

Essent Group Ltd.
Form 10-Q
May 11, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the period ended March 31, 2015

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

For the transition period from _____ to _____

Commission file number 001-36157

ESSENT GROUP LTD.

(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of
incorporation or organization)

Not Applicable
(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232-405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Edgar Filing: Essent Group Ltd. - Form 10-Q

The number of the registrant's common shares outstanding as of May 7, 2015 was 92,659,724.

Table of Contents

Essent Group Ltd. and Subsidiaries

Form 10-Q

Index

<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	1
<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u>	1
	<u>Condensed Consolidated Balance Sheets (Unaudited)</u>	1
	<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited)</u>	2
	<u>Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)</u>	3
	<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	4
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	5
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	32
<u>Item 4.</u>	<u>Controls and Procedures</u>	32
<u>PART II.</u>	<u>OTHER INFORMATION</u>	33
<u>Item 1.</u>	<u>Legal Proceedings</u>	33
<u>Item 1A.</u>	<u>Risk Factors</u>	33
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
<u>Item 5.</u>	<u>Other Information</u>	34
<u>Item 6.</u>	<u>Exhibits</u>	34
<u>SIGNATURES</u>		35
<u>EXHIBIT INDEX</u>		36

Table of Contents

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- changes in or to Fannie Mae and Freddie Mac, which we refer to collectively as the GSEs, whether through Federal legislation, restructurings or a shift in business practices;

- failure to continue to meet the mortgage insurer eligibility requirements of the GSEs;

- competition for our customers;

- decline in new insurance written, or NIW, and franchise value due to loss of a significant customer;

- lenders or investors seeking alternatives to private mortgage insurance;

Edgar Filing: Essent Group Ltd. - Form 10-Q

- increase in the number of loans insured through Federal government mortgage insurance programs, including those offered by the Federal Housing Administration;
- decline in the volume of low down payment mortgage originations;
- uncertainty of loss reserve estimates;
- decrease in the length of time our insurance policies are in force;
- deteriorating economic conditions;
- the definition of Qualified Mortgage reducing the size of the mortgage origination market or creating incentives to use government mortgage insurance programs;
- the definition of Qualified Residential Mortgage reducing the number of low down payment loans or lenders and investors seeking alternatives to private mortgage insurance;
- the implementation of the Basel III Capital Accord, which may discourage the use of private mortgage insurance;
- management of risk in our investment portfolio;
- fluctuations in interest rates;

Table of Contents

- 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;

Edgar Filing: Essent Group Ltd. - Form 10-Q

- becoming considered a passive foreign investment company for U.S. Federal income tax purposes;
- scope of recently enacted legislation is uncertain; and
- potential inability of our insurance subsidiaries to pay dividends.

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

Table of Contents**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)	March 31, 2015	December 31, 2014
Assets		
Investments available for sale, at fair value		
Fixed maturities (amortized cost: 2015 \$994,598; 2014 \$840,213)	\$ 1,008,309	\$ 846,925
Short-term investments (amortized cost: 2015 \$111,922; 2014 \$210,688)	111,922	210,688
Total investments	1,120,231	1,057,613
Cash	21,902	24,411
Accrued investment income	6,240	5,748
Accounts receivable	15,763	15,810
Deferred policy acquisition costs	9,852	9,597
Property and equipment (at cost, less accumulated depreciation of \$39,994 in 2015 and \$39,260 in 2014)	8,073	5,841
Prepaid federal income tax	63,673	59,673
Other assets	4,352	2,768
Total assets	\$ 1,250,086	\$ 1,181,461
Liabilities and Stockholders Equity		
Liabilities		
Reserve for losses and LAE	\$ 10,065	\$ 8,427
Unearned premium reserve	164,167	156,948
Accrued payroll and bonuses	5,464	14,585
Net deferred tax liability	53,482	37,092
Other accrued liabilities	20,891	8,671
Total liabilities	254,069	225,723
Commitments and contingencies		
Stockholders Equity		
Common shares, \$0.015 par value:		
Authorized - 233,333; issued 92,574 shares in 2015 and 92,546 shares in 2014	1,389	1,388
Additional paid-in capital	893,836	893,285
Accumulated other comprehensive income	9,556	4,667
Retained earnings	91,236	56,398
Total stockholders equity	996,017	955,738
Total liabilities and stockholders equity	\$ 1,250,086	\$ 1,181,461

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Essent Group Ltd. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands, except per share amounts)	Three Months Ended March 31,	
	2015	2014
Revenues:		
Net premiums written	\$ 82,257	\$ 52,192
Increase in unearned premiums	(7,219)	(7,442)
Net premiums earned	75,038	44,750
Net investment income	4,280	1,898
Realized investment gains, net	649	400
Other income	44	773
Total revenues	80,011	47,821
Losses and expenses:		
Provision for losses and LAE	1,999	902
Other underwriting and operating expenses	27,498	23,459
Total losses and expenses	29,497	24,361
Income before income taxes	50,514	23,460
Income tax expense	15,676	8,454
Net income	\$ 34,838	\$ 15,006
Earnings per share:		
Basic	\$ 0.39	\$ 0.18
Diluted	\$ 0.38	\$ 0.18
Weighted average shares outstanding:		
Basic	90,185	82,864
Diluted	91,514	84,696
Net income	\$ 34,838	\$ 15,006
Other comprehensive income:		
Change in unrealized appreciation of investments, net of tax expense of \$2,110 in 2015 and \$370 in 2014	4,889	479
Total other comprehensive income	4,889	479
Comprehensive income	\$ 39,727	\$ 15,485

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Essent Group Ltd. and Subsidiaries

Condensed Consolidated Statements of Changes in Stockholders Equity (Unaudited)

(In thousands)	Common Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Treasury Stock	Total Stockholders Equity
Balance at January 1, 2014	\$ 1,297	\$ 754,390	\$ (1,447)	\$ (32,099)	\$	\$ 722,141
Net income				88,497		88,497
Other comprehensive income			6,114			6,114
Issuance of common shares net of issuance cost of \$6,761	90	126,649				126,739
Issuance of management incentive shares	2	414				416
Forfeiture of management incentive shares						
Stock-based compensation expense		12,520				12,520
Excess tax benefits from stock-based compensation expense		1,809				1,809
Treasury stock acquired					(2,498)	(2,498)
Cancellation of treasury stock	(1)	(2,497)			2,498	
Balance at December 31, 2014	\$ 1,388	\$ 893,285	\$ 4,667	\$ 56,398	\$	\$ 955,738
Net income				34,838		34,838
Other comprehensive income			4,889			4,889
Issuance of management incentive shares	5	(5)				
Forfeiture of management incentive shares	(1)	1				
Stock-based compensation expense		3,261				