | $16.8 |
| Default rate | 0.64 % | 0.41 % |
| Claims received included in ending default inventory | 33 | 50 |

The decrease in the average case reserve per default was primarily due to a lower total reserve per hurricane-related default. Based on prior industry experience, we expect the ultimate number of hurricane-related defaults that result in claims will be less than the default-to-claim experience of non-hurricane-related defaults. Accordingly, when establishing our loss reserves as of June 30, 2018 and December 31, 2017, we applied a lower estimated claim rate to hurricane-related defaults than the claim rate we apply to other notices in our default inventory. The reserve for losses and LAE on hurricane-related defaults was $11.1 million at June 30, 2018, March 31, 2018 and December 31, 2017 representing our best estimate of ultimate claim costs for hurricane-related defaults at each period end. Also contributing to the decrease in the average case reserve per default were changes in the composition (such as mark-to-market loan-to-value ratios, risk in force, and number of months past due) of the underlying loans in default and improvements in economic fundamentals.

The following tables provide a reconciliation of the beginning and ending reserve balances for losses and LAE and a detail of reserves and defaulted RIF by the number of missed payments and pending claims:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| Reserve for losses and LAE at beginning of period | $49,966 | $29,468 | $46,850 | $28,142 |
| Add provision for losses and LAE occurring in: | | | | |
| Current period | 6,576 | 5,026 | 16,528 | 12,116 |
| Prior years | (4,763) | (3,256) | (9,406) | (6,653) |
| Incurred losses and LAE during the current period | 1,813 | 1,770 | 7,122 | 5,463 |

| | | | | |
|---|---|---|---|---|
| Deduct payments for losses and LAE occurring in: | | | | |
| Current period | 211 | 96 | 211 | 97 |
| Prior years | 1,552 | 1,344 | 3,745 | 3,710 |
| Loss and LAE payments during the current period | 1,763 | 1,440 | 3,956 | 3,807 |
| Reserve for losses and LAE at end of period | $50,016 | $29,798 | $50,016 | $29,798 |

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| ($ in thousands) | As of June 30, 2018 Number of Policies in Default | Percentage of Policies in Default | | Amount of Reserves | Percentage of Reserves | | Defaulted RIF | Reserves as a Percentage of Defaulted RIF | |
|---|---|---|---|---|---|---|---|---|---|
| Missed payments: | | | | | | | | | |
| Three payments or less | 1,543 | 44 | % | $ 9,077 | 20 | % | $ 84,685 | 11 | % |
| Four to eleven payments | 1,675 | 47 | | 26,688 | 58 | | 96,627 | 28 | |
| Twelve or more payments | 268 | 8 | | 8,368 | 18 | | 14,476 | 58 | |
| Pending claims | 33 | 1 | | 1,640 | 4 | | 1,946 | 84 | |
| Total case reserves | 3,519 | 100 | % | 45,773 | 100 | % | $ 197,734 | 23 | |
| IBNR | | | | 3,433 | | | | | |
| LAE and other | | | | 810 | | | | | |
| Total reserves for losses and LAE | | | | $ 50,016 | | | | | |

| ($ in thousands) | As of June 30, 2017 Number of Policies in Default | Percentage of Policies in Default | | Amount of Reserves | Percentage of Reserves | | Defaulted RIF | Reserves as a Percentage of Defaulted RIF | |
|---|---|---|---|---|---|---|---|---|---|
| Missed payments: | | | | | | | | | |
| Three payments or less | 898 | 50 | % | $ 6,101 | 23 | % | $ 49,210 | 12 | % |
| Four to eleven payments | 639 | 36 | | 12,604 | 46 | | 35,365 | 36 | |
| Twelve or more payments | 189 | 11 | | 6,094 | 22 | | 10,214 | 60 | |
| Pending claims | 50 | 3 | | 2,469 | 9 | | 2,842 | 87 | |
| Total case reserves | 1,776 | 100 | % | 27,268 | 100 | % | $ 97,631 | 28 | |
| IBNR | | | | 2,045 | | | | | |
| LAE and other | | | | 485 | | | | | |
| Total reserves for losses and LAE | | | | $ 29,798 | | | | | |

During the three months ended June 30, 2018, the provision for losses and LAE was $1.8 million, comprised of $6.6 million of current year losses partially offset by $4.8 million of favorable prior years' loss development. During the three months ended June 30, 2017, the provision for losses and LAE was $1.8 million, comprised of $5.0 million of current year losses partially offset by $3.3 million of favorable prior years' loss development. In both periods, the prior years' loss development was the result of a re-estimation of amounts ultimately to be paid on prior year defaults in the default inventory, including the impact of previously identified defaults that cured.

During the six months ended June 30, 2018, the provision for losses and LAE was $7.1 million, comprised of $16.5 million of current year losses partially offset by $9.4 million of favorable prior years' loss development. During the six months ended June 30, 2017, the provision for losses and LAE was $5.5 million, comprised of $12.1 million of current year losses partially offset by $6.7 million of favorable prior years' loss development. In both periods, the prior years' loss development was the result of a re-estimation of amounts ultimately to be paid on prior year defaults in the default inventory, including the impact of previously identified defaults that cured.

The following table includes additional information about our claims paid and claim severity as of the dates indicated:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| ($ in thousands) | 2018 | 2017 | 2018 | 2017 |
| Number of claims paid | 52 | 43 | 115 | 108 |

| | | | | |
|---|---|---|---|---|
| Amount of claims paid | $1,676 | $1,380 | $3,819 | $3,687 |
| Claim severity | 64 % | 81 % | 70 % | 85 % |

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Other Underwriting and Operating Expenses

Following are the components of our other underwriting and operating expenses for the periods indicated:

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| ($ in thousands) | $ | % | $ | % | $ | % | $ | % |
| Compensation and benefits | $22,285 | 61 % | $22,652 | 63 % | $45,850 | 62 % | $45,831 | 64 % |
| Other | 14,143 | 39 | 13,034 | 37 | 28,702 | 38 | 26,187 | 36 |
| | $36,428 | 100% | $35,686 | 100% | $74,552 | 100% | $72,018 | 100% |
| | | | | | | | | |
| Number of employees at end of period | | | | | | 392 | | 391 |

The significant factors contributing to the change in other underwriting and operating expenses are:

- Compensation and benefits in the three and six months ended June 30, 2018 was comparable to the three and six months ended June 30, 2017 as the number of employees at the end of each period was essentially unchanged. In the six months ended June 30, 2018, a decrease in stock compensation expense associated with the full vesting of grants issued in 2013 and 2014 was largely offset by an increase in payroll taxes associated with the vesting of these grants. Compensation and benefits includes salaries, wages and bonus, stock compensation expense, benefits and payroll taxes.

- Other expenses increased as a result of the continued expansion of our business. Other expenses include premium taxes, travel, marketing, hardware, software, rent, depreciation and amortization and other facilities expenses.

Interest Expense

For the three and six months ended June 30, 2018, we incurred interest expense of $2.6 million and $5.1 million, respectively, as compared to $1.2 million and $1.9 million for the three and six months ended June 30, 2017, respectively, associated with amounts outstanding under the Credit Facility. For the three and six months ended June 30, 2018, the average amount outstanding under the Credit Facility was $250.9 million and $255.6 million, respectively, as compared to $145.3 million and $123.9 million for the three and six months ended June 30, 2017, respectively.

Income Taxes

Our subsidiaries in the United States file a consolidated U.S. Federal income tax return. For interim reporting periods, we use an annual effective tax rate method required under GAAP to calculate the income tax provision. Our income tax expense was $21.2 million and $26.8 million for the three months ended June 30, 2018 and 2017, respectively, and $31.7 million and $47.1 million for the six months ended June 30, 2018 and 2017, respectively. Income tax expense for the three and six months ended June 30, 2018 was calculated using an estimated annual effective tax rate of 16.2%, as compared to 27.0% for the three and six months ended June 30, 2017. Income tax expense was reduced by excess tax benefits associated with the vesting of common shares and common share units of $9.6 million for the six months ended June 30, 2018 and $0.1 million and $3.1 million for the three and six months ended June 30, 2017, respectively. The tax effects associated with the vesting of common shares and common share units are treated as discrete items in the reporting period in which they occur and are not considered in determining the annual effective tax rate. The decrease in the annual effective tax rate for 2018 reflects the reduction of the U.S. statutory corporate income tax rate from 35% to 21% and the expected portion of our consolidated earnings to be generated in Bermuda. Bermuda does not have a corporate income tax.

Liquidity and Capital Resources

Overview

Our sources of funds consist primarily of:

- our investment portfolio and interest income on the portfolio;
- net premiums that we will receive from our existing IIF as well as policies that we write in the future;

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- borrowings under our Credit Facility; and
- issuance of capital shares.

Our obligations consist primarily of:

- claim payments under our policies;
- interest payments and repayment of borrowings under our Credit Facility; and
- the other costs and operating expenses of our business.

As of June 30, 2018, we had substantial liquidity with cash of $24.7 million, short-term investments of $327.0 million and fixed maturity investments of $2.2 billion. We also had $275 million available capacity under the revolving credit component of our Credit Facility, with $225 million of borrowings outstanding under our Credit Facility. Borrowings under the Credit Facility contractually mature on May 17, 2021. At June 30, 2018, net cash and investments at the holding company were $76.0 million.

On May 2, 2018, we amended the Credit Facility to increase the committed capacity by $125 million to $500 million, including the issuance of $100 million of additional term loans, the proceeds of which were used to pay down borrowings outstanding under the revolving component of the Credit Facility. See Note 6 to our condensed consolidated financial statements.

Management believes that the Company has sufficient liquidity available both at the holding company and in its insurance and other operating subsidiaries to meet its operating cash needs and obligations and committed capital expenditures for the next 12 months.

While the Company and all of its subsidiaries are expected to have sufficient liquidity to meet all their expected obligations, additional capital may be required to meet any new capital requirements that are adopted by regulatory authorities or the GSEs, or to provide additional capital related to the growth of our risk in force in our mortgage insurance portfolio, or to fund new business initiatives including the insurance activities of Essent Re. We continually evaluate opportunities based upon market conditions to further increase our financial flexibility through the issuance of equity or debt, or other options including reinsurance or credit risk transfer transactions. There can be no guarantee that any such opportunities will be available on acceptable terms or at all.

At the operating subsidiary level, liquidity could be impacted by any one of the following factors:

- significant decline in the value of our investments;
- inability to sell investment assets to provide cash to fund operating needs;
- decline in expected revenues generated from operations;
- increase in expected claim payments related to our IIF; or
- increase in operating expenses.

Our U.S. insurance subsidiaries are subject to certain capital and dividend rules and regulations prescribed by jurisdictions in which they are authorized to operate and the GSEs. Under the insurance laws of the Commonwealth of Pennsylvania, the insurance subsidiaries may pay dividends during any twelve-month period in an amount equal to the greater of (i) 10% of the preceding year-end statutory policyholders' surplus or (ii) the preceding year’s statutory net income. The Pennsylvania statute also requires that dividends and other distributions be paid out of positive unassigned surplus without prior approval. At June 30, 2018, Essent Guaranty had unassigned surplus of approximately $92.9 million. During the six months ended June 30, 2018, Essent Guaranty paid to its parent, Essent US Holdings, Inc. ("Essent Holdings"), a $40 million dividend which was used to pay down the borrowings remaining under the revolving component of the Credit Facility. Essent Guaranty of PA, Inc. (“Essent PA") had unassigned surplus of approximately $8.5 million as of June 30, 2018. Essent Re is subject to certain dividend restrictions as prescribed by the Bermuda Monetary Authority and under certain agreements with counterparties. In connection with a quota share reinsurance agreement with Essent Guaranty, Essent Re has agreed to maintain

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a minimum total equity of $100 million. As of June 30, 2018, Essent Re had total equity of $716.6 million. In connection with its insurance and reinsurance activities, Essent Re is required to maintain assets in trusts for the benefit of its contractual counterparties. See Note 3 to our condensed consolidated financial statements. At June 30, 2018, our insurance subsidiaries were in compliance with these rules, regulations and agreements.

Cash Flows

The following table summarizes our consolidated cash flows from operating, investing and financing activities:

| | Six Months Ended June 30, | |
|---|---|---|
| (In thousands) | 2018 | 2017 |
| Net cash provided by operating activities | $342,656 | $144,403 |
| Net cash used in investing activities | (304,867 ) | (209,460 ) |
| Net cash (used in) provided by financing activities | (56,649 ) | 65,196 |
| Net (decrease) increase in cash | $(18,860 ) | $139 |

Operating Activities

Cash flow provided by operating activities totaled $342.7 million for the six months ended June 30, 2018, as compared to $144.4 million for the six months ended June 30, 2017. The increase in cash flow provided by operating activities of $198.3 million in 2018 was primarily due to increases in premiums collected and net investment income, and a decrease in United States Mortgage Guaranty Tax and Loss Bonds (“T&L Bonds”), partially offset by increases in expenses paid.

Investing Activities

Cash flow used in investing activities totaled $304.9 million for the six months ended June 30, 2018, as compared to $209.5 million for the six months ended June 30, 2017. The increase in cash flow used in investing activities primarily related to investing cash flows from operations.

Financing Activities

Cash flow used in financing activities totaled $56.6 million for the six months ended June 30, 2018, primarily related to treasury stock acquired from employees to satisfy tax withholding obligations and $25 million of net repayments of borrowings under the Credit Facility. Cash flow provided by financing activities totaled $65.2 million for the six months ended June 30, 2017, primarily related to $75 million of net increased borrowings under the Credit Facility, partially offset by treasury stock acquired from employees to satisfy tax withholding obligations.

Insurance Company Capital

We compute a risk-to-capital ratio for our U.S. insurance companies on a separate company statutory basis, as well as for our combined insurance operations. The risk-to-capital ratio is our net risk in force divided by our statutory capital. Our net risk in force represents risk in force net of reinsurance ceded, if any, and net of exposures on policies for which loss reserves have been established. Statutory capital consists primarily of statutory policyholders’ surplus (which increases as a result of statutory net income and decreases as a result of statutory net loss and dividends paid), plus the statutory contingency reserve. The statutory contingency reserve is reported as a liability on the statutory balance sheet. A mortgage insurance company is required to make annual contributions to the contingency reserve of 50% of net premiums earned. These contributions must generally be maintained for a period of ten years. However, with regulatory approval, a mortgage insurance company may make early withdrawals from the contingency reserve when incurred losses exceed 35% of net premiums earned in a calendar year.

During the three months ended March 31, 2018, Essent Holdings made capital contributions to Essent Guaranty of $15 million to support new and existing business. During the three months ended June 30, 2018, Essent Guaranty paid a dividend to Essent Holdings of $40 million which was used to pay down the borrowings remaining under the revolving component of the Credit Facility. During the six months ended June 30, 2017, no capital contributions were made to our U.S. insurance subsidiaries.

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In March 2018, Essent Guaranty entered into a fully collateralized reinsurance agreement with Radnor Re 2018-1 Ltd. ("Radnor Re"), an unaffiliated special purpose insurer domiciled in Bermuda, that provides for up to $424.4 million of aggregate excess-of-loss reinsurance coverage at inception for new defaults on a portfolio of mortgage insurance policies issued between January 1, 2017 and December 31, 2017. The aggregate excess of loss reinsurance coverage decreases over a ten-year period as the underlying covered mortgages amortize. This reinsurance coverage also reduces net risk in force and PMIERs Minimum Required Assets. See Note 4 to our condensed consolidated financial statements.

Our combined risk-to-capital calculation for our U.S. insurance subsidiaries as of June 30, 2018 is as follows:

| | |
|---|---|
| Combined statutory capital: | |
| ($ in thousands) | |
| Policyholders' surplus | $846,113 |
| Contingency reserves | 838,432 |
| Combined statutory capital | $1,684,545 |
| Combined net risk in force | $23,513,547 |
| Combined risk-to-capital ratio | 14.0:1 |

For additional information regarding regulatory capital, see Note 12 to our condensed consolidated financial statements. Our combined statutory capital equals the sum of statutory capital of Essent Guaranty plus Essent PA, after eliminating the impact of intercompany transactions. The combined risk-to-capital ratio equals the sum of the net risk in force of Essent Guaranty and Essent PA divided by combined statutory capital. The information above has been derived from the annual and quarterly statements of our insurance subsidiaries, which have been prepared in conformity with accounting practices prescribed or permitted by the Pennsylvania Insurance Department and the National Association of Insurance Commissioners Accounting Practices and Procedures Manual. Such practices vary from accounting principles generally accepted in the United States.

Essent Re has entered into risk share insurance and reinsurance transactions with Freddie Mac and Fannie Mae. Essent Re also executed a quota share reinsurance transaction with Essent Guaranty to reinsure 25% of Essent Guaranty's GSE-eligible NIW effective July 1, 2014. As of June 30, 2018, Essent Re had total stockholders' equity of $716.6 million and net risk in force of $7.2 billion.

Financial Strength Ratings

The insurer financial strength rating of Essent Guaranty, our principal mortgage insurance subsidiary, is rated Baa1 with a stable outlook by Moody's and BBB+ with a stable outlook by S&P. The insurer financial strength rating of Essent Re is BBB+ with a stable outlook by S&P.

Private Mortgage Insurer Eligibility Requirements

Effective December 31, 2015, Fannie Mae and Freddie Mac, at the direction of the FHFA, implemented new coordinated Private Mortgage Insurer Eligibility Requirements, which we refer to as the "PMIERs." The PMIERs represent the standards by which private mortgage insurers are eligible to provide mortgage insurance on loans owned or guaranteed by Fannie Mae and Freddie Mac. The PMIERs include financial strength requirements incorporating a risk-based framework that require approved insurers to have a sufficient level of liquid assets from which to pay claims. This risk-based framework provides that an insurer must hold a substantially higher level of required assets for insured loans that are in default compared to a performing loan. The PMIERs also include enhanced operational performance expectations and define remedial actions that apply should an approved insurer fail to comply with these requirements. As of June 30, 2018, Essent Guaranty, our GSE-approved mortgage insurance company, was in compliance with the PMIERs. As of June 30, 2018, Essent Guaranty's Available Assets were $1.74 billion and its Minimum Required Assets were $1.35 billion based on our interpretation of the PMIERs.

## Financial Condition

### Stockholders’ Equity

As of June 30, 2018, stockholders’ equity was $2.1 billion, compared to $1.9 billion as of December 31, 2017. This increase was primarily due to net income generated in 2018, partially offset by an increase in accumulated other comprehensive loss related to an increase in our unrealized investment losses.

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Investments

The total fair value of our investment portfolio was $2.6 billion as of June 30, 2018 and $2.3 billion as of December 31, 2017. In addition, our total cash was $24.7 million as of June 30, 2018, compared to $43.5 million as of December 31, 2017. The increase in investments was primarily due to investing net cash flows from operations during the six months ended June 30, 2018.

Investment Portfolio by Asset Class

| Asset Class | June 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| ($ in thousands) | Fair Value | Percent | Fair Value | Percent |
| U.S. Treasury securities | $246,204 | 9.6 % | $227,805 | 9.9 % |
| U.S. agency securities | 32,755 | 1.3 | 33,114 | 1.4 |
| U.S. agency mortgage-backed securities | 493,004 | 19.3 | 456,037 | 19.8 |
| Municipal debt securities(1) | 483,697 | 18.9 | 465,255 | 20.2 |
| Non-U.S. government securities | 24,703 | 1.0 | — | — |
| Corporate debt securities(2) | 653,774 | 25.6 | 611,728 | 26.5 |
| Residential and commercial mortgage securities | 87,637 | 3.4 | 79,407 | 3.5 |
| Asset-backed securities | 257,205 | 10.1 | 167,922 | 7.3 |
| Money market funds | 277,034 | 10.8 | 263,797 | 11.4 |
| Total Investments | $2,556,013 | 100.0% | $2,305,065 | 100.0% |

| (1) The following table summarizes municipal debt securities as of : | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Special revenue bonds | 63.8 % | 63.6 % |
| General obligation bonds | 30.9 | 30.7 |
| Certificate of participation bonds | 4.0 | 4.4 |
| Tax allocation bonds | 0.8 | 0.8 |
| Special tax bonds | 0.5 | 0.5 |
| Total | 100.0% | 100.0 % |

| (2) The following table summarizes corporate debt securities as of : | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Financial | 40.9 % | 45.9 % |
| Consumer, non-cyclical | 19.1 | 16.2 |
| Communications | 10.3 | 7.3 |
| Energy | 7.7 | 7.8 |
| Industrial | 5.7 | 6.3 |
| Consumer, cyclical | 5.4 | 5.3 |
| Utilities | 4.5 | 5.3 |
| Technology | 3.7 | 3.9 |
| Basic materials | 2.7 | 2.0 |
| Total | 100.0% | 100.0 % |

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Investment Portfolio by Rating

| Rating(1) | June 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| ($ in thousands) | Fair Value | Percent | Fair Value | Percent |
| Aaa | $1,261,425 | 49.3 % | $1,160,200 | 50.3 % |
| Aa1 | 133,062 | 5.2 | 115,237 | 5.0 |
| Aa2 | 155,552 | 6.1 | 123,551 | 5.4 |
| Aa3 | 137,257 | 5.4 | 127,785 | 5.6 |
| A1 | 225,656 | 8.8 | 205,369 | 8.9 |
| A2 | 162,277 | 6.3 | 157,651 | 6.8 |
| A3 | 147,648 | 5.8 | 148,246 | 6.4 |
| Baa1 | 142,040 | 5.6 | 115,178 | 5.0 |
| Baa2 | 117,464 | 4.6 | 87,869 | 3.8 |
| Baa3 | 35,452 | 1.4 | 43,024 | 1.9 |
| Below Baa3 | 38,180 | 1.5 | 20,955 | 0.9 |
| Total Investments | $2,556,013 | 100.0% | $2,305,065 | 100.0% |

(1) Based on ratings issued by Moody's, if available. S&P or Fitch Ratings ("Fitch") rating utilized if Moody's not available.

Investment Portfolio by Effective Duration

| Effective Duration | June 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| ($ in thousands) | Fair Value | Percent | Fair Value | Percent |
| < 1 Year | $705,739 | 27.6 % | $628,958 | 27.3 % |
| 1 to < 2 Years | 230,410 | 9.0 | 164,856 | 7.2 |
| 2 to < 3 Years | 234,463 | 9.2 | 280,177 | 12.2 |
| 3 to < 4 Years | 177,606 | 7.0 | 263,799 | 11.4 |
| 4 to < 5 Years | 361,508 | 14.1 | 263,273 | 11.4 |
| 5 or more Years | 846,287 | 33.1 | 704,002 | 30.5 |
| Total Investments | $2,556,013 | 100.0% | $2,305,065 | 100.0% |

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Top Ten Portfolio Holdings

| Rank ($ in thousands) | June 30, 2018 Security | Fair Value | Amortized Cost | Unrealized Gain (Loss)(1) | Credit Rating(2) |
|---|---|---|---|---|---|
| 1 | U.S. Treasury 0.000% 7/12/2018 | $49,977 | $49,974 | $ 3 | Aaa |
| 2 | U.S. Treasury 5.250% 11/15/2028 | 28,073 | 29,721 | (1,648) | Aaa |
| 3 | U.S. Treasury 1.500% 8/15/2026 | 18,508 | 20,407 | (1,899) | Aaa |
| 4 | Freddie Mac 4.000% 7/1/2037 | 11,386 | 11,673 | (287) | Aaa |
| 5 | U.S. Treasury 2.000% 1/15/2021 | 11,331 | 11,430 | (99) | Aaa |
| 6 | Fannie Mae 1.500% 6/22/2020 | 11,070 | 11,306 | (236) | Aaa |
| 7 | Freddie Mac 2.500% 10/1/2030 | 9,729 | 10,226 | (497) | Aaa |
| 8 | Ginnie Mae 4.000% 7/20/2045 | 9,709 | 10,231 | (522) | Aaa |
| 9 | U.S. Treasury 2.250% 11/15/2025 | 9,654 | 10,056 | (402) | Aaa |
| 10 | BP Capital Markets PLC 2.112% 9/16/2021 | 9,488 | 9,721 | (233) | A1 |
| Total | | $168,925 | $174,745 | $ (5,820) | |
| Percent of Investment Portfolio | | 6.6 % | | | |

(1) As of June 30, 2018, for securities in unrealized loss positions, management believes decline in fair values is principally associated with the changes in the interest rate environment subsequent to their purchase. Also, see Note 3 to our condensed consolidated financial statements, which summarizes the aggregate amount of gross unrealized losses by asset class in which the fair value of investments has been less than cost for less than 12 months and for 12 months or more.

(2) Based on ratings issued by Moody’s, if available. S&P or Fitch rating utilized if Moody’s not available.

| Rank ($ in thousands) | December 31, 2017 Security | Fair Value |
|---|---|---|
| 1 | U.S. Treasury 5.250% 11/15/2028 | $29,358 |
| 2 | U.S. Treasury 1.500% 8/15/2026 | 19,067 |
| 3 | U.S. Treasury 0.000% 1/4/2018 | 14,999 |
| 4 | Freddie Mac 4.000% 7/1/2037 | 12,639 |
| 5 | Fannie Mae 1.500% 6/22/2020 | 11,165 |
| 6 | Ginnie Mae 4.000% 7/20/2045 | 10,964 |
| 7 | Freddie Mac 2.500% 10/1/2030 | 10,877 |
| 8 | Ginnie Mae 4.000% 8/20/2045 | 10,666 |
| 9 | Freddie Mac 3.000% 9/1/2046 | 10,173 |
| 10 | U.S. Treasury 2.250% 11/15/2025 | 9,949 |
| Total | | $139,857 |
| Percent of Investment Portfolio | | 6.1 % |

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The following tables include municipal debt securities for states that represent more than 10% of the total municipal bond position as of June 30, 2018:

| ($ in thousands) | Fair Value | Amortized Cost | Credit Rating (1), (2) |
|---|---|---|---|
| Texas | | | |
| State of Texas | $ 8,784 | $ 8,859 | Baa1 |
| The Texas A&M University System | 5,958 | 6,150 | Aaa |
| City of Houston | 3,310 | 3,278 | Aa3 |
| University of Houston System | 3,250 | 3,300 | Aa2 |
| Dallas/Fort Worth International Airport | 2,863 | 2,715 | A1 |
| La Joya Independent School District | 2,414 | 2,407 | Aaa |
| City of El Paso | 2,400 | 2,404 | Aa2 |
| City of Austin | 2,277 | 2,191 | Aa3 |
| Harris County Cultural Education | 2,005 | 2,000 | A1 |
| North Texas Municipal Water District | 1,948 | 2,031 | Aaa |
| Carrollton-Farmers Branch Independent School District | 1,893 | 1,917 | Aaa |
| City of Dallas | 1,739 | 1,712 | Aa1 |
| Alamo Community College District | 1,589 | 1,589 | Aaa |
| Tarrant Regional Water District | 1,507 | 1,503 | Aaa |
| Fort Worth TX W&S Revenue | 1,506 | 1,541 | Aa1 |
| City of College Station | 1,390 | 1,425 | Aa1 |
| City of Garland | 1,381 | 1,404 | Aa1 |
| Bryan Independent School District | 1,264 | 1,320 | Aaa |
| City of San Antonio | 1,251 | 1,215 | A1 |
| Spring Independent School District | 1,182 | 1,231 | Aaa |
| City of Corpus Christi | 1,127 | 1,103 | A1 |
| Harris County Toll Road Authority | 1,075 | 1,080 | Aa2 |
| Pharr-San Juan-Alamo Independent School District | 1,053 | 1,075 | Aaa |
| Port Arthur Independent School District | 972 | 986 | Aaa |
| Harlandale Independent School District | 870 | 871 | Aaa |
| San Jacinto Community College District | 850 | 842 | Aa3 |
| County of Fort Bend | 815 | 827 | Aa1 |
| Austin-Bergstrom Landhost Enterprises, Inc. | 598 | 605 | A3 |
| | $ 57,271 | $ 57,581 | |

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| ($ in thousands) | Fair Value | Amortized Cost | Credit Rating (1), (2) |
|---|---|---|---|
| New York | | | |
| City of New York | $ 7,824 | $ 7,827 | Aa2 |
| The Dormitory Authority of the State of New York | 7,723 | 7,769 | Aa2 |
| The Port Authority of New York and New Jersey | 7,660 | 7,635 | Aa3 |
| Metropolitan Transportation Authority | 7,121 | 7,101 | A1 |
| New York State Urban Development Corporation | 5,909 | 5,923 | Aa1 |
| New York City Transitional Finance Authority | 3,522 | 3,509 | Aa1 |
| TSASC, Inc. | 2,323 | 2,236 | A2 |
| County of Nassau | 2,063 | 2,063 | A2 |
| Public Service Enterprise Group, Inc. | 1,790 | 1,818 | A3 |
| County of Albany | 1,787 | 1,787 | Aa3 |
| Town of Oyster Bay | 1,101 | 1,080 | Aa2 |
| Syracuse Industrial Development Agency | 333 | 345 | Baa1 |
| | $ 49,156 | $ 49,093 | |

(1) Certain of the above securities may include financial guaranty insurance or state enhancements. The above ratings include the effect of these credit enhancements, if applicable.

(2) Based on ratings issued by Moody's, if available. S&P or Fitch rating utilized if Moody's not available.

Off-Balance Sheet Arrangements

Radnor Re 2018-1 Ltd. is a special purpose variable interest entity that is not consolidated in our condensed consolidated financial statements because we do not have the unilateral power to direct those activities that are significant to its economic performance. As of June 30, 2018, our estimated off-balance sheet maximum exposure to loss from Radnor Re was $18.2 million, representing the estimated net present value of investment earnings on the assets in the reinsurance trust. See Note 4 to our condensed consolidated financial statements for additional information.

Critical Accounting Policies

As of the filing date of this report, there were no significant changes in our critical accounting policies from those discussed in our 2017 Form 10-K. See Note 2 to our condensed consolidated financial statements for recently issued accounting standards under evaluation.

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## Item 3. Quantitative and Qualitative Disclosures About Market Risk

We own and manage a large investment portfolio of various holdings, types and maturities. Investment income is one of our primary sources of cash flow supporting operations and claim payments. The assets within the investment portfolio are exposed to the same factors that affect overall financial market performance. While our investment portfolio is exposed to factors affecting markets worldwide, it is most sensitive to fluctuations in the drivers of U.S. markets.

We manage market risk via defined investment policy implemented by our treasury function with oversight from our board of directors and our senior management. Important drivers of our market risk exposure monitored and managed by us include but are not limited to:

- Changes to the level of interest rates. Increasing interest rates may reduce the value of certain fixed-rate bonds held in the investment portfolio. Higher rates may cause variable-rate assets to generate additional income. Decreasing rates will have the reverse impact. Significant changes in interest rates can also affect persistency and claim rates which may in turn require that the investment portfolio be restructured to better align it with future liabilities and claim payments. Such restructuring may cause investments to be liquidated when market conditions are adverse.

- Changes to the term structure of interest rates. Rising or falling rates typically change by different amounts along the yield curve. These changes may have unforeseen impacts on the value of certain assets.

- Market volatility/changes in the real or perceived credit quality of investments. Deterioration in the quality of investments, identified through changes to our own or third-party (e.g., rating agency) assessments, will reduce the value and potentially the liquidity of investments.

- Concentration Risk. If the investment portfolio is highly concentrated in one asset, or in multiple assets whose values are highly correlated, the value of the total portfolio may be greatly affected by the change in value of just one asset or a group of highly correlated assets.

- Prepayment Risk. Bonds may have call provisions that permit debtors to repay prior to maturity when it is to their advantage. This typically occurs when rates fall below the interest rate of the debt.

Market risk is measured for all investment assets at the individual security level. Market risks that are not fully captured by the quantitative analysis are highlighted. In addition, material market risk changes that occur from the last reporting period to the current are discussed. Changes to how risks are managed will also be identified and described.

At June 30, 2018, the effective duration of our investment portfolio, including cash, was 3.5 years, which means that an instantaneous parallel shift (movement up or down) in the yield curve of 100 basis points would result in a change of 3.5% in fair value of our investment portfolio. Excluding cash, our investment portfolio effective duration was 4.0 years, which means that an instantaneous parallel shift (movement up or down) in the yield curve of 100 basis points would result in a change of 4.0% in fair value of our investment portfolio.

## Item 4. Controls and Procedures

### Disclosure Controls and Procedures

Our management carried out an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this

Quarterly Report. Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2018, the end of the period covered by this Quarterly Report.

Changes in Internal Control Over Financial Reporting

During our most recent fiscal quarter, there has not been any change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

We are not currently subject to any material legal proceedings.

### Item 1A. Risk Factors

Risk factors that affect our business and financial results are discussed in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017. There have been no material changes in our risk factors from those previously disclosed in our Annual Report. You should carefully consider the risks described in our Annual Report, which could materially affect our business, financial condition or future results. The risks described in our Annual Report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or operating results. If any of the risks actually occur, our business, financial condition, and/or results of operations could be negatively affected.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Repurchases of Securities

We did not repurchase any of our common shares during the three months ended June 30, 2018.

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Item 6. Exhibits

(a) Exhibits:

| Exhibit No. | Description |
|---|---|
| 31.1 | Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101† | The following financial information from this Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted in XBRL (Extensible Business Reporting Language) and filed electronically herewith: (i) the Condensed Consolidated Balance Sheets (Unaudited); (ii) the Condensed Consolidated Statements of Comprehensive Income (Unaudited); (iii) the Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited); (iv) the Condensed Consolidated Statements of Cash Flows (Unaudited); and (v) the Notes to Condensed Consolidated Financial Statements (Unaudited), tagged as blocks of text. |

† Pursuant to applicable securities laws and regulations, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under those sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on the date indicated.

ESSENT GROUP LTD.

Date: August 6, 2018 /s/ MARK A. CASALE
Mark A. Casale
President, Chief Executive Officer and Chairman
(Principal Executive Officer)

Date: August 6, 2018 /s/ LAWRENCE E. MCALEE
Lawrence E. McAlee
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: August 6, 2018 /s/ DAVID B. WEINSTOCK
David B. Weinstock
Vice President and Chief Accounting Officer
(Principal Accounting Officer)