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

FORM 10-Q

(Mark One)

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

For the period ended June 30, 2015

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 (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 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 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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company 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 3, 2015 was 92,655,155.

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Essent Group Ltd. and Subsidiaries

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

- the definition of “Qualified Mortgage” reducing the size of the mortgage origination market or creating incentives to use government mortgage insurance programs;
- the definition of “Qualified Residential Mortgage” reducing the number of low down payment loans or lenders and investors seeking alternatives to private mortgage insurance;
- the implementation of the Basel III Capital Accord, which may discourage the use of private mortgage insurance;
- management of risk in our investment portfolio;

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

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

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Essent Group Ltd. and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

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

See accompanying notes to condensed consolidated financial statements.

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Essent Group Ltd. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

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

See accompanying notes to condensed consolidated financial statements.

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Essent Group Ltd. and Subsidiaries

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

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

See accompanying notes to condensed consolidated financial statements.

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Essent Group Ltd. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

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

Noncash Transactions		
Issuance of management incentive shares	$—	$416

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. Essent Group was incorporated in Bermuda in July 2008. In March 2014, Essent Group formed Essent Irish Intermediate Holdings Limited (“Essent Irish Intermediate”) as a wholly-owned subsidiary. In April 2014, Essent Group contributed all of the outstanding stock of Essent US Holdings, Inc. (“Essent Holdings”) to Essent Irish Intermediate. The primary mortgage insurance operations are conducted through Essent Holdings’ regulated and licensed wholly-owned subsidiaries, Essent Guaranty, Inc. (“Essent Guaranty”) and Essent Guaranty of PA, Inc. (“Essent PA”). Essent Group also has a wholly-owned Bermuda domiciled Class 3A Insurer licensed pursuant to Section 4 of the Bermuda Insurance Act 1978, Essent Reinsurance Ltd. (“Essent Re”), which offers mortgage-related insurance and reinsurance.

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

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

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Essent Group Ltd. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 2. Investments Available for Sale

Investments available for sale consist of the following:

June 30, 2015 (In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses		Fair Value
U.S. Treasury securities	$166,269	$630	$(718	)	$166,181
U.S. agency securities	3,176	20	—		3,196
U.S. agency mortgage-backed securities	103,599	1,028	(391	)	104,236
Municipal debt securities(1)	260,051	2,816	(1,980	)	260,887
Corporate debt securities	363,658	1,361	(1,387	)	363,632
Mortgage-backed securities	51,292	252	(794	)	50,750
Asset-backed securities	130,025	269	(166	)	130,128
Money market funds	80,369	—	—		80,369
Total investments available for sale	$1,158,439	$6,376	$(5,436	)	$1,159,379

December 31, 2014 (In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses		Fair Value
U.S. Treasury securities	$73,432	$927	$(143	)	$74,216
U.S. agency securities	4,491	29	—		4,520
U.S. agency mortgage-backed securities	82,190	1,564	(214	)	83,540
Municipal debt securities(1)	191,723	4,147	(324	)	195,546
Corporate debt securities	295,507	2,123	(801	)	296,829
Mortgage-backed securities	66,396	574	(884	)	66,086
Asset-backed securities	126,474	136	(422	)	126,188
Money market funds	210,688	—	—		210,688
Total investments available for sale	$1,050,901	$9,500	$(2,788	)	$1,057,613

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

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

(In thousands)	Amortized Cost	Fair Value
U.S. Treasury securities:		
Due in 1 year	$19,853	$19,879
Due after 1 but within 5 years	66,117	66,250
Due after 5 but within 10 years	80,299	80,052
Subtotal	166,269	166,181
U.S. agency securities:		
Due in 1 year	1,155	1,161
Due after 1 but within 5 years	2,021	2,035
Subtotal	3,176	3,196
Municipal debt securities:		
Due in 1 year	545	544
Due after 1 but within 5 years	74,765	74,846
Due after 5 but within 10 years	91,891	92,933
Due after 10 years	92,850	92,564
Subtotal	260,051	260,887
Corporate debt securities:		
Due in 1 year	8,851	8,874
Due after 1 but within 5 years	253,211	253,397
Due after 5 but within 10 years	101,319	101,075
Due after 10 years	277	286
Subtotal	363,658	363,632
U.S. agency mortgage-backed securities	103,599	104,236
Mortgage-backed securities	51,292	50,750
Asset-backed securities	130,025	130,128
Money market funds	80,369	80,369
Total investments available for sale	$1,158,439	$1,159,379

Essent realized gross gains and losses on the sale of investments available for sale as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Realized gross gains	$1,339	$175	$2,127	$840
Realized gross losses	771	107	910	372

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

June 30, 2015 (In thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury securities	$58,869	$(718)	$—	$—	$58,869	$(718)
U.S. agency mortgage-backed securities	28,747	(302)	1,800	(89)	30,547	(391)
Municipal debt securities	130,250	(1,924)	5,138	(56)	135,388	(1,980)
Corporate debt securities	163,172	(1,358)	5,083	(29)	168,255	(1,387)
Mortgage-backed securities	13,600	(127)	21,243	(667)	34,843	(794)
Asset-backed securities	59,760	(142)	6,362	(24)	66,122	(166)
Total	$454,398	$(4,571)	$39,626	$(865)	$494,024	$(5,436)

December 31, 2014 (In thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury securities	$16,543	$(34)	$5,155	$(109)	$21,698	$(143)
U.S. agency mortgage-backed securities	2,334	—	8,566	(214)	10,900	(214)
Municipal debt securities	39,902	(229)	8,684	(95)	48,586	(324)
Corporate debt securities	113,717	(701)	12,659	(100)	126,376	(801)
Mortgage-backed securities	28,091	(264)	16,092	(620)	44,183	(884)
Asset-backed securities	100,248	(405)	2,201	(17)	102,449	(422)
Total	$300,835	$(1,633)	$53,357	$(1,155)	$354,192	$(2,788)

The gross unrealized losses on these investment securities are principally associated with the changes in the interest rate environment 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 of investments in the six months ended June 30, 2015 or year ended December 31, 2014.

The fair value of investments deposited with insurance regulatory authorities to meet statutory requirements was $8.5 million as of June 30, 2015 and as of December 31, 2014. 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 required investments on deposit in these trusts were $151.6 million at June 30, 2015 and $66.7 million at December 31, 2014.

Net investment income consists of:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014

Fixed maturities	$5,115	$3,322	$9,768	$5,378
Short-term investments	17	19	29	31
Gross investment income	5,132	3,341	9,797	5,409
Investment expenses	(412)	(261)	(797)	(431)
Net investment income	$4,720	$3,080	$9,000	$4,978

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 3. Accounts Receivable

Accounts receivable consist of the following:

(In thousands)	June 30, 2015	December 31, 2014
Premiums receivable	$14,278	$13,210
Other receivables	694	2,600
Total accounts receivable	14,972	15,810
Less: Allowance for doubtful accounts	—	—
Accounts receivable, net	$14,972	$15,810

Premiums receivable consist of premiums due on our mortgage insurance policies. If mortgage insurance premiums are unpaid for more than 90 days, the receivable is written off against earned premium and the related insurance policy is cancelled. For all periods presented, no provision or allowance for doubtful accounts was required.

Note 4. 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)	2015	2014
Reserve for losses and LAE at beginning of period	$8,427	$3,070
Less: Reinsurance recoverables	—	—
Net reserve for losses and LAE at beginning of period	8,427	3,070
Add provision for losses and LAE, net of reinsurance, occurring in:		
Current period	6,079	2,452
Prior years	(1,766)	(584)
Net incurred losses during the current period	4,313	1,868
Deduct payments for losses and LAE, net of reinsurance, occurring in:		
Current period	140	—
Prior years	669	432
Net loss and LAE payments during the current period	809	432
Net reserve for losses and LAE at end of period	11,931	4,506
Plus: Reinsurance recoverables	—	—
Reserve for losses and LAE at end of period	$11,931	$4,506
Loans in default at end of period	605	235

For the six months ended June 30, 2015, $0.7 million was paid for incurred claims and claim adjustment expenses attributable to insured events of prior years. There has been a $1.8 million favorable prior-year development during the six months ended June 30, 2015. Reserves remaining as of June 30, 2015 for prior years are $6.0 million as a result of re-estimation of unpaid losses and loss adjustment expenses. For the six months ended June 30, 2014, $0.4 million was paid for incurred claims and claim adjustment expenses attributable to insured events of prior years. There has been a $0.6 million favorable prior-year development during the six months ended June 30, 2014. Reserves remaining as of June 30, 2014 for prior years were $2.1 million as a result of re-estimation of unpaid losses and loss adjustment expenses. The decreases in both periods are generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

Note 5. Commitments and Contingencies

Obligations under Guarantees

Under the terms of CUW Solutions LLC's 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 $13,403 and $4,043 related to remedies for the six months ended June 30, 2015 and 2014, respectively. As of June 30, 2015, management believes any potential claims for indemnification related to contract underwriting services through June 30, 2015 are not material to our 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, 2015, 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 6. Stock-Based Compensation

The following table summarizes nonvested common share and nonvested common share unit activity for the six months ended June 30, 2015:

	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	1,290	$14.83	1,472	$9.04	664	$18.32

Granted	50	24.58	109	24.51	117	24.45
Vested	—	N/A	(578)	7.38	(238)	18.17
Forfeited	(46)	16.40	(41)	17.61	(3)	17.00
Outstanding at June 30, 2015	1,294	$15.15	962	$11.43	540	$19.72

In February 2015, certain members of senior management were granted nonvested common shares under the Essent Group Ltd. 2013 Long-Term Incentive Plan that were subject to time-based and performance-based vesting. The time-based share awards granted in February 2015 vest in three equal installments on March 1, 2016, 2017 and 2018. The performance-based share awards granted in February 2015 vest based upon our compounded annual book value per share growth percentage during a three-year performance period that commenced on January 1, 2015 and vest on March 1, 2018.

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In May 2015, nonvested common shares were granted to an employee in connection with an employment agreement that are subject to time-based and performance-based vesting. The time-based share award vests in four equal installments on July 1, 2016, 2017, 2018 and 2019. The performance-based share award vests based upon our compounded annual book value per share growth percentage during a three-year performance period that commenced on January 1, 2015 and vests on July 1, 2019.

The portion of the nonvested performance-based share awards that will be earned based upon the achievement of compounded annual book value per share growth is as follows:

Performance level	Compounded Annual Book Value Per Share Growth		Nonvested Common Shares Earned	
	<11	%	0	%
Threshold	11	%	10	%
	12	%	36	%
	13	%	61	%
	14	%	87	%
Maximum	≥15	%	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 2014, in February 2015, time-based share awards and share units were issued to certain employees that vest in three equal installments on March 1, 2016, 2017 and 2018. In May 2015, time-based share units were granted to non-employee directors that vest one year from the date of grant.

The total fair value of nonvested shares that vested was $20.6 million and $28.0 million for the six months ended June 30, 2015 and 2014, respectively. As of June 30, 2015, there was $27.5 million of total unrecognized compensation expense related to nonvested shares outstanding at June 30, 2015 and we expect to recognize the expense over a weighted average period of 2.3 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 198,041 in the six months ended June 30, 2015. The tendered shares were recorded at cost, included in treasury stock and have been cancelled as of June 30, 2015.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Compensation expense	$3,335	$3,365	$6,596	$6,148
Income tax benefit	984	1,178	2,125	2,152

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Essent Group Ltd. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 7. 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)	2015	2014	2015	2014
Net income	$37,193	$19,555	$72,031	$34,561
Less: dividends declared	—	—	—	—
Net income available to common shareholders	$37,193	$19,555	$72,031	$34,561
Basic earnings per share	$0.41	$0.23	$0.80	$0.42
Diluted earnings per share	$0.41	$0.23	$0.79	$0.41
Basic weighted average shares outstanding	90,344	83,276	90,265	83,071
Dilutive effect of nonvested shares	1,330	1,430	1,329	1,630
Diluted weighted average shares outstanding	91,674	84,706	91,594	84,701

There were 50,372 and 151,857 antidilutive shares for the three months ended June 30, 2015 and 2014, respectively and 150,718 and 108,404 antidilutive shares for the six months ended June 30, 2015 and 2014, 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, 2015, 100% of the performance-based share awards would be issuable under the terms of the arrangements if June 30, 2015 was the end of the performance period. Based on the compounded annual book value per share growth as of June 30, 2014, 0% of the performance-based share awards would have been issuable under the terms of the arrangements if June 30, 2014 was the end of the performance period.

Note 8. 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, 2015 and 2014:

	Three Months Ended June 30, 2015		
(In thousands)	Before Tax	Tax Effect	Net of Tax
Balance at beginning of period	$13,711	$(4,155)	$9,556
Other comprehensive income (loss):			
Unrealized holding losses arising during the period	(12,203)	3,888	(8,315)
Less: Reclassification adjustment for gains included in net income (1)	(568)	114	(454)
Net unrealized losses on investments	(12,771)	4,002	(8,769)
Other comprehensive income (loss)	(12,771)	4,002	(8,769)
Balance at end of period	$940	$(153)	$787

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(In thousands)	Six Months Ended June 30, 2015 Before Tax	Tax Effect	Net of Tax
Balance at beginning of period	$6,712	$(2,045)	$4,667
Other comprehensive income (loss):			
Unrealized holding losses arising during the period	(4,555)	1,551	(3,004)
Less: Reclassification adjustment for gains included in net income (1)	(1,217)	341	(876)
Net unrealized losses on investments	(5,772)	1,892	(3,880)
Other comprehensive income (loss)	(5,772)	1,892	(3,880)
Balance at end of period	$940	$(153)	$787

(In thousands)	Three Months Ended June 30, 2014 Before Tax	Tax Effect	Net of Tax
Balance at beginning of period	$(1,378)	$410	$(968)
Other comprehensive income (loss):			
Unrealized holding gains arising during the period	7,078	(2,118)	4,960
Less: Reclassification adjustment for gains included in net income (1)	(68)	23	(45)
Net unrealized gains on investments	7,010	(2,095)	4,915
Other comprehensive income (loss)	7,010	(2,095)	4,915
Balance at end of period	$5,632	$(1,685)	$3,947

(In thousands)	Six Months Ended June 30, 2014 Before Tax	Tax Effect	Net of Tax
Balance at beginning of period	$(2,227)	$780	$(1,447)
Other comprehensive income (loss):			
Unrealized holding gains arising during the period	8,327	(2,627)	5,700
Less: Reclassification adjustment for gains included in net income (1)	(468)	162	(306)
Net unrealized gains on investments	7,859	(2,465)	5,394
Other comprehensive income (loss)	7,859	(2,465)	5,394
Balance at end of period	$5,632	$(1,685)	$3,947

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

Note 9. Fair Value of Financial Instruments

The estimated fair values and related carrying amounts of our financial instruments were as follows:

June 30, 2015 (In thousands)	Carrying Amount	Fair Value
Financial Assets:		
U.S. Treasury securities	$166,181	$166,181
U.S. agency securities	3,196	3,196
U.S. agency mortgage-backed securities	104,236	104,236
Municipal debt securities	260,887	260,887
Corporate debt securities	363,632	363,632
Mortgage-backed securities	50,750	50,750
Asset-backed securities	130,128	130,128
Money market funds	80,369	80,369
Total investments		