

Essent Group Ltd.
Form 10-Q
November 14, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the period ended September 30, 2014

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 005-87689

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

The number of the registrant's common shares outstanding as of November 7, 2014 was 86,524,092.

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Essent Group Ltd. and Subsidiaries

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, or Quarterly Report, includes forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts or present facts or conditions, such as statements regarding our future financial condition or results of operations, our prospects and strategies for future growth, the introduction of new merchandise, and the implementation of our marketing and branding strategies. In many cases, you can identify forward-looking statements by terms such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, potential or the negative of these 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, 2013 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;

- 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;

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- decline in new insurance written, or NIW, and franchise value due to loss of a significant customer;
- decline in the volume of low down payment mortgage originations;
- 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;
- decrease in the length of time our insurance policies are in force;
- uncertainty of loss reserve estimates;
- deteriorating economic conditions;
- management of risk in our investment portfolio;
- fluctuations in interest rates;

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- 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;

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- 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)	September 30, 2014	December 31, 2013
Assets		
Investments available for sale, at fair value		
Fixed maturities	\$ 790,888	\$ 318,476
Short-term investments	106,263	14,079
Total investments	897,151	332,555
Cash	17,574	477,655
Accrued investment income	5,034	1,978
Accounts receivable	13,168	10,006
Deferred policy acquisition costs	8,784	6,173
Property and equipment (at cost, less accumulated depreciation of \$38,630 in 2014 and \$36,796 in 2013)	5,200	4,411
Prepaid federal income tax	42,673	8,000
Net deferred tax asset		10,346
Other assets	2,016	2,846
Total assets	\$ 991,600	\$ 853,970
Liabilities and Stockholders Equity		
Liabilities		
Reserve for losses and LAE	\$ 5,682	\$ 3,070
Unearned premium reserve	141,544	103,399
Amounts due under Asset Purchase Agreement	2,493	4,949
Accrued payroll and bonuses	11,119	13,076
Net deferred tax liability	22,036	
Other accrued liabilities	13,833	7,335
Total liabilities	196,707	131,829
Commitments and contingencies		
Stockholders Equity		
Common Shares, \$0.015 par value:		
Authorized - 233,333; issued - 86,524 shares in 2014 and 86,491 shares in 2013	1,298	1,297
Additional paid-in capital	763,521	754,390
Accumulated other comprehensive income (loss)	2,542	(1,447)
Retained earnings (accumulated deficit)	27,532	(32,099)
Total stockholders equity	794,893	722,141
Total liabilities and stockholders equity	\$ 991,600	\$ 853,970

See accompanying notes to condensed consolidated financial statements.

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Essent Group Ltd. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

<u>(In thousands, except per share amounts)</u>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013