

**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, 2023
- ☐ **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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares, \$0.015 par value	ESNT	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files.) Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

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. ☐

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 May 5, 2023 was 107,258,772.

Essent Group Ltd. and Subsidiaries

Form 10-Q

Index

PART I.	FINANCIAL INFORMATION	1
Item 1.	Financial Statements (Unaudited)	1
	Condensed Consolidated Balance Sheets (Unaudited)	1
	Condensed Consolidated Statements of Comprehensive Income (Unaudited)	2
	Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)	3
	Condensed Consolidated Statements of Cash Flows (Unaudited)	4
	Notes to Condensed Consolidated Financial Statements (Unaudited)	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	46
Item 4.	Controls and Procedures	46
PART II.	OTHER INFORMATION	47
Item 1.	Legal Proceedings	47
Item 1A.	Risk Factors	47
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	47
Item 6.	Exhibits	48
SIGNATURES		49

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, 2022 filed with the Securities and Exchange Commission. These factors include, without limitation, the following:

- the duration, spread and severity of the outbreak of novel coronavirus disease 2019 (“COVID-19”), which is currently ongoing and still evolving; the actions taken to contain the virus or treat its impact, including government and GSE actions to mitigate the economic impact of the outbreak; the nature and extent of the forbearance and modification options available to borrowers affected by the outbreak on mortgages we insure; reserve and other accounting estimates relating to the impact of the COVID-19 outbreak; borrower behavior in response to the outbreak and its economic impact; how quickly and to what extent normal economic and operating conditions can resume, including whether any future outbreaks interrupt economic recovery; how quickly and to what extent affected borrowers can recover from the negative economic impact of the outbreak; and whether and to what extent the outbreak and related economic conditions will exacerbate other risks and uncertainties facing our business, financial condition and business strategy;
- 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 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;
- recently enacted U.S. Federal tax reform and its impact 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;
- 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 or reinsurance;
- 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, as a result of COVID-19 or otherwise;
- 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 restrictions on the ability 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.

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, 2023	December 31, 2022
Assets		
Investments		
Fixed maturities available for sale, at fair value (amortized cost: 2023 — \$4,977,284; 2022 — \$4,932,574)	\$ 4,602,284	\$ 4,489,598
Short-term investments available for sale, at fair value (amortized cost: 2023 — \$347,800; 2022 — \$252,282)	347,752	252,027
Total investments available for sale	4,950,036	4,741,625
Other invested assets	255,288	257,941
Total investments	5,205,324	4,999,566
Cash	68,633	81,240
Accrued investment income	36,896	33,162
Accounts receivable	61,282	57,399
Deferred policy acquisition costs	9,511	9,910
Property and equipment (at cost, less accumulated depreciation of \$68,050 in 2023 and \$67,352 in 2022)	18,514	19,571
Prepaid federal income tax	418,460	418,460
Other assets	108,886	104,489
Total assets	\$ 5,927,506	\$ 5,723,797
Liabilities and Stockholders' Equity		
Liabilities		
Reserve for losses and LAE	\$ 216,022	\$ 216,464
Unearned premium reserve	157,529	162,887
Net deferred tax liability	383,116	356,810
Credit facility borrowings (at carrying value, less unamortized deferred costs of \$3,872 in 2023 and \$4,136 in 2022)	421,128	420,864
Other accrued liabilities	100,770	104,463
Total liabilities	1,278,565	1,261,488
Commitments and contingencies (see Note 7)		
Stockholders' Equity		
Common shares, \$0.015 par value:		
Authorized - 233,333; issued and outstanding - 107,659 shares in 2023 and 107,683 shares in 2022	1,615	1,615
Additional paid-in capital	1,334,607	1,350,377
Accumulated other comprehensive loss	(324,037)	(382,790)
Retained earnings	3,636,756	3,493,107
Total stockholders' equity	4,648,941	4,462,309
Total liabilities and stockholders' equity	\$ 5,927,506	\$ 5,723,797

See accompanying notes to condensed consolidated financial statements.

Essent Group Ltd. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands, except per share amounts)	Three Months Ended March 31,	
	2023	2022
Revenues:		
Net premiums written	\$ 205,900	\$ 199,731
Decrease in unearned premiums	5,358	15,599
Net premiums earned	211,258	215,330
Net investment income	43,236	24,680
Realized investment losses, net	(488)	(7,352)
(Loss) income from other invested assets	(2,702)	24,705
Other income	4,942	7,248
Total revenues	256,246	264,611
Losses and expenses:		
(Benefit) provision for losses and LAE	(180)	(106,858)
Other underwriting and operating expenses	48,195	40,796
Interest expense	6,936	2,226
Total losses and expenses	54,951	(63,836)
Income before income taxes	201,295	328,447
Income tax expense	30,468	54,280
Net income	\$ 170,827	\$ 274,167
Earnings per share:		
Basic	\$ 1.60	\$ 2.53
Diluted	1.59	2.52
Weighted average shares outstanding:		
Basic	106,943	108,166
Diluted	107,585	108,590
Net income	\$ 170,827	\$ 274,167
Other comprehensive income (loss):		
Change in unrealized appreciation (depreciation) of investments, net of tax expense (benefit) of \$9,428 and (\$35,897) in the three months ended March 31, 2023 and 2022	58,753	(203,006)
Total other comprehensive income (loss)	58,753	(203,006)
Comprehensive income	\$ 229,580	\$ 71,161

See accompanying notes to condensed consolidated financial statements.

Essent Group Ltd. and Subsidiaries

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

(In thousands)	Three Months Ended March 31,	
	2023	2022
Common Shares		
Balance, beginning of period	\$ 1,615	\$ 1,641
Issuance of management incentive shares	8	7
Cancellation of treasury stock	(8)	(26)
Balance, end of period	1,615	1,622
Additional Paid-In Capital		
Balance, beginning of period	1,350,377	1,428,952
Dividends and dividend equivalents declared	403	227
Issuance of management incentive shares	(8)	(7)
Stock-based compensation expense	5,106	4,807
Cancellation of treasury stock	(21,271)	(75,396)
Balance, end of period	1,334,607	1,358,583
Accumulated Other Comprehensive (Loss) Income		
Balance, beginning of period	(382,790)	50,707
Other comprehensive income (loss)	58,753	(203,006)
Balance, end of period	(324,037)	(152,299)
Retained Earnings		
Balance, beginning of period	3,493,107	2,754,814
Net income	170,827	274,167
Dividends and dividend equivalents declared	(27,178)	(21,819)
Balance, end of period	3,636,756	3,007,162
Treasury Stock		
Balance, beginning of period	—	—
Treasury stock acquired	(21,279)	(75,422)
Cancellation of treasury stock	21,279	75,422
Balance, end of period	—	—
Total Stockholders' Equity	\$ 4,648,941	\$ 4,215,068

See accompanying notes to condensed consolidated financial statements.

Essent Group Ltd. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)	Three Months Ended March 31,	
	2023	2022
Operating Activities		
Net income	\$ 170,827	\$ 274,167
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on the sale of investments, net	488	7,352
Loss (income) from other invested assets	2,702	(24,705)
Distribution of income from other invested assets	851	4,452
Depreciation and amortization	698	755
Stock-based compensation expense	5,106	4,807
Amortization of premium on investment securities	3,203	7,123
Deferred income tax provision	16,878	22,162
Change in:		
Accrued investment income	(3,734)	3,313
Accounts receivable	(2,602)	1,009
Deferred policy acquisition costs	399	1,030
Other assets	(4,061)	4,910
Reserve for losses and LAE	(442)	(114,373)
Unearned premium reserve	(5,358)	(15,599)
Other accrued liabilities	(166)	4,226
Net cash provided by operating activities	184,789	180,629
Investing Activities		
Net change in short-term investments	(95,725)	(204,276)
Purchase of investments available for sale	(798,280)	(281,565)
Proceeds from maturity of investments available for sale	412,441	54,035
Proceeds from sales of investments available for sale	333,513	493,211
Purchase of other invested assets	(1,945)	(21,796)
Return of investment from other invested assets	1,044	—
Purchase of property and equipment	(390)	(716)
Net cash (used in) provided by investing activities	(149,342)	38,893
Financing Activities		
Treasury stock acquired	(21,279)	(75,422)
Payment of issuance costs for credit facility	—	(154)
Dividends paid	(26,775)	(21,592)
Net cash used in financing activities	(48,054)	(97,168)
Net (decrease) increase in cash	(12,607)	122,354
Cash at beginning of year	81,240	81,491
Cash at end of period	\$ 68,633	\$ 203,845
Supplemental Disclosure of Cash Flow Information		
Income tax payments	\$ —	\$ —
Interest payments	(6,402)	(1,886)
Noncash Transactions		
Lease liabilities arising from obtaining right-of-use assets	\$ 87	\$ 9,174

See accompanying notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

Note 1. Nature of Operations and Basis of Presentation

Essent Group Ltd. (“Essent Group”) is a Bermuda-based holding company, which, through its wholly-owned subsidiaries, offers private mortgage insurance and reinsurance for mortgages secured by residential properties located in the United States. Mortgage insurance facilitates the sale of low down payment (generally less than 20%) mortgage loans into the secondary mortgage market, primarily to two government-sponsored enterprises (“GSEs”), Fannie Mae and Freddie Mac.

The primary mortgage insurance operations are conducted through Essent Guaranty, Inc. (“Essent Guaranty”), which is domiciled in the state of Pennsylvania. Essent Guaranty is headquartered in Radnor, Pennsylvania and maintains an operations center in Winston-Salem, North Carolina. Essent Guaranty is 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.

Essent Guaranty reinsures new insurance written (“NIW”) 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. In April 2021, Essent Guaranty and Essent Re agreed to increase the quota share reinsurance coverage provided by Essent Re from 25% to 35% effective January 1, 2021. The quota share reinsurance coverage provided for Essent Guaranty’s NIW prior to January 1, 2021 will continue to be 25%, the quota share percentage in effect at the time NIW was first ceded. 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 consulting 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 prior to April 1, 2019, after consideration of other reinsurance, to Essent Guaranty of PA, Inc. (“Essent PA”), an affiliate domiciled in the state of Pennsylvania.

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. CUW Solutions is headquartered in Radnor, Pennsylvania and it maintains an operations center in Winston-Salem, North Carolina that is subleased from Essent Guaranty.

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, 2022, 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 March 31, 2023 prior to the issuance of these condensed consolidated financial statements.

Note 2. Recently Issued Accounting Standards*Accounting Standards Not Yet Adopted*

In March 2020, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The amendments in this update provide temporary optional guidance to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform. It provides optional expedients and exceptions for applying generally accepted accounting principles to contract, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. This standard may be elected and applied prospectively over time from March 12, 2020 through December 31, 2024, as amended by ASU

Notes to Condensed Consolidated Financial Statements (Unaudited)

2022-06, as reference rate reform activities occur. The adoption of, and future elections under, this ASU are not expected to have a material impact on our consolidated financial statements as the ASU will ease, if warranted, the requirements for accounting for the future effects of the rate reform. We continue to monitor the impact the discontinuance of LIBOR or another reference rate will have on our contracts and other transactions.

In June 2022, the FASB issued ASU No. 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. This update clarifies the guidance in ASC 820 on the fair value measurement of an equity security that is subject to a contractual sale restriction and requires specific disclosures related to such an equity security. The update clarifies that a contractual sale restriction prohibiting the sale of an equity security is a characteristic of the reporting entity holding the equity security and is not included in the equity security's unit of account. Accordingly, an entity should not consider the contractual sale restriction when measuring the equity security's fair value. The update also requires specific disclosures related to equity securities that are subject to contractual sale restrictions, including (1) the fair value of such equity securities reflected in the balance sheet, (2) the nature and remaining duration of the corresponding restrictions, and (3) any circumstances that could cause a lapse in the restrictions. The ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years, with early adoption permitted. The adoption of this ASU is not expected to have a material effect on the Company's consolidated operating results or financial position.

Note 3. Investments

Investments available for sale consist of the following:

March 31, 2023 (In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	\$ 497,267	\$ 843	\$ (22,326)	\$ 475,784
U.S. agency securities	12,696	8	(14)	12,690
U.S. agency mortgage-backed securities	950,645	1,286	(101,807)	850,124
Municipal debt securities (1)	650,470	5,489	(46,949)	609,010
Non-U.S. government securities	69,606	—	(6,588)	63,018
Corporate debt securities (2)	1,575,643	3,040	(116,087)	1,462,596
Residential and commercial mortgage securities	601,606	208	(59,801)	542,013
Asset-backed securities	680,460	314	(32,665)	648,109
Money market funds	286,692	—	—	286,692
Total investments available for sale	<u>\$ 5,325,085</u>	<u>\$ 11,188</u>	<u>\$ (386,237)</u>	<u>\$ 4,950,036</u>
December 31, 2022 (In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	\$ 584,173	\$ 341	\$ (28,076)	\$ 556,438
U.S. agency securities	49,059	7	(8)	49,058
U.S. agency mortgage-backed securities	898,675	258	(115,190)	783,743
Municipal debt securities (1)	661,934	2,010	(61,254)	602,690
Non-U.S. government securities	69,651	—	(7,252)	62,399
Corporate debt securities (2)	1,546,513	1,195	(133,387)	1,414,321
Residential and commercial mortgage securities	577,915	390	(66,481)	511,824
Asset-backed securities	660,345	72	(35,856)	624,561
Money market funds	136,591	—	—	136,591
Total investments available for sale	<u>\$ 5,184,856</u>	<u>\$ 4,273</u>	<u>\$ (447,504)</u>	<u>\$ 4,741,625</u>

Essent Group Ltd. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

	March 31, 2023	December 31, 2022
(1) The following table summarizes municipal debt securities as of :		
Special revenue bonds	81.4 %	79.0 %
General obligation bonds	18.5	20.9
Certificate of participation bonds	—	—
Tax allocation bonds	0.1	0.1
Total	100.0 %	100.0 %

	March 31, 2023	December 31, 2022
(2) The following table summarizes corporate debt securities as of :		
Financial	40.8 %	40.5 %
Consumer, non-cyclical	18.5	17.9
Consumer, cyclical	7.2	6.8
Industrial	6.7	6.8
Utilities	5.7	6.1
Communications	8.6	8.4
Technology	4.8	4.9
Energy	5.5	6.4
Basic Materials	2.1	2.1
Government	0.1	0.1
Total	100.0 %	100.0 %

Essent Group Ltd. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

The amortized cost and fair value of investments available for sale at March 31, 2023, 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	\$ 130,959	\$ 129,312
Due after 1 but within 5 years	313,584	297,672
Due after 5 but within 10 years	38,335	34,655
Due after 10 years	14,389	14,145
Subtotal	497,267	475,784
U.S. agency securities:		
Due in 1 year	11,125	11,111
Due after 1 but within 5 years	1,571	1,579
Subtotal	12,696	12,690
Municipal debt securities:		
Due in 1 year	6,006	5,977
Due after 1 but within 5 years	88,888	86,924
Due after 5 but within 10 years	175,352	167,037
Due after 10 years	380,224	349,072
Subtotal	650,470	609,010
Non-U.S. government securities:		
Due in 1 year	10,020	10,012
Due after 1 but within 5 years	33,759	32,824
Due after 5 but within 10 years	5,532	4,512
Due after 10 years	20,295	15,670
Subtotal	69,606	63,018
Corporate debt securities:		
Due in 1 year	241,103	238,178
Due after 1 but within 5 years	635,267	605,227
Due after 5 but within 10 years	484,388	433,797
Due after 10 years	214,885	185,394
Subtotal	1,575,643	1,462,596
U.S. agency mortgage-backed securities	950,645	850,124
Residential and commercial mortgage securities	601,606	542,013
Asset-backed securities	680,460	648,109
Money market funds	286,692	286,692
Total investments available for sale	\$ 5,325,085	\$ 4,950,036

Essent Group Ltd. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

The components of realized investment (losses) gains, net on the condensed consolidated statements of comprehensive income were as follows:

(In thousands)	Three Months Ended March 31,	
	2023	2022
Realized gross gains	\$ 869	\$ 12,576
Realized gross losses	1,357	13,091
Impairment loss	—	6,837

The fair value of investments available for sale in an unrealized loss position and the related unrealized losses for which no allowance for credit loss has been recorded were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
March 31, 2023 (In thousands)						
U.S. Treasury securities	\$ 184,036	\$ (2,069)	\$ 256,893	\$ (20,257)	\$ 440,929	\$ (22,326)
U.S. agency securities	11,111	(14)	—	—	11,111	(14)
U.S. agency mortgage-backed securities	144,039	(3,586)	643,734	(98,221)	787,773	(101,807)
Municipal debt securities	150,068	(2,840)	244,856	(44,109)	394,924	(46,949)
Non-U.S. government securities	36,274	(472)	26,744	(6,116)	63,018	(6,588)
Corporate debt securities	467,974	(11,248)	774,083	(104,839)	1,242,057	(116,087)
Residential and commercial mortgage securities	136,012	(7,065)	395,814	(52,736)	531,826	(59,801)
Asset-backed securities	168,303	(4,755)	423,814	(27,910)	592,117	(32,665)
Total	\$ 1,297,817	\$ (32,049)	\$ 2,765,938	\$ (354,188)	\$ 4,063,755	\$ (386,237)

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2022 (In thousands)						
U.S. Treasury securities	\$ 321,848	\$ (12,381)	\$ 169,795	\$ (15,695)	\$ 491,643	\$ (28,076)
U.S. agency securities	7,117	(8)	—	—	7,117	(8)
U.S. agency mortgage-backed securities	351,310	(34,193)	415,743	(80,997)	767,053	(115,190)
Municipal debt securities	335,784	(41,620)	64,766	(19,634)	400,550	(61,254)
Non-U.S. government securities	48,071	(2,914)	14,328	(4,338)	62,399	(7,252)
Corporate debt securities	811,217	(69,415)	421,307	(63,972)	1,232,524	(133,387)
Residential and commercial mortgage securities	265,934	(22,628)	242,366	(43,853)	508,300	(66,481)
Asset-backed securities	333,080	(15,454)	258,572	(20,402)	591,652	(35,856)
Total	\$ 2,474,361	\$ (198,613)	\$ 1,586,877	\$ (248,891)	\$ 4,061,238	\$ (447,504)

At March 31, 2023 and December 31, 2022, we held 2,526 and 2,578 individual investment securities, respectively, that were in an unrealized loss position. 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 to record an impairment on the securities in an unrealized loss position. In assessing whether the decline in the fair value at March 31, 2023 of any of these securities resulted from a credit loss or other factors, we made inquiries of our investment managers to determine that each issuer was current on its scheduled interest and principal payments. We reviewed the credit rating of these securities noting that approximately 98% of the securities at March 31, 2023 had investment-grade ratings. We concluded that gross unrealized losses noted above were primarily associated with the changes in interest rates subsequent to purchase rather than due to credit

Notes to Condensed Consolidated Financial Statements (Unaudited)

impairment. There were no impairments in the three months ended March 31, 2023. We recorded impairments of \$6.8 million due to our intent to sell securities in an unrealized loss position in the three months ended March 31, 2022.

The Company's other invested assets at March 31, 2023 and December 31, 2022 totaled \$255.3 million and \$257.9 million, respectively. Other invested assets are principally comprised of limited partnership interests which are generally accounted for under the equity method or fair value using net asset value (or its equivalent) as a practical expedient. Our proportionate share of earnings or losses or changes in fair value are reported in income from other invested assets on the condensed consolidated statements of comprehensive income. For entities accounted for under the equity method that follow industry-specific guidance for investment companies, our proportionate share of earnings or losses includes changes in the fair value of the underlying assets of these entities. Due to the timing of receiving financial information from these partnerships, the results are generally reported on a one month or quarter lag.

Other invested assets that are accounted for at fair value using the net asset value (or its equivalent) as a practical expedient totaled \$163.1 million as of March 31, 2023. The majority of these investments were in limited partnerships invested in real estate or consumer credit. At March 31, 2023, maximum future funding commitments were \$49.0 million. For limited partnership investments that have a contractual expiration date, we expect the liquidation of the underlying assets to occur over the next one to eight years. For certain of these investments, the Company does not have the contractual option to redeem but receives distributions based on the liquidation of the underlying assets. In addition, the Company generally does not have the ability to sell or transfer these investments without the consent from the general partner of individual limited partnerships.

The fair value of investments deposited with insurance regulatory authorities to meet statutory requirements was \$9.2 million at March 31, 2023 and \$9.1 million at December 31, 2022. 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 \$671.8 million at March 31, 2023 and \$972.4 million at December 31, 2022. Essent Guaranty is required to maintain assets on deposit in connection with its fully collateralized reinsurance agreements (see Note 4). The fair value of the assets on deposit was \$8.7 million at March 31, 2023 and \$8.6 million at December 31, 2022. Essent Guaranty is also required to maintain assets on deposit for the benefit of the sponsor of a fixed income investment commitment. The fair value of the assets on deposit was \$9.1 million at March 31, 2023 and \$9.1 million at December 31, 2022.

Net investment income consists of:

(In thousands)	Three Months Ended March 31,	
	2023	2022
Fixed maturities	\$ 43,473	\$ 26,223
Short-term investments	1,721	44
Gross investment income	45,194	26,267
Investment expenses	(1,958)	(1,587)
Net investment income	<u>\$ 43,236</u>	<u>\$ 24,680</u>

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 and included in other assets on our condensed consolidated balance sheets, 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.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

(In thousands)	Three Months Ended March 31,	
	2023	2022
Net premiums written:		
Direct	\$ 239,491	\$ 220,254
Ceded (1)	(33,591)	(20,523)
Net premiums written	<u>\$ 205,900</u>	<u>\$ 199,731</u>
Net premiums earned:		
Direct	\$ 244,849	\$ 235,853
Ceded (1)	(33,591)	(20,523)
Net premiums earned	<u>\$ 211,258</u>	<u>\$ 215,330</u>

(1) Net of profit commission.

Quota Share Reinsurance

Essent Guaranty has entered into quota share reinsurance agreements with a panels of third-party reinsurers ("QSR" agreements). Each of the third-party reinsurers has an insurer financial strength rating of A- or better by S&P Global Ratings, A.M. Best or both. Under each QSR agreement, Essent Guaranty will cede premiums earned on all eligible policies written during a specified period, in exchange for reimbursement of ceded claims and claims expenses on covered policies, a specified ceding commission, and a profit commission that varies directly and inversely with ceded claims. Essent Guaranty has certain termination rights under each QSR agreement, including the option to terminate each QSR agreement subject to a termination fee.

The following tables summarizes Essent Guaranty's quota share reinsurance agreements as of March 31, 2023:

QSR Agreement	Coverage Period	Ceding Percentage	Ceding Commission	Profit Commission
QSR-2019	September 1, 2019-December 31, 2020	(1)	20%	63% (2)
QSR-2022	January 1, 2022-December 31, 2022	20%	20%	62%
QSR-2023	January 1, 2023-December 31, 2023	17.5%	20%	58%

- (1) Under QSR-2019, Essent Guaranty cedes 40% of premiums on singles policies and 20% on all other policies.
(2) The original profit commission on QSR-2019 was up to 60%; however because Essent Guaranty did not exercise its option to terminate the QSR Agreement on December 31, 2021, the maximum profit commission that Essent Guaranty could earn increased to 63% in 2022 and thereafter.

Total RIF ceded under the QSR agreements was \$7.3 billion as of March 31, 2023.

Excess of Loss Reinsurance

Essent Guaranty has entered into fully collateralized reinsurance agreements ("Radnor Re Transactions") with unaffiliated special purpose insurers domiciled in Bermuda. For the reinsurance coverage periods, Essent Guaranty and its affiliates retain the first layer of the respective aggregate losses, and a Radnor Re special purpose insurer 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 each Radnor Re special purpose insurer 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 or SOFR plus a risk margin, and then subtracting actual investment income collected on the assets in the related 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 Radnor Re

Notes to Condensed Consolidated Financial Statements (Unaudited)

Transactions. The Radnor Re entities collateralized the coverage by issuing mortgage insurance-linked notes ("ILNs") in an aggregate amount equal to the initial coverage 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 reinsurance trusts for the benefit of Essent Guaranty and will be the source of reinsurance claim payments to Essent Guaranty and principal repayments on the ILNs.

Essent Guaranty has also entered into reinsurance agreements with panels of reinsurers that provide aggregate excess of loss coverage immediately above or pari-passu to the coverage provided by the Radnor Re Transactions. 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 these reinsurance agreements.

Essent Guaranty entered into a reinsurance agreement with a panel of reinsurers that provides excess of loss coverage on new insurance written from October 1, 2021 through December 31, 2022. For the reinsurance coverage period, Essent Guaranty and its affiliates retain the first layer of the respective aggregate losses, and the reinsurance panel 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 following table summarizes Essent Guaranty's excess of loss reinsurance agreements as of March 31, 2023:

Vintage Year	Reinsurer	Effective Date	Optional Termination Date	
2017	Panel of Reinsurers	November 1, 2018	October 1, 2023	(1)
2018	Radnor Re 2019-1 Ltd.	February 28, 2019	February 25, 2026	
2018	Panel of Reinsurers	February 28, 2019	February 25, 2026	
2019	Radnor Re 2020-1 Ltd.	January 30, 2020	January 25, 2027	
2019	Panel of Reinsurers	January 30, 2020	January 25, 2027	
2020 & 2021	Radnor Re 2021-1 Ltd.	June 23, 2021	June 26, 2028	
2021	Radnor Re 2021-2 Ltd.	November 10, 2021	November 25, 2027	
2021 & 2022	Panel of Reinsurers	June 1, 2022	January 1, 2030	
2021 & 2022	Radnor Re 2022-1 Ltd.	September 21, 2022	September 25, 2028	

(1) If the reinsurance agreement is not terminated at the optional termination date, the reinsurance premium increases by 50%.

The following table summarizes Essent Guaranty's excess of loss reinsurance coverages and retentions as of March 31, 2023:

(In thousands)		Remaining Reinsurance in Force				Remaining First Layer Retention
Vintage Year	Remaining Insurance in Force	Remaining Risk in Force	ILN	Other Reinsurance	Total	
2017	5,511,131	1,450,432	—	70,895 (7)	70,895	421,003 (10)
2018	6,349,474	1,644,287	325,537	76,144 (8)	401,681	248,221
2019 (2)	7,859,217	2,029,598	395,889	43,991 (9)	439,880	214,485
2020 & 2021 (3)	38,168,321	9,652,777	414,005	—	414,005	278,909
2021 (4)	40,543,749	10,825,130	399,786	—	399,786	279,400
2021 & 2022 (5)	74,276,338	19,998,840	—	141,992	141,992	507,114
2021 & 2022 (6)	33,357,208	8,966,697	237,868	—	237,868	303,761
Total	\$ 206,065,438	\$ 54,567,761	\$ 1,773,085	\$ 333,022	\$ 2,106,107	\$ 2,025,706 (11)

(2) Reinsurance coverage on new insurance written from January 1, 2019 through August 31, 2019.

(3) Reinsurance coverage on new insurance written from August 1, 2020 through March 31, 2021.

(4) Reinsurance coverage on new insurance written from April 1, 2021 through September 30, 2021.

(5) Reinsurance coverage on new insurance written from October 1, 2021 through December 31, 2022.

Notes to Condensed Consolidated Financial Statements (Unaudited)

- (6) Reinsurance coverage on new insurance written from October 1, 2021 through July 31, 2022.
- (7) Coverage provided immediately above the coverage provided by Radnor Re 2018-1 Ltd.
- (8) Coverage provided pari-passu to the coverage provided by Radnor Re 2019-1 Ltd.
- (9) Coverage provided pari-passu to the coverage provided by Radnor Re 2020-1 Ltd.
- (10) The original and remaining first layer retention is associated with reinsurance provided by a panel of reinsurers. Amounts reported in prior periods reflected the retention associated with an ILN that is no longer outstanding as of March 31, 2023.
- (11) The total remaining first layer retention differs from the sum of the individual reinsurance transactions as a result of overlapping coverage between certain transactions.

Based on the level of delinquencies reported to us, the ILN transactions entered into prior to March 31, 2020 became subject to a "trigger event" as of June 25, 2020. The amortization of principal of the notes issued by the unaffiliated special purpose insurers in connection with those ILN transactions is suspended and the aggregate excess of loss reinsurance coverage will not amortize during the continuation of a trigger event. Radnor Re 2020-1 was no longer subject to a trigger event as of July 25, 2022.

The amount of monthly reinsurance premiums ceded to the Radnor Re entities will fluctuate due to changes in one-month LIBOR or SOFR and changes in money market rates that affect investment income collected on the assets in the reinsurance trusts. As the reinsurance premium will vary based on changes in these rates, we concluded that the Radnor Re Transactions contain embedded derivatives that will be accounted for separately like freestanding derivatives. The change in the fair value of the embedded derivatives is reported in earnings and included in other income.

In connection with the Radnor Re Transactions, we concluded that the risk transfer requirements for reinsurance accounting were met as each Radnor Re entity is assuming significant insurance risk and a reasonable possibility of a significant loss. In addition, we assessed whether each Radnor Re entity was a variable interest entity ("VIE") and the appropriate accounting for the Radnor Re entities if they were VIEs. 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 the Radnor Re entities are VIEs. However, given that Essent Guaranty (1) does not have the unilateral power to direct the activities that most significantly affect their economic performance and (2) does not have the obligation to absorb losses or the right to receive benefits that could be potentially significant to these entities, the Radnor Re entities are not consolidated in these financial statements.

The following table presents total assets of each Radnor Re special purpose insurer as well as our maximum exposure to loss associated with each Radnor Re entity, representing the fair value of the embedded derivatives, using observable inputs in active markets (Level 2), included in other assets (other accrued liabilities) on our condensed consolidated balance sheet and the estimated net present value of investment earnings on the assets in the reinsurance trusts, each as of March 31, 2023:

(In thousands)	Total VIE Assets	Maximum Exposure to Loss		
		On - Balance Sheet	Off - Balance Sheet	Total
Radnor Re 2019-1 Ltd.	325,537	(2,218)	90	(2,128)
Radnor Re 2020-1 Ltd.	395,889	(1,286)	158	(1,128)
Radnor Re 2021-1 Ltd.	414,005	(4,657)	98	(4,559)
Radnor Re 2021-2 Ltd.	\$ 399,786	\$ (3,849)	\$ 95	\$ (3,754)
Radnor Re 2022-1 Ltd.	\$ 237,868	\$ 695	\$ 78	\$ 773
Total	<u>\$ 1,773,085</u>	<u>\$ (11,315)</u>	<u>\$ 519</u>	<u>\$ (10,796)</u>

Notes to Condensed Consolidated Financial Statements (Unaudited)
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 three months ended March 31:

(In thousands)	2023	2022
Reserve for losses and LAE at beginning of period	\$ 216,464	\$ 407,445
Less: Reinsurance recoverables	14,618	25,940
Net reserve for losses and LAE at beginning of period	201,846	381,505
Add provision for losses and LAE, net of reinsurance, occurring in:		
Current period	32,694	24,369
Prior years	(32,874)	(131,227)
Net incurred losses and LAE during the current period	(180)	(106,858)
Deduct payments for losses and LAE, net of reinsurance, occurring in:		
Current period	—	1
Prior years	2,001	909
Net loss and LAE payments during the current period	2,001	910
Net reserve for losses and LAE at end of period	199,665	273,737
Plus: Reinsurance recoverables	16,357	19,335
Reserve for losses and LAE at end of period	\$ 216,022	\$ 293,072

For the three months ended March 31, 2023, \$2.0 million was paid for incurred claims and claim adjustment expenses attributable to insured events of prior years. There has been a \$32.9 million favorable prior year development during the three months ended March 31, 2023. Reserves remaining as of March 31, 2023 for prior years are \$167.0 million as a result of re-estimation of unpaid losses and loss adjustment expenses. For the three months ended March 31, 2022, \$0.9 million was paid for incurred claims and claim adjustment expenses attributable to insured events of prior years. There was a \$131.2 million favorable prior year development during the three months ended March 31, 2022. Reserves remaining as of March 31, 2022 for prior years were \$249.4 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.

Due to business restrictions, stay-at-home orders and travel restrictions initially implemented in March 2020 as a result of COVID-19, unemployment in the United States increased significantly in the second quarter of 2020, declining during the second half of 2020 through 2022. As unemployment is one of the most common reasons for borrowers to default on their mortgage, the increase in unemployment has increased the number of delinquencies on the mortgages that we insure and has the potential to increase claim frequencies on defaults.

In response to the COVID-19 pandemic, the United States government enacted a number of policies to provide fiscal stimulus to the economy and relief to those affected by this global disaster. Specifically, mortgage forbearance programs and foreclosure moratoriums were instituted by Federal legislation along with actions taken by the Federal Housing Finance Agency (“FHFA”), Fannie Mae and Freddie Mac (collectively the “GSEs”). The mortgage forbearance plans provide for eligible homeowners who were adversely impacted by COVID-19 to temporarily reduce or suspend their mortgage payments for up to 18 months for loans in an active COVID-19-related forbearance program as of February 28, 2021. For borrowers that have the ability to begin to pay their mortgage at the end of the forbearance period, we expect that mortgage servicers will work with them to modify their loans at which time the mortgage will be removed from delinquency status. We believe that the forbearance process could have a favorable effect on the frequency of claims that we ultimately pay.

The defaulted loans reported to us in the second and third quarters of 2020 had reached the end of their forbearance periods as of March 31, 2022. During the first quarter of 2022, the Early COVID Defaults cured at elevated levels, and the cumulative cure rate for the Early COVID Defaults at March 31, 2022 exceeded our initial estimated cure rate implied by our estimate of ultimate loss for these defaults established at the onset of the pandemic. Based on cure activity through March 31, 2022 and our expectations for future cure activity, as of March 31, 2022, we lowered our estimate of ultimate loss for the Early

Notes to Condensed Consolidated Financial Statements (Unaudited)

COVID Defaults from 7% to 4% of the initial risk in force. During the three months ended June 30, 2022, Early COVID Defaults cured at levels that exceeded our estimate as of March 31, 2022, and we further lowered our estimate of loss for these defaults as of June 30, 2022 to 2% of the initial risk in force. These revisions to our estimate of ultimate loss for the Early COVID Defaults resulted in a benefit recorded to the provision for losses of \$164.1 million for the year ended December 31, 2022. Due to the level of Early COVID Defaults remaining in the default inventory, beginning in the third quarter of 2022, we resumed reserving for the Early COVID Defaults using our normal reserve methodology. The transition of defaults to foreclosure or claim has not returned to pre-pandemic levels. As a result, the level of defaults in the default inventory that have missed twelve or more payments is above pre-pandemic levels.

The economy in the United States is currently experiencing elevated levels of consumer price inflation. The Federal Reserve has increased the target federal funds rate several times during 2022 and 2023 in an effort to reduce consumer price inflation. These rate increases have resulted in higher mortgage interest rates which may lower home sale activity and affect the options available to delinquent borrowers. It is reasonably possible that our estimate of losses could change in the near term as a result of changes in the economic environment, the impact of elevated levels of consumer price inflation on home sale activity, housing inventory, and home prices. The impact on our reserves in future periods will be dependent upon the amount of delinquent notices received from loan servicers 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 five-year secured credit facility with a committed capacity of \$825 million (the Credit Facility"). The Credit Facility also provides for up to \$175 million aggregate principal amount of uncommitted incremental term loan and/or revolving credit facilities 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 annual commitment fee rate at March 31, 2023 was 0.25%. 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 14). The borrowings under the Credit Facility contractually mature on December 10, 2026. As of March 31, 2023, the Company was in compliance with the covenants and \$425 million had been borrowed under the term loan portion of the Credit Facility with a weighted average interest rate of 6.52%. As of December 31, 2022, \$425 million had been borrowed with a weighted average interest rate of 6.02%.

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. No remedy payments were made in the three months ended March 31, 2023, and we paid less than \$0.1 million related to remedies in the three months ended March 31, 2022. As of March 31, 2023, management believes any potential claims for indemnification related to contract underwriting services through March 31, 2023 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,

Notes to Condensed Consolidated Financial Statements (Unaudited)

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 March 31, 2023, 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. Capital Stock

Our authorized share capital consists of 233.3 million shares of a single class of common shares. The common shares have no preemptive rights or other rights to subscribe for additional shares, and no rights of redemption, conversion or exchange. Under certain circumstances and subject to the provisions of Bermuda law and our bye-laws, we may be required to make an offer to repurchase shares held by members. The common shares rank pari passu with one another in all respects as to rights of payment and distribution. In general, holders of common shares will have one vote for each common share held by them and will be entitled to vote, on a non-cumulative basis, at all meetings of shareholders. In the event that a shareholder is considered a 9.5% Shareholder under our bye-laws, such shareholder's votes will be reduced by whatever amount is necessary so that after any such reduction the votes of such shareholder will not result in any other person being treated as a 9.5% Shareholder with respect to the vote on such matter. Under these provisions certain shareholders may have their voting rights limited to less than one vote per share, while other shareholders may have voting rights in excess of one vote per share.

Dividends

The following table presents the amounts declared and paid per common share each quarter:

<u>Quarter Ended</u>	2023	2022
March 31	\$ 0.25	\$ 0.20
June 30	—	0.21
September 30	—	0.22
December 31	—	0.23
Total dividends per common share declared and paid	<u>\$ 0.25</u>	<u>\$ 0.86</u>

In May 2023, the Board of Directors declared a quarterly cash dividend of \$0.25 per common share payable on June 12, 2023 to shareholders of record on June 1, 2023.

Share Repurchase Plan

In May 2022, the Board of Directors approved a share repurchase plan that authorizes the Company to repurchase up to \$250 million of its common shares in the open market by the end of 2023. Through March 31, 2023, the Company repurchased 431,904 common shares at a cost of \$16.6 million under the 2022 plan, leaving \$233.4 million remaining unused under the authorized repurchase plan as of March 31, 2023.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 9. Stock-Based Compensation

In 2013, Essent Group's Board of Directors adopted, and Essent Group's shareholders approved, the Essent Group Ltd. 2013 Long-Term Incentive Plan (the "2013 Plan"), which was effective upon completion of the initial public offering. The types of awards available under the 2013 Plan include nonvested shares, nonvested share units, non-qualified share options, incentive stock options, share appreciation rights, and other share-based or cash-based awards. Nonvested shares and nonvested share units granted under the 2013 Plan have rights to dividends, which entitle holders to the same dividend value per share as holders of common shares in the form of dividend equivalent units ("DEUs"). DEUs are subject to the same vesting and other terms and conditions as the corresponding nonvested shares and nonvested share units. DEUs vest when the underlying shares or share units vest and are forfeited if the underlying share or share units forfeit prior to vesting. The maximum number of shares and share units available for issuance is 7.5 million under the 2013 Plan. As of March 31, 2023, there were 2.0 million common shares available for future grant under the 2013 Plan.

The following table summarizes nonvested common share, nonvested common share unit and DEU activity for the three months ended March 31, 2023:

(Shares in thousands)	Time and Performance-Based Share Awards		Time-Based Share Awards		Share Units		DEUs	
	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	Dividend Equivalent Units	Weighted Average Grant Date Fair Value
Outstanding at beginning of year	647	\$ 20.99	138	\$ 45.94	350	\$ 45.51	37	\$ 40.86
Granted	300	12.66	76	43.51	436	38.41	11	37.88
Vested	(103)	51.52	(64)	56.65	(131)	49.16	(14)	40.31
Forfeited	—	—	—	—	(13)	39.25	—	40.57
Outstanding at March 31, 2023	844	\$ 14.29	150	\$ 44.40	642	\$ 40.07	34	\$ 40.15

In February 2023, certain members of senior management were granted nonvested common shares under the 2013 Plan that were subject to time-based and performance-based vesting. The time-based share awards granted in February 2023 vest in three equal installments commencing on March 1 of the year following the grant year. The performance-based share awards granted in February 2023 vest based upon our compounded annual book value per share growth percentage and relative total shareholder return during a three-year performance period that commenced on January 1, 2023 and vest on March 1, 2026. Shares were issued at the maximum 200% of target. The portion of these nonvested performance-based share awards that will be earned is as follows:

Relative Total Shareholder Return vs. S&P 1500 Financial Services Index				
Three-Year Book Value Per Share CAGR	≤25th percentile	50th percentile "Target"	≥75th percentile	
	10% "Target"	100 %	150 %	200 %
	9%	75 %	125 %	175 %
	8%	50 %	100 %	150 %
	6%	25 %	75 %	125 %
	5%	0 %	50 %	100 %

In the event that the compounded annual book value per share growth or the relative total shareholder return 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.

Notes to Condensed Consolidated Financial Statements (Unaudited)

In January 2023, nonvested common share units were issued to all vice president and staff level employees and are subject to time-based vesting in three equal installments on January 6, 2024, 2025 and 2026. In connection with our incentive program covering bonus awards for performance year 2022, in February 2023, time-based share units were issued to certain employees that vest in three equal installments on March 1, 2024, 2025 and 2026.

Quoted market prices are used for the valuation of common shares granted that do not contain a market condition under ASC 718. The performance-based share awards granted in February 2021 contain a market condition and were valued based on analysis provided by a third-party valuation firm using a risk neutral simulation taking into effect the vesting conditions of the grant.

In February 2021, the performance-based share awards granted in 2019 and 2020 to certain members of senior management were amended to provide that such awards will no longer be subject to the achievement of the compounded annual book value per share growth metrics and will be subject to only service-based vesting. As a result, the shares subject to the amended 2019 and 2020 awards vested on March 1, 2022 and March 1, 2023, respectively.

The total fair value on the vesting date of nonvested shares, share units or DEUs that vested was \$13.2 million and \$16.3 million for the three months ended March 31, 2023 and 2022, respectively. As of March 31, 2023, there was \$34.0 million of total unrecognized compensation expense related to nonvested shares or share units outstanding at March 31, 2023 and we expect to recognize the expense over a weighted average period of 2.5 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 111,820 in the three months ended March 31, 2023. The tendered shares were recorded at cost and included in treasury stock. All treasury stock has been cancelled as of March 31, 2023.

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

(In thousands)	Three Months Ended March 31,	
	2023	2022
Compensation expense	\$ 5,106	\$ 4,807
Income tax benefit	1,018	957

Note 10. Dividends Restrictions

Our U.S. insurance subsidiaries are subject to certain capital and dividend rules and regulations as prescribed by jurisdictions in which they are authorized to operate. Under the insurance laws of the Commonwealth of Pennsylvania, Essent Guaranty and Essent PA may pay dividends during any 12-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 specifies that dividends and other distributions can be paid out of positive unassigned surplus without prior approval. At March 31, 2023, Essent Guaranty had unassigned surplus of approximately \$286.8 million and Essent PA had unassigned surplus of approximately \$14.1 million. In three months ended March 31, 2023 and 2022, Essent Guaranty paid dividends of \$90 million and \$100 million, respectively, to its parent, Essent US Holdings, Inc. Essent PA did not pay a dividend in the three months ended March 31, 2023 or 2022. As of March 31, 2023, Essent Guaranty and Essent PA could pay additional ordinary dividends in 2023 of \$286.8 million and \$5.3 million, respectively.

Essent Re is subject to certain dividend restrictions as prescribed by the Bermuda Monetary Authority and under certain agreements with counterparties. In connection with the quota share reinsurance agreement with Essent Guaranty, Essent Re has agreed to maintain a minimum total equity of \$100 million. As of March 31, 2023, Essent Re had total equity of \$1.6 billion.

At March 31, 2023, our insurance subsidiaries were in compliance with these rules, regulations and agreements.

Notes to Condensed Consolidated Financial Statements (Unaudited)
Note 11. 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:

(In thousands, except per share amounts)	Three Months Ended March 31,	
	2023	2022
Net income	\$ 170,827	\$ 274,167
Basic weighted average shares outstanding	106,943	108,166
Dilutive effect of nonvested shares	642	424
Diluted weighted average shares outstanding	107,585	108,590
Basic earnings per share	\$ 1.60	\$ 2.53
Diluted earnings per share	\$ 1.59	\$ 2.52

There were 111,870 and 81,036 antidilutive shares for the three months ended March 31, 2023 and 2022.

Nonvested performance-based share awards are considered contingently issuable for purposes of the EPS calculation. The 2023, 2022 and 2021 performance-based share awards vest based upon our compounded annual book value per share growth percentage and relative total shareholder return during a three-year performance period. The performance-based share awards granted in years before 2021 vest based upon our compounded annual book value per share growth percentage during a three-year performance period. The following table summarizes the performance-based shares issuable if the reporting date was the end of the contingency period.

Reporting Date	2023 Performance-Based Grants		2022 Performance-Based Grants		2021 Performance-Based Grants		2020 Performance- Based Grants
	Percent Issuable Relative to Target	As a Percent of Shares Issued	Percent Issuable Relative to Target	As a Percent of Shares Issued	Percent Issuable Relative to Target	As a Percent of Shares Issued	Percent Issuable Relative to Target and Shares Issued
March 31, 2023	200%	100%	170%	85%	100%	50%	
March 31, 2022			122%	61%	100%	50%	100%

Notes to Condensed Consolidated Financial Statements (Unaudited)
Note 12. Accumulated Other Comprehensive Income (Loss)

The following table presents the rollforward of accumulated other comprehensive loss for the three months ended March 31, 2023 and 2022:

(In thousands)	Three Months Ended March 31,					
	2023			2022		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Balance at beginning of year	\$ (443,230)	\$ 60,440	\$ (382,790)	\$ 65,280	\$ (14,573)	\$ 50,707
Other comprehensive income (loss):						
Unrealized holding gains (losses) on investments:						
Unrealized holding gains (losses) arising during the period	67,693	(9,476)	58,217	(246,255)	34,830	(211,425)
Less: Reclassification adjustment for losses included in net income (1)	488	48	536	7,352	1,067	8,419
Net unrealized gains (losses) on investments	68,181	(9,428)	58,753	(238,903)	35,897	(203,006)
Other comprehensive income (loss)	68,181	(9,428)	58,753	(238,903)	35,897	(203,006)
Balance at end of period	\$ (375,049)	\$ 51,012	\$ (324,037)	\$ (173,623)	\$ 21,324	\$ (152,299)

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

Note 13. 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.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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.

Essent Group Ltd. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

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.

March 31, 2023 (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	\$ 475,784	\$ —	\$ —	\$ 475,784
U.S. agency securities	—	12,690	—	12,690
U.S. agency mortgage-backed securities	—	850,124	—	850,124
Municipal debt securities	—	609,010	—	609,010
Non-U.S. government securities	—	63,018	—	63,018
Corporate debt securities	—	1,462,596	—	1,462,596
Residential and commercial mortgage securities	—	542,013	—	542,013
Asset-backed securities	—	648,109	—	648,109
Money market funds	286,692	—	—	286,692
Total assets at fair value (1) (2)	<u>\$ 762,476</u>	<u>\$ 4,187,560</u>	<u>\$ —</u>	<u>\$ 4,950,036</u>

December 31, 2022 (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	\$ 556,438	\$ —	\$ —	\$ 556,438
U.S. agency securities	—	49,058	—	49,058
U.S. agency mortgage-backed securities	—	783,743	—	783,743
Municipal debt securities	—	602,690	—	602,690
Non-U.S. government securities	—	62,399	—	62,399
Corporate debt securities	—	1,414,321	—	1,414,321
Residential and commercial mortgage securities	—	511,824	—	511,824
Asset-backed securities	—	624,561	—	624,561
Money market funds	136,591	—	—	136,591
Total assets at fair value (1)	<u>\$ 693,029</u>	<u>\$ 4,048,596</u>	<u>\$ —</u>	<u>\$ 4,741,625</u>

- (1) Does not include the fair value of embedded derivatives, which we have accounted for separately as freestanding derivatives and included in other assets or other accrued liabilities in our condensed consolidated balance sheet. See Note 4 for more information.
- (2) Does not include certain other invested assets that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient, as applicable accounting standards do not provide for classification within the fair value hierarchy.

Notes to Condensed Consolidated Financial Statements (Unaudited)
Note 14. 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 three months ended March 31:

(In thousands)	2023		2022	
Essent Guaranty				
Statutory net income	\$	123,936	\$	200,277
Statutory surplus		992,134		1,081,986
Contingency reserve liability		2,105,708		1,862,482
Essent PA				
Statutory net (loss) income	\$	(112)	\$	859
Statutory surplus		53,138		56,910
Contingency reserve liability		56,101		57,461

Net income determined in accordance with statutory accounting practices differs from GAAP. In 2023 and 2022, 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 March 31, 2023 and 2022, 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. In 2018, the GSEs released revised PMIERs framework ("PMIERs 2.0") which became effective on March 31, 2019. As of March 31, 2023, Essent Guaranty, our GSE-approved mortgage insurance company, was in compliance with PMIERs 2.0.

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. 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. During the three months ended March 31, 2023, Essent Guaranty increased its contingency reserve by \$57.0 million and Essent PA decreased its contingency reserve by \$0.6 million. During the three months ended March 31, 2023 and 2022, Essent Guaranty released contingency reserves of \$9.8 million and \$2.6 million,

Notes to Condensed Consolidated Financial Statements (Unaudited)

respectively, and Essent PA released contingency reserves of \$0.8 million and \$0.2 million, respectively, to unassigned funds upon completion of the 120 month holding period.

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, 2022, all such requirements were met.

Essent Re's statutory capital and surplus was \$1.6 billion as of March 31, 2023 and \$1.5 billion as of December 31, 2022. Essent Re's statutory net income was \$72.6 million and \$89.6 million for the three months ended March 31, 2023 and 2022, respectively. Statutory capital and surplus as of March 31, 2023 and December 31, 2022 and statutory net income in the three months ended March 31, 2023 and 2022 determined in accordance with statutory accounting practices were not significantly different than the amounts determined under GAAP.

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, 2022 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 months ended March 31, 2023 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 and Part II, Item 1A “Risk Factors” in this Quarterly 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 private mortgage insurance company. Essent Guaranty, Inc., our wholly-owned insurance subsidiary which we refer to as "Essent Guaranty," is licensed to write coverage in all 50 states and the District of Columbia. The financial strength ratings of Essent Guaranty are A3 with a stable outlook by Moody’s Investors Service (“Moody’s”), BBB+ with a stable outlook by S&P Global Ratings (“S&P”) and A (Excellent) with a stable outlook by A.M. Best.

Our holding company is domiciled in Bermuda and our U.S. insurance business is headquartered in Radnor, Pennsylvania. We operate an additional underwriting and service center in Winston-Salem, North Carolina. We have a highly experienced, talented team with 337 employees as of March 31, 2023. We generated new insurance written, or NIW, of approximately \$12.9 billion and \$12.8 billion for the three months ended March 31, 2023 and 2022, respectively. As of March 31, 2023, we had approximately \$231.5 billion of insurance in force.

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 March 31, 2023, Essent Re provided insurance or reinsurance relating to GSE risk share and other reinsurance transactions covering approximately \$2.1 billion of risk. Essent Re also reinsures Essent Guaranty’s NIW under a quota share reinsurance agreement. In April 2021, Essent Guaranty and Essent Re agreed to increase the quota share reinsurance coverage of Essent Guaranty’s NIW provided by Essent Re from 25% to 35% effective January 1, 2021. The quota share reinsurance coverage provided by Essent Re for Essent Guaranty’s NIW prior to January 1, 2021 will continue to be 25%, the quota share percentage in effect at the time NIW was first ceded. The insurer financial strength ratings of Essent Re are BBB+ with a stable outlook by S&P and A (Excellent) with a stable outlook by A.M. Best

COVID-19

Due to the novel coronavirus disease 2019 ("COVID-19"), we experienced a significant increase in the amount of new defaults reported in 2020, especially during the second and third quarters of 2020. We segmented these two quarters’ 49,398 defaults as specifically COVID-19 related (“Early COVID Defaults”) and provided losses for these two cohorts differently as compared to our normal loss reserving methodology. The default-to-claim transition patterns of the Early COVID Defaults have been different than our historical defaults. We believe that the borrowers associated with the Early COVID Defaults have been able to take advantage of foreclosure moratoriums and mortgage forbearance programs instituted by Federal legislation along with actions taken by the Federal Housing Finance Agency (“FHFA”), Fannie Mae and Freddie Mac (collectively the “GSEs”) which has extend traditional default-to-claim timelines. As a result of these programs, along with Federal stimulus, these borrowers associated with the Early COVID Defaults have had more resources and an extended time period to address the issues that triggered the default, that we believe will result in a higher cure rate, and correspondingly lower claim payments than historical defaults.

Over 90% of loans insured by Essent are federally backed by Fannie Mae or Freddie Mac. As a mortgage loan in forbearance is considered delinquent, we will provide loss reserves as loans in forbearance are reported to us as delinquent once the borrower has missed two consecutive payments. However, we believe providing borrowers time to recover from the adverse financial impact of the COVID-19 event may allow some families to be able to remain in their homes and avoid foreclosure.

As of March 31, 2023, approximately 99% of the Early COVID Defaults had cured. While this level of cure activity exceeded our initial expectations for the Early COVID Defaults, the transition of defaults to foreclosure or claim has not

returned to pre-pandemic levels. As a result, the level of defaults in the default inventory that have missed twelve or more payments is above pre-pandemic levels.

Current Economic Developments

The economy in the United States is currently experiencing elevated levels of consumer price inflation. The Federal Reserve has increased the target federal funds rate several times during 2022 and 2023 in an effort to reduce consumer price inflation. These rate increases have resulted in higher mortgage interest rates which may lower home sale activity and affect the options available to delinquent borrowers. The impact on our reserves in future periods will be dependent upon the amount of delinquent notices received from loan servicers and our expectations for the amount of ultimate losses on these delinquencies. As noted in “— Liquidity and Capital Resources,” Essent had substantial liquidity and had Available Assets in excess of Minimum Required Assets under PMIERS 2.0 as of March 31, 2023. Future increases in defaults may result in an increase in our provisions for loss and loss adjustment expenses compared to prior periods, reduced profit commission under our quota share reinsurance agreements with panels of third-party reinsurers (“the QSR Agreements”) and an increase in our Minimum Required Assets.

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.

The U.S. Internal Revenue Service and Department of the Treasury published both final and newly proposed regulations in January 2021 relating to the tax treatment of passive foreign investment companies (“PFICs”). The final regulations provide guidance on various PFIC rules, including changes resulting from the 2017 Tax Cuts and Jobs Act. In addition, the Company is evaluating the potential impact of the newly proposed PFIC regulations to its shareholders and business operations. The newly proposed regulations, among other provisions, set a limit on the amount of assets that may be deemed “non-passive assets” within the PFIC asset test of a foreign holding company.

On August 16, 2022, the “Inflation Reduction Act of 2022” (“IRA”), was enacted, which, among other things, provides for a corporate alternative minimum tax and an excise tax on corporate stock repurchases. Based on our current analysis of the provisions, we do not expect the IRA to have a material impact on our financial position or results of operations. As the IRS issues additional guidance related to the IRA, we will evaluate any potential impact to our consolidated financial statements.

The SEC issued a proposed rule in January 2023 that, among other things, prohibits certain participants in an asset-backed security, including a synthetic asset-backed security (synthetic ABS), from engaging in transactions that would involve or result in any material conflict of interest with respect to any investor in a transaction arising out of such activity (conflicted transaction). The definition of conflicted transactions is broadly defined and synthetic ABS could be broadly interpreted to include mortgage insurance linked notes (“ILNs”). If this SEC proposal is adopted as proposed, it could affect or prohibit our ability to enter into reinsurance transactions using ILNs. We are assessing the potential impact of the rule on future ILN reinsurance transactions if the rule is adopted as proposed.

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, or 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 net 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, the competition to provide credit enhancement on those mortgages, the number of customers who have approved us to provide mortgage insurance and changes in our NIW from certain customers;

- 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. 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 March 31, 2023 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 three months ended March 31, 2023 and 2022, monthly premium policies comprised 96% and 98% of our NIW, respectively.

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

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 84.4% at March 31, 2023. 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 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 March 31, 2023. 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 provision for credit losses or 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.

Income from Other Invested Assets

As part of our overall investment strategy, we also allocate a relatively small percentage of our portfolio to limited partnership investments in real estate, consumer credit and traditional venture capital and private equity investments. The

results of these investing activities are reported in income from other invested assets. These investments are generally accounted for under the equity method or fair value using net asset value (or its equivalent) as a practical expedient. For entities accounted for under the equity method that follow industry-specific guidance for investment companies, our proportionate share of earnings or losses includes changes in the fair value of the underlying assets of these entities. Fluctuations in the fair value of these entities may increase the volatility of the Company's reported results of operations.

Other Income

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

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 flat monthly fee which is recorded in other income. During 2022, Triad exercised its one year renewal option extending the services agreement through November 2023.

As more fully described in Note 4 to our condensed consolidated financial statements, the premiums ceded under certain reinsurance contracts with unaffiliated third parties varies based on changes in market interest rates. Under GAAP, these contracts contain embedded derivatives that are accounted for separately as freestanding derivatives. The change in the fair value of the embedded derivatives is reported in earnings and included in other income.

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;
- 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. As of March 31, 2023, 61% of our IIF relates to business written since January 1, 2021 and was less than three years old. 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 ("LAE"), 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, 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.

Based upon our experience and industry data, claims incidence for mortgage insurance is generally highest in the third through sixth years after loan origination. Claims incidence for defaults associated with COVID-19 may not follow this pattern. As of March 31, 2023, 61% of our IIF relates to business written since January 1, 2021 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.

Due to business restrictions, stay-at-home orders and travel restrictions initially implemented in March 2020 as a result of COVID-19, unemployment in the United States increased significantly in the second quarter of 2020, declining during the second half of 2020 through 2022. As unemployment is one of the most common reasons for borrowers to default on their mortgage, the increase in unemployment has increased the number of delinquencies on the mortgages we insure, and has the potential to increase claim frequencies on defaults. As a result, we received 36,784 defaults in the three months ended June 30, 2020 and 12,614 defaults in the three months ended September 30, 2020, which resulted in a significant increase in our default rate from 0.83% at March 31, 2020 to 4.54% at September 30, 2020.

In response to the COVID-19 pandemic, the United States government enacted a number of policies to provide fiscal stimulus to the economy and relief to those affected by this global disaster. Specifically, mortgage forbearance programs and foreclosure moratoriums were instituted by Federal legislation along with actions taken by FHFA and the GSEs. The mortgage forbearance plans permit these borrowers to temporarily reduce or suspend their mortgage payments for up to 18 months for loans in an active COVID-19-related forbearance program as of February 28, 2021. For borrowers that have the ability to begin to pay their mortgage at the end of the forbearance period, we expect that mortgage servicers will continue to work with them to modify their loans at which time the mortgage will be removed from delinquency status. We believe that the forbearance process could have a favorable effect on the frequency of claims that we ultimately pay. Based on the forbearance programs in place and the credit characteristics of the Early COVID Defaults, we believe that the ultimate number of Early COVID Defaults that result in claims will be less than our historical default-to-claim experience. Accordingly, we applied a lower reserve rate to the Early COVID Defaults than the rate used for defaults that had missed a comparable number of payments as of March 31, 2020 and in prior periods that did not have access to forbearance plans.

The defaulted loans reported to us in the second and third quarters of 2020 had reached the end of their forbearance periods as of March 31, 2022. During the first quarter of 2022, the Early COVID Defaults cured at elevated levels, and the cumulative cure rate for the Early COVID Defaults at March 31, 2022 exceeded our initial estimated cure rate implied by our estimate of ultimate loss for these defaults established at the onset of the pandemic. Based on cure activity through March 31, 2022 and our expectations for future cure activity, as of March 31, 2022, we lowered our estimate of ultimate loss for the Early COVID Defaults. During the three months ended June 30, 2022, Early COVID Defaults cured at levels that exceeded our estimate as of March 31, 2022, and we further lowered our estimate of loss for these defaults as of June 30, 2022 to 2% of the initial risk in force. These revisions to our estimate of ultimate loss for the Early COVID Defaults resulted in a benefit recorded to the provision for losses of \$164.1 million for the year ended December 31, 2022. Due to the level of Early COVID Defaults remaining in the default inventory, beginning in the third quarter of 2022, we resumed reserving for the Early COVID Defaults using our normal reserve methodology. While the level of cure activity for the Early COVID Defaults exceeded our initial expectations, the transition of defaults to foreclosure or claim has not returned to pre-pandemic levels as of March 31, 2023. As a result, the level of defaults in the default inventory that have missed twelve or more payments is above pre-pandemic levels.

The economy in the United States is currently experiencing elevated levels of consumer price inflation. The Federal Reserve has increased the target federal funds rate several times during 2022 and 2023 in an effort to reduce consumer price inflation. These rate increases have resulted in higher mortgage interest rates which may lower home sale activity and affect the options available to delinquent borrowers. It is reasonably possible that our estimate of losses could change in the near term as a result of changes in the economic environment, the impact of elevated levels of consumer price inflation on home sale activity, housing inventory, and home prices.

As more fully described in Note 4 to our condensed consolidated financial statements, at March 31, 2023, we had approximately \$2.1 billion of excess of loss reinsurance covering NIW from January 1, 2017 to December 31, 2022 and a quota share reinsurance on portions of our NIW effective September 1, 2019 through December 31, 2020 and January 1, 2022 through December 31, 2023. The impact on our reserves in future periods will be dependent upon the amount of delinquent notices received from loan servicers, the performance of 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 55% of other underwriting and operating expenses for the three months ended March 31, 2023, compared to 61% of other underwriting and operating expenses for the three months ended March 31, 2022. 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.

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 most 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. ("Essent Group") and its wholly-owned subsidiary, Essent Re, are domiciled in Bermuda, which does not have a corporate income tax. Under a quota share reinsurance agreement, Essent Re reinsures 25% of Essent Guaranty's NIW through December 31, 2020 and 35% of Essent Guaranty's NIW after December 31, 2020. 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 months ended March 31, 2023 and 2022 for our U.S. mortgage insurance portfolio. In addition, this table includes our RIF at the end of each period.

(In thousands)	Three Months Ended March 31,	
	2023	2022
IIF, beginning of period	\$ 227,062,055	\$ 207,190,544
NIW - Flow	12,893,789	12,841,482
Cancellations	(8,418,429)	(13,189,030)
IIF, end of period	\$ 231,537,415	\$ 206,842,996
Average IIF during the period	\$ 228,885,174	\$ 206,631,135
RIF, end of period	\$ 51,469,312	\$ 45,261,164

The following is a summary of our IIF at March 31, 2023 by vintage:

(\$ in thousands)	\$	%
2023 (through March 31)	12,813,737	5.5 %
2022	59,703,096	25.8 %
2021	69,593,624	30.1
2020	55,661,138	24.0
2019	14,135,010	6.1
2018	6,439,876	2.8
2017 and prior	13,190,936	5.7
	<u>\$ 231,537,417</u>	<u>100.0 %</u>

Average Net Premium Rate

Our average net premium rate is calculated by dividing net premiums earned for the U.S. mortgage insurance portfolio by average insurance in force for the period and 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 for NIW; and (5) premiums ceded under third-party reinsurance agreements. The following table presents the average net premium rate for our U.S. mortgage insurance portfolio:

	Three Months Ended March 31,	
	2023	2022
Base average premium rate	0.40 %	0.41 %
Single premium cancellations	—	0.02
Gross average premium rate	0.40	0.43
Ceded premiums	(0.06)	(0.04)
Net average premium rate	0.34 %	0.39 %

We anticipate that the continued use of third-party reinsurance along with changes to the level of future cancellations of non-refundable single premium policies and mix of IIF 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 March 31, 2023, our combined net risk in force for our U.S. insurance companies was \$33.0 billion and our combined statutory capital was \$3.2 billion, resulting in a risk-to-capital ratio of 10.3 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.

Results of Operations

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

Summary of Operations (In thousands)	Three Months Ended March 31,	
	2023	2022
Revenues:		
Net premiums written	\$ 205,900	\$ 199,731
Decrease in unearned premiums	5,358	15,599
Net premiums earned	211,258	215,330
Net investment income	43,236	24,680
Realized investment losses, net	(488)	(7,352)
(Loss) income from other invested assets	(2,702)	24,705
Other income	4,942	7,248
Total revenues	256,246	264,611
Losses and expenses:		
(Benefit) provision for losses and LAE	(180)	(106,858)
Other underwriting and operating expenses	48,195	40,796
Interest expense	6,936	2,226
Total losses and expenses	54,951	(63,836)
Income before income taxes	201,295	328,447
Income tax expense	30,468	54,280
Net income	\$ 170,827	\$ 274,167

Three Months Ended March 31, 2023 Compared to the Three Months Ended March 31, 2022

For the three months ended March 31, 2023, we reported net income of \$170.8 million, compared to net income of \$274.2 million for the three months ended March 31, 2022. The decrease in our operating results in 2023 over the same period in 2022 was primarily due to increases in the provision for losses and LAE, and other operating and underwriting expenses, as well as a decrease in income from other invested assets, partially offset by an increase in net investment income and a decrease in income taxes.

Net Premiums Written and Earned

Net premiums earned decreased in the three months ended March 31, 2023 by 2%, compared to the three months ended March 31, 2022 primarily due to the decrease in the average net premium rate, partially offset by increase in our average IIF from \$206.6 billion at March 31, 2022 to \$228.9 billion at March 31, 2023. The average net premium rate was 0.34% and 0.39% for the three months ended March 31, 2023 and 2022, respectively. See "—Key Performance Indicators—Average Net Premium Rate" above. In the three months ended March 31, 2023, premiums earned on the cancellation of non-refundable single premium policies decreased to \$1.8 million from \$9.1 million in the three months ended March 31, 2022 as a result of a decrease in existing borrowers refinancing their mortgages 2023 compared to the same period in 2022. In the three months ended March 31, 2023, ceded premiums increased to \$33.6 million from \$20.5 million in the three months ended March 31, 2022 due to a reduction in loss reserves ceded under our QSR Agreement that reduced ceded premium as well as additional risk ceded under our QSR Agreements and new third-party reinsurance agreements entered in 2022.

Net premiums written increased by 3% in the three months ended March 31, 2023 compared to the three months ended March 31, 2022 primarily due to an increase in average IIF in the three months ended March 31, 2023 compared to the same period in 2022, partially offset by an increase in premiums ceded under third-party reinsurance agreements, changes in the mix of mortgages we insure and changes in our pricing.

In the three months ended March 31, 2023 and 2022, unearned premiums decreased by \$5.4 million and \$15.6 million, respectively. The change in unearned premiums was a result of net premiums written on single premium policies of \$6.9

million and \$4.1 million, respectively, which was offset by \$12.3 million and \$19.7 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:

(In thousands)	Three Months Ended March 31,	
	2023	2022
Fixed maturities	\$ 43,473	\$ 26,223
Short-term investments	1,721	44
Gross investment income	45,194	26,267
Investment expenses	(1,958)	(1,587)
Net investment income	\$ 43,236	\$ 24,680

The increase in net investment income for the three months ended March 31, 2023 as compared to the same period in 2022 was due to an increase in the pre-tax investment income yield and an increase in the weighted average balance of our investment portfolio. The pre-tax investment income yield increased from 2.1% in the three months ended March 31, 2022 to 3.4% in the three months ended March 31, 2023 primarily due to a general increase in investment yields due to rising interest rates. The pre-tax investment income yields are calculated based on amortized cost and exclude investment expenses. The average cash and investment portfolio balance increased to \$5.3 billion for the three months ended March 31, 2023 from \$5.0 billion for the three months ended March 31, 2022 primarily due to investing cash flows from operations. See “— Liquidity and Capital Resources” for further details of our investment portfolio.

Income from Other Invested Assets

Income from other invested assets for the three months ended March 31, 2023 was a loss of \$2.7 million as compared to a gain of 24.7 million for the three months ended March 31, 2022. The decrease in income from other invested assets was primarily due to lower fair value adjustments recorded during the three months ended March 31, 2023 as compared to the same period in 2022.

Other Income

Other income for the three months ended March 31, 2023 was \$4.9 million as compared to \$7.2 million for the three months ended March 31, 2022. The decrease in other income for the three months ended March 31, 2023 as compared to the same period in 2022 was primarily due to changes in the fair value of the embedded derivatives contained in certain of our reinsurance agreements. In the three months ended March 31, 2023, we recorded an unfavorable decrease in the fair value of these embedded derivatives of \$0.4 million compared to a favorable increase in the fair value of the embedded derivatives of \$4.4 million in the three months ended March 31, 2022. Other income also includes Triad service fee income, contract underwriting revenues and underwriting consulting services to third-party reinsurers.

Provision for Losses and Loss Adjustment Expenses

The increase in the provision for losses and LAE in the three months ended March 31, 2023 as compared to the same periods in 2022 was primarily due to a decrease in the estimate of ultimate loss for Early COVID Defaults during the three months ended March 31, 2022 which resulted in a benefit recorded to the provision for losses of \$101.2 million. In the three months ended March 31, 2023 we recorded a benefit to the provision for losses of \$0.2 million primarily due to cure activity for defaults reported in prior years offset by a provision for losses recorded for current year defaults.

The following table presents a rollforward of insured loans in default for our U.S. mortgage insurance portfolio for the periods indicated:

	Three Months Ended March 31,	
	2023	2022
Beginning default inventory	13,433	16,963
Plus: new defaults	7,015	6,188
Less: cures	(7,574)	(8,167)
Less: claims paid	(94)	(55)
Less: rescissions and denials, net	(7)	(6)
Ending default inventory	12,773	14,923

The following table includes additional information about our loans in default as of the dates indicated for our U.S. mortgage insurance portfolio:

	As of March 31,	
	2023	2022
Case reserves (in thousands) (1)	\$ 199,108	\$ 270,292
Total reserves (in thousands) (1)	\$ 215,957	\$ 292,818
Ending default inventory	12,773	14,923
Average case reserve per default (in thousands)	\$ 15.6	\$ 18.1
Average total reserve per default (in thousands)	\$ 16.9	\$ 19.6
Default rate	1.57 %	1.93 %
Claims received included in ending default inventory	113	74

- (1) The U.S. mortgage insurance portfolio reserves exclude reserves on GSE and other risk share risk in force at Essent Re of \$0.1 million and \$0.3 million as of March 31, 2023 and 2022, respectively.

The following table provides a reconciliation of the beginning and ending reserve balances for losses and LAE:

(In thousands)	Three Months Ended March 31,	
	2023	2022
Reserve for losses and LAE at beginning of period	\$ 216,464	\$ 407,445
Less: Reinsurance recoverables	14,618	25,940
Net reserve for losses and LAE at beginning of period	201,846	381,505
Add provision for losses and LAE occurring in:		
Current period	32,694	24,369
Prior years	(32,874)	(131,227)
Incurred losses and LAE during the current period	(180)	(106,858)
Deduct payments for losses and LAE occurring in:		
Current period	—	1
Prior years	2,001	909
Loss and LAE payments during the current period	2,001	910
Net reserve for losses and LAE at end of period	199,665	273,737
Plus: Reinsurance recoverables	16,357	19,335
Reserve for losses and LAE at end of period	\$ 216,022	\$ 293,072

The following tables provide a detail of reserves and defaulted RIF by the number of missed payments and pending claims for our U.S. mortgage insurance portfolio:

As of March 31, 2023						
(\$ in thousands)	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	5,366	42 %	\$ 31,080	16 %	\$ 366,993	8 %
Four to eleven payments	5,106	40	78,125	39	363,299	22
Twelve or more payments	2,188	17	85,517	43	130,520	66
Pending claims	113	1	4,386	2	5,004	88
Total case reserves (1)	12,773	100 %	199,108	100 %	\$ 865,816	23
IBNR			14,933			
LAE			1,916			
Total reserves for losses and LAE (1)			\$ 215,957			

(1) The U.S. mortgage insurance portfolio reserves exclude reserves on GSE and other risk share risk in force at Essent Re of \$0.1 million as of March 31, 2023.

As of March 31, 2022						
(\$ in thousands)	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	4,338	29 %	\$ 21,348	8 %	\$ 269,069	8 %
Four to eleven payments	4,971	33	64,332	24	312,976	21
Twelve or more payments	5,540	37	181,859	67	347,926	52
Pending claims	74	1	2,753	1	3,341	82
Total case reserves (2)	14,923	100 %	270,292	100 %	\$ 933,312	29
IBNR			20,272			
LAE			2,254			
Total reserves for losses and LAE (2)			\$ 292,818			

(2) The U.S. mortgage insurance portfolio reserves exclude reserves on GSE and other risk share risk in force at Essent Re of \$0.3 million as of March 31, 2022.

During the three months ended March 31, 2023, the provision for losses and LAE was a benefit of \$0.2 million, comprised of \$32.9 million of favorable prior years' loss development partially offset by a provision of \$32.7 million for current year losses. During the three months ended March 31, 2022, the provision for losses and LAE was a benefit of \$106.9 million, comprised of \$131.2 million of favorable prior years' loss development partially offset by a provision of \$24.4 million for current year losses. 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 for the periods indicated:

(\$ in thousands)	Three Months Ended March 31,	
	2023	2022
Number of claims paid	94	55
Amount of claims paid	\$ 1,959	\$ 826
Claim severity	59 %	35 %

Other Underwriting and Operating Expenses

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

(\$ in thousands)	Three Months Ended March 31,			
	2023		2022	
	\$	%	\$	%
Compensation and benefits	\$ 26,629	55 %	\$ 24,830	61 %
Premium taxes	4,653	10	3,968	10
Other	16,913	35	11,998	29
Total other underwriting and operating expenses	<u>\$ 48,195</u>	<u>100 %</u>	<u>\$ 40,796</u>	<u>100 %</u>
Number of employees at end of period		337		347

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

- Compensation and benefits increased in the three months ended March 31, 2023 as compared to the three months ended March 31, 2022 due to increased salaries and wages, increased incentive compensation, and increased stock compensation expense largely due to shares granted in 2023 and 2022. Compensation and benefits includes salaries, wages and bonus, stock compensation expense, benefits and payroll taxes.
- Premium taxes increased primarily due to an increase in our effective premium tax rate.
- Other expenses increased primarily as a result of increases in professional fees and software related expenses partially offset by an increase in ceding commission earned under the QSR Agreement. In the three months ended March 31, 2023, other expenses included approximately \$3.4 million of transaction costs associated with the Company's announced title business acquisition. Other expenses include professional fees, travel, marketing, hardware, software, rent, depreciation and amortization and other facilities expenses.

Interest Expense

For each of the three months ended March 31, 2023 and 2022, we incurred interest expense of \$6.9 million and \$2.2 million, respectively. Interest expense increased due to an increase in the weighted average interest rate for borrowings outstanding. For the three months ended March 31, 2023, the borrowings under the Credit Facility had a weighted average interest rate of 6.28% as compared to 1.85% for the three months ended March 31, 2022. For the three months ended March 31, 2023 and March 31, 2022, the average amount outstanding under the Credit Facility was \$425.0 million, respectively.

Income Taxes

Our subsidiaries in the United States file a consolidated U.S. Federal income tax return. Our income tax expense was \$30.5 million and \$54.3 million for the three months ended March 31, 2023 and 2022, respectively. The provision for income taxes for the three months ended March 31, 2023 was calculated using an estimated annual effective tax rate of 15.1% as compared to an estimated annual effective tax rate of 16.0% for the three months ended March 31, 2022. For the three months ended March 31, 2023, income tax expense includes \$0.2 million of discrete tax benefit associated with realized and unrealized losses recognized during the period partially offset by excess tax deficits associated with the vesting of common shares and common share units. For the three months ended March 31, 2022, income tax expense includes \$7.0 million of discrete tax expense associated with realized and unrealized gains recognized during the period. The tax effects of discrete items are recognized in the reporting period in which they occur and are not considered in determining the annual effective tax rate.

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;
- 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;
- the other costs and operating expenses of our business;
- the repurchase of common shares under the share repurchase plan approved by our Board of Directors; and
- the payment of dividends on our common shares.

As of March 31, 2023, we had substantial liquidity with cash of \$68.6 million, short-term investments of \$347.8 million and fixed maturity investments of \$4.6 billion. We also had \$400 million available capacity under the revolving credit component of our Credit Facility, with \$425 million of borrowings outstanding under our Credit Facility. Borrowings under the Credit Facility contractually mature on December 10, 2026. Holding company net cash and investments available for sale totaled \$723.1 million at March 31, 2023. In addition, Essent Guaranty is a member of the Federal Home Loan Bank of Pittsburgh (the “FHLBank”) and has access to secured borrowing capacity with the FHLBank to provide Essent Guaranty with supplemental liquidity. Essent Guaranty had no outstanding borrowings with the FHLBank at March 31, 2023.

Management believes that the Company has sufficient liquidity available both at its holding companies 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, to respond to changes in the business or economic environment, to provide additional capital related to the growth of our risk in force in our mortgage insurance portfolio, or to fund new business initiatives. We regularly review potential investments and acquisitions, some of which may be material, that, if consummated, would expand our existing business or result in new lines of business, and at any given time we may be in discussions concerning possible transactions. In February 2023, we announced that Essent US Holdings, Inc. entered into an agreement to acquire the title insurance operations of a subsidiary of Finance of America Companies for \$100 million. 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 March 31, 2023, Essent Guaranty had unassigned surplus of approximately \$286.8 million and Essent PA had unassigned surplus of approximately \$14.1 million. As of March 31, 2023, Essent Guaranty and Essent PA could pay additional ordinary dividends in 2023 of \$286.8 million and \$5.3 million, respectively. 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 a minimum total equity of \$100 million. As of March 31, 2023, Essent Re had total equity of \$1.6 billion. 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 March 31, 2023, 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:

(In thousands)	Three Months Ended March 31,	
	2023	2022
Net cash provided by operating activities	\$ 184,789	\$ 180,629
Net cash (used in) provided by investing activities	(149,342)	38,893
Net cash used in financing activities	(48,054)	(97,168)
Net (decrease) increase in cash	\$ (12,607)	\$ 122,354

Operating Activities

Cash flow provided by operating activities totaled \$184.8 million for the three months ended March 31, 2023, as compared to \$180.6 million for the three months ended March 31, 2022. The increase in cash flow provided by operating activities was primarily due to an increase in premiums collected.

Investing Activities

Cash flow used in investing activities totaled \$149.3 million for three months ended March 31, 2023 compared to \$38.9 million provided by investing activities for the three months ended March 31, 2022. Cash flow used in 2023 investing activities related to investing cash flows from operations. Cash flow provided by 2022 investing activities primarily related to proceeds from the sales of investments available for sale associated with targeted repositioning of components of our investment portfolio partially offset by a net increase in short-term investments and purchases of investments available for sale.

Financing Activities

Cash flow used in financing activities totaled \$48.1 million \$97.2 million for the three months ended March 31, 2023 and 2022, respectively, primarily related to the quarterly cash dividends paid, repurchases of common stock under our share repurchase plans and 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, 2023 and 2022, no capital contributions were made to our U.S. insurance subsidiaries and Essent Guaranty paid dividends to Essent US Holdings, Inc. of \$90 million and \$100 million, respectively.

Essent Guaranty has entered into reinsurance agreements that provide excess of loss reinsurance coverage for new defaults on portfolios of mortgage insurance policies issued in 2017 through December 31, 2022. The aggregate excess of loss reinsurance coverages decrease over a ten-year period as the underlying covered mortgages amortize. Based on the level of delinquencies reported to us, the insurance-linked note transactions (the "ILNs") that Essent Guaranty has entered into prior to March 31, 2020 became subject to a "trigger event" as of June 25, 2020. The aggregate excess of loss reinsurance coverage will not amortize during the continuation of a trigger event. Radnor Re 2020-1 was no longer subject to a trigger event as of July 25, 2022.

Essent Guaranty has entered into a quota share reinsurance agreement with a panel of third-party reinsurers ("QSR" agreement"). Each of the third-party reinsurers has an insurer minimum financial strength rating of A- or better by S&P Global Ratings, A.M. Best or both. Under each QSR agreement, Essent Guaranty will cede premiums on a percentage of risk on all eligible policies written during a specified period, in exchange for reimbursement of ceded claims and claims expenses on covered policies, a specific ceding commission, as well as a profit commission that varies directly and inversely with ceded claims. These reinsurance coverages also reduces net risk in force and PMIERS Minimum Required Assets. See Note 4 to our condensed consolidated financial statements.

The following tables summarizes Essent Guaranty's QSR agreements as of March 31, 2023:

QSR Agreement	Eligible Policy Period	Ceding Percentage	Ceding Commission	Profit Commission
QSR-2019	September 1, 2019-December 31, 2020	(1)	20%	63% (2)
QSR-2022	January 1, 2022-December 31, 2022	20%	20%	62%
QSR-2023	January 1, 2023-December 31, 2023	17.5%	20%	58%

- (1) Under QSR-2019, Essent Guaranty cedes 40% of premiums on singles policies and 20% on all other policies.
- (2) The initial profit commission on QSR-2019 was up to 60%. Since Essent Guaranty did not exercise its option to terminate this QSR agreement on December 31, 2021, the maximum profit commission that Essent Guaranty could earn increased to 63% in 2022 and thereafter.

Our combined risk-to-capital calculation for our U.S. insurance subsidiaries as of March 31, 2023 was as follows:

Combined statutory capital:
(\$ in thousands)

Policyholders' surplus	\$	2,161,810
Contingency reserves		1,045,292
Combined statutory capital	\$	3,207,102
Combined net risk in force	\$	33,038,825
Combined risk-to-capital ratio		10.3:1

For additional information regarding regulatory capital, see Note 14 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 GSE and other risk share transactions, including insurance and reinsurance transactions with Freddie Mac and Fannie Mae. Under a quota share reinsurance agreement, Essent Re reinsures 25% of Essent Guaranty's NIW through December 31, 2020 and 35% of Essent Guaranty's NIW after December 31, 2020. During the three months ended March 31, 2023 and 2022, Essent Re paid no dividends to Essent Group and Essent Group made no capital contributions to Essent Re. As of March 31, 2023, Essent Re had total stockholders' equity of \$1.6 billion and net risk in force of \$20.3 billion.

Financial Strength Ratings

The insurer financial strength rating of Essent Guaranty, our principal mortgage insurance subsidiary, is rated A3 with a stable outlook by Moody's Investors Service ("Moody's"), BBB+ with a stable outlook by S&P and A (Excellent) with stable outlook by A.M. Best. The insurer financial strength rating of Essent Re is BBB+ with a stable outlook by S&P and A (Excellent) with stable outlook by A.M. Best.

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. In 2018, the GSEs released revised PMIERs framework ("PMIERs 2.0") which became effective on March 31, 2019. As of March 31, 2023, Essent Guaranty, our GSE-approved mortgage insurance company, was in compliance with PMIERs 2.0. As of March 31, 2023, Essent Guaranty's Available Assets were \$3.23 billion or 168% of its Minimum Required Assets of \$1.92 billion based on our interpretation of PMIERs 2.0.

Under PMIERs guidance issued by the GSEs effective June 30, 2020, Essent will apply a 0.30 multiplier to the risk-based required asset amount factor for each insured loan in default backed by a property located in a Federal Emergency Management Agency ("FEMA") Declared Major Disaster Area eligible for Individual Assistance and that either 1) is subject to a forbearance plan granted in response to a FEMA Declared Major Disaster, the terms of which are materially consistent with terms of forbearance plans, repayment plans or loan modification trial period offered by Fannie Mae or Freddie Mac, or 2) has an initial missed payment occurring up to either (i) 30 days prior to the first day of the incident period specified in the FEMA Major Disaster Declaration or (ii) 90 days following the last day of the incident period specified in the FEMA Major Disaster Declaration, not to exceed 180 days from the first day of the incident period specified in the FEMA Major Disaster Declaration. In the case of the foregoing, the 0.30 multiplier shall be applied to the risk-based required asset amount factor for a non-performing primary mortgage guaranty insurance loan for no longer than three calendar months beginning with the month the loan becomes a non-performing primary mortgage guaranty insurance loan by reaching two missed monthly payments absent a forbearance plan described in 1) above. Further, under temporary provisions provided by the PMIERs guidance, Essent will apply a 0.30 multiplier to the risk-based required asset amount factor for each insured loan in default backed by a property that has an initial missed payment occurring on or after March 1, 2020 and prior to April 1, 2021 (COVID-19 Crisis Period). The 0.30 multiplier will be applicable for insured loans in default 1) subject to a forbearance plan granted in response to a financial hardship related to COVID-19 (which shall be assumed to be the case for any loan that has an initial missed payment occurring during the COVID-19 Crisis Period and is subject to a forbearance plan, repayment plan or loan modification trial period), the terms of which are materially consistent with terms offered by Fannie Mae or Freddie Mac or 2) for no longer than three calendar months beginning with the month the loan becomes a non-performing primary mortgage guaranty insurance loan by reaching two missed monthly payments.

Financial Condition

Stockholders' Equity

As of March 31, 2023, stockholders' equity was \$4.65 billion, compared to \$4.46 billion as of December 31, 2022. Stockholders' equity increased primarily due to net income generated in 2023 and a decrease in accumulated other comprehensive loss related to a decrease in our net unrealized investment losses, partially offset by dividends paid and the repurchase of common shares under our share repurchase plan.

Investments

As of March 31, 2023, investments totaled \$5.2 billion compared to \$5.0 billion as of December 31, 2022. In addition, our total cash was \$68.6 million as of March 31, 2023, compared to \$81.2 million as of December 31, 2022. The increase in investments was primarily due to investing net cash flows from operations during the three months ended March 31, 2023 and a decrease in our net unrealized investment losses.

Investments Available for Sale by Asset Class

Asset Class (\$ in thousands)	March 31, 2023		December 31, 2022	
	Fair Value	Percent	Fair Value	Percent
U.S. Treasury securities	\$ 475,784	9.6 %	\$ 556,438	11.7 %
U.S. agency securities	12,690	0.3	49,058	1.0
U.S. agency mortgage-backed securities	850,124	17.2	783,743	16.5
Municipal debt securities(1)	609,010	12.3	602,690	12.8
Non-U.S. government securities	63,018	1.3	62,399	1.3
Corporate debt securities(2)	1,462,596	29.5	1,414,321	29.8
Residential and commercial mortgage securities	542,013	10.9	511,824	10.8
Asset-backed securities	648,109	13.1	624,561	13.2
Money market funds	286,692	5.8	136,591	2.9
Total Investments Available for Sale	\$ 4,950,036	100.0 %	\$ 4,741,625	100.0 %

(1) The following table summarizes municipal debt securities as of :

	March 31, 2023	December 31, 2022
Special revenue bonds	81.4 %	79.0 %
General obligation bonds	18.5	20.9
Tax allocation bonds	0.1	0.1
Total	100.0 %	100.0 %

(2) The following table summarizes corporate debt securities as of :

	March 31, 2023	December 31, 2022
Financial	40.8 %	40.5 %
Consumer, non-cyclical	18.5	17.9
Consumer, cyclical	7.2	6.8
Industrial	6.7	6.8
Utilities	5.7	6.1
Communications	8.6	8.4
Technology	4.8	4.9
Energy	5.5	6.4
Basic Materials	2.1	2.1
Government	0.1	0.1
Total	100.0 %	100.0 %

Investments Available for Sale by Rating

Rating (1) (\$ in thousands)	March 31, 2023		December 31, 2022	
	Fair Value	Percent	Fair Value	Percent
Aaa	\$ 2,152,791	46.1 %	\$ 2,122,599	46.2 %
Aa1	106,131	2.3	111,262	2.4
Aa2	329,046	7.1	325,241	7.1
Aa3	233,021	5.0	232,500	5.0
A1	407,348	8.7	396,095	8.6
A2	388,296	8.3	410,163	8.9
A3	281,073	6.0	268,928	5.8
Baa1	246,921	5.3	236,793	5.1
Baa2	245,523	5.3	221,308	4.8
Baa3	175,828	3.8	187,117	4.1
Below Baa3	97,366	2.1	93,028	2.0
Total (2)	\$ 4,663,344	100.0 %	\$ 4,605,034	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.

(2) Excludes \$286,692 and \$136,591 of money market funds at March 31, 2023 and December 31, 2022, respectively.

Investments Available for Sale by Effective Duration

Effective Duration (\$ in thousands)	March 31, 2023		December 31, 2022	
	Fair Value	Percent	Fair Value	Percent
< 1 Year	\$ 1,297,860	26.2 %	\$ 1,245,839	26.3 %
1 to < 2 Years	517,407	10.5	534,038	11.3
2 to < 3 Years	416,003	8.4	511,701	10.8
3 to < 4 Years	586,055	11.8	525,683	11.1
4 to < 5 Years	438,784	8.9	400,540	8.4
5 or more Years	1,693,927	34.2	1,523,824	32.1
Total Investments Available for Sale	\$ 4,950,036	100.0 %	\$ 4,741,625	100.0 %

Top Ten Investments Available for Sale Holdings

Rank (\$ in thousands)	March 31, 2023				
	Security	Fair Value	Amortized Cost	Unrealized Gain (Loss)(1)	Credit Rating(2)
1	US Treasury 2.875% 06/15/2025	\$ 40,295	\$ 40,949	\$ (654)	Aaa
2	US Treasury 1.500% 08/15/2026	31,556	34,385	(2,829)	Aaa
3	Freddie Mac 5.500% 11/01/2052	29,946	30,205	(259)	Aaa
4	US Treasury 0.250% 05/31/2025	23,629	25,588	(1,959)	Aaa
5	US Treasury 2.500% 01/31/2024	20,019	20,391	(372)	Aaa
6	US Treasury 2.625% 06/30/2023	19,651	19,743	(92)	Aaa
7	US Treasury 2.000% 04/30/2024	19,517	19,580	(63)	Aaa
8	US Treasury 0.875% 06/30/2026	17,918	19,641	(1,723)	Aaa
9	US Treasury 0.125% 10/15/2023	17,195	17,619	(424)	Aaa
10	US Treasury 5.250% 11/15/2028	16,477	17,671	(1,194)	Aaa
Total		<u>\$ 236,203</u>	<u>\$ 245,772</u>	<u>\$ (9,569)</u>	
Percent of Investments Available for Sale		<u>4.8 %</u>			

(1) As of March 31, 2023, for securities in an unrealized loss position, management believes the declines in fair value are principally associated with the changes in the interest rate environment subsequent to its 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 available for sale 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, 2022	
	Security	Fair Value
1	US Treasury 2.875% 06/15/2025	\$ 39,908
2	US Treasury 1.500% 08/15/2026	31,025
3	Federal Home Loan Banks 0.000% 01/03/2023	27,080
4	US Treasury 0.250% 05/31/2025	23,249
5	US Treasury 2.500% 01/31/2024	19,911
6	US Treasury 0.000% 02/23/2023	19,879
7	US Treasury 2.625% 06/30/2023	19,562
8	US Treasury 2.000% 04/30/2024	19,369
9	US Treasury 0.875% 06/30/2026	17,584
10	US Treasury 0.125% 10/15/2023	17,003
Total		<u>\$ 234,570</u>
Percent of Investments Available for Sale		<u>4.9 %</u>

The following tables include municipal debt securities for states that represent more than 10% of the total municipal bond position as of March 31, 2023:

(\$ in thousands)	Fair Value	Amortized Cost	Credit Rating (1), (2)
New York			
New York City Transitional Finance Authority Future Tax Secured Revenue	\$ 12,017	\$ 12,547	Aa1
City of New York NY	9,187	8,967	Aa2
Metropolitan Transportation Authority	6,640	6,959	A3
Port Authority of New York & New Jersey	6,435	7,085	Aa3
Metropolitan Transportation Authority Payroll Mobility Tax Revenue	6,431	7,204	Aa1
State of New York Sales Tax Revenue	4,616	4,936	Aa1
State of New York Personal Income Tax Revenue	4,615	4,677	Aa1
State University of New York Dormitory Facilities Revenue	3,897	3,981	Aa3
University of Rochester	3,412	3,234	Aa3
New York City Water & Sewer System	2,995	2,923	Aa1
New York City Transitional Finance Authority Building Aid Revenue	2,768	2,782	Aa2
Triborough Bridge & Tunnel Authority	2,710	2,640	Aa3
Research Foundation of State University of New York/The	2,344	2,470	A1
Rochester Institute of Technology	2,183	2,230	A1
City of Yonkers NY	2,147	2,289	A3
Long Island Power Authority	1,688	1,669	A2
Trustees of Columbia University in the City of New York/The	1,319	1,309	Aaa
New York State Thruway Authority	1,279	1,274	A1
Yankee Stadium LLC	711	793	A1
New York University	281	281	Aa2
County of Nassau NY	277	273	A1
	<u>\$ 77,952</u>	<u>\$ 80,523</u>	

(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

Essent Guaranty has entered into fully collateralized reinsurance agreements ("Radnor Re Transactions") with unaffiliated special purpose insurers domiciled in Bermuda. The Radnor Re special purpose insurers are special purpose variable interest entities that are not consolidated in our condensed consolidated financial statements because we do not have the unilateral power to direct those activities that are significant to their economic performance. As of March 31, 2023, our estimated off-balance sheet maximum exposure to loss from the Radnor Re entities was \$0.5 million, representing the estimated net present value of investment earnings on the assets in the reinsurance trusts. 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 2022 Form 10-K. See Note 2 to our condensed consolidated financial statements for recently issued accounting standards adopted or under evaluation.

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 March 31, 2023, the effective duration of our investments available for sale 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 investments available for sale. Excluding short-term investments, our investments available for sale effective duration was 4.3 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 4.3% in fair value of our investments available for sale.

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 March 31, 2023, 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.

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, 2022. Except as discussed below, 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, along with the disclosure below 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

The table below sets forth information regarding repurchases of our common shares during the three months ended March 31, 2023.

Period (\$ in thousands, except per share amounts)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 1 - January 31, 2023	4,848	\$ 38.55	—	
February 1 - February 28, 2023	—	N/A	—	
March 1 - March 31, 2023	497,983	\$ 38.99	431,904	
Total	502,831		431,904	\$ 233,433

- (1) As of March 31, 2023, the Company was authorized to purchase up to \$250 million of its common shares, announced in May 2022, of which \$16.6 million had been utilized. The remaining \$233.4 million in the table represents the amount available to repurchase shares under the share repurchase plan as of March 31, 2023. In April 2023, the Company repurchased an additional 374 thousand shares at a total cost of \$15.1 million. After the April repurchases, the amount remaining under the share repurchase plan was \$218.3 million.

Item 6. Exhibits

(a) Exhibits:

Exhibit No.	Description
10.1	* Offer Letter between Essent US Holdings, Inc. and David Weinstock dated March 14, 2023 (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K (File No. 001-36157) filed on March 15, 2023)
10.2	* Essent Group Ltd. 2013 Long-Term Incentive Plan, as amended and restated
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 March 31, 2023, formatted in Inline XBRL: (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).
*	Management contract or compensatory plan or arrangement.

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: May 9, 2023

/s/ MARK A. CASALE
Mark A. Casale
President, Chief Executive Officer and Chairman
(Principal Executive Officer)

Date: May 9, 2023

/s/ DAVID B. WEINSTOCK
David B. Weinstock
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

**SECOND AMENDED AND RESTATED
ESSENT GROUP LTD.
2013 LONG-TERM INCENTIVE PLAN
ADOPTED BY THE BOARD OF DIRECTORS: FEBRUARY 7, 2023
APPROVED BY THE SHAREHOLDERS: MAY 2, 2023
TERMINATION DATE: FEBRUARY 7, 2023**

1. Purpose.

The purpose of the Plan is to assist the Company in attracting, retaining, motivating, and rewarding certain employees, officers, directors, and consultants of the Company and its Affiliates and promoting the creation of long-term value for stockholders of the Company by closely aligning the interests of such individuals with those of such stockholders. The Plan authorizes the award of Stock-based and cash-based incentives to Eligible Persons to encourage such Eligible Persons to expend maximum effort in the creation of stockholder value. The Plan was originally adopted on October 30, 2013, was subsequently amended and restated on February 8, 2017 and was further amended and restated in its present form on February 7, 2023 (the “Second Restatement Date”), subject to the approval of the Company’s shareholders to, among other things, extend the termination date of the Plan to the tenth anniversary of the Second Restatement Date.

2. Definitions.

For purposes of the Plan, the following terms shall be defined as set forth below:

(a) “Affiliate” means, with respect to any Person, any other Person that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such Person.

(b) “Award” means any Option, Restricted Stock, Restricted Stock Unit, Stock Appreciation Right, Performance Award, or other Stock-based award granted under the Plan.

(c) “Award Agreement” means an Option Agreement, a Restricted Stock Agreement, an RSU Agreement, a SAR Agreement, a Performance Award Agreement, or an agreement governing the grant of any other Stock-based Award granted under the Plan.

(d) “Board” means the Board of Directors of the Company.

(e) “Cause” means, with respect to any Participant and in the absence of an Award Agreement or Participant Agreement otherwise defining Cause, (1) the Participant’s plea of *nolo contendere*, conviction of or indictment for, any crime (whether or not involving the Company or its Affiliates) (i) constituting a felony or (ii) that has, or could reasonably be expected to result in, an adverse impact on the performance of the Participant’s duties to the Service Recipient, or otherwise has, or could reasonably be expected to result in, an adverse impact on the business or reputation of the Company or its Affiliates, (2) conduct of the Participant, in connection with the Participant’s employment or service, that has resulted, or could reasonably be expected to result, in material injury to the business or reputation of the Company or its Affiliates, (3) any material violation of the policies of the Company or its Affiliates, including, but not limited to, those relating to sexual harassment or the disclosure or misuse of confidential information, or those set forth in the manuals or statements of policy of the Company or its Affiliates; or (4) willful neglect in the performance of the Participant’s duties for the Service Recipient or willful or repeated failure or refusal to perform such duties. In the event that there is an Award Agreement or Participant Agreement defining Cause, “Cause” shall

have the meaning provided in such agreement, and a Termination by the Service Recipient for Cause hereunder shall not be deemed to have occurred unless all applicable notice and cure periods in such Award Agreement or Participant Agreement are complied with.

(f) “Change in Control” means the first of the following to occur after the Effective Date:

(1) *Acquisition of Controlling Interest.* Any Person or group of Persons acting in concert (other than Persons who are employees at any time more than one year before a transaction) becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing thirty-five percent (35%) or more of the combined voting power of the Company’s then outstanding securities, excluding, however, the following: (A) any acquisition directly from the Company, (B) any acquisition by the Company; (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; or (D) any underwriter temporarily holding securities pursuant to an offering of such securities. In applying the preceding sentence, an agreement to vote securities shall be disregarded unless its ultimate purpose is to cause what would otherwise be Change in Control, as reasonably determined by the Board.

(2) *Change in Board Control.* During any consecutive one-year period commencing after the Effective Date, individuals who constituted the Board at the beginning of the period (or their approved replacements, as defined in the next sentence) cease for any reason to constitute a majority of the Board. A new director shall be considered an “approved replacement” director if his or her election (or nomination for election) was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of the period or were themselves approved replacement directors, but in either case excluding any director whose initial assumption of office occurred as a result of an actual or threatened solicitation of proxies or consents by or on behalf of any Person other than the Board.

(3) *Merger.* The Company consummates a merger, or consolidation of the Company with any other corporation unless: (a) the voting securities of the Company outstanding immediately before the merger or consolidation would continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; and (b) no Person (other than Persons who are employees at any time more than one year before the transaction) becomes the beneficial owner, directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company’s then outstanding securities.

(4) *Sale of Assets.* The Company consummates a sale or disposition of all, or substantially all, of the Company’s assets.

(5) *Liquidation or Dissolution.* The Company implements a plan for liquidation or dissolution of the Company.

Notwithstanding the foregoing, (x) a “Change in Control” shall not be deemed to have occurred by virtue of the consummation of any transaction or series of integrated transactions immediately following which the record holders of the common stock of the Company immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company

immediately following such transaction or series of transactions and (y) with respect to the payment of any amount that constitutes a deferral of compensation subject to Section 409A of the Code payable upon a Change in Control, a “Change in Control” shall not be deemed to have occurred unless the Change in Control constitutes a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company under Section 409A(a)(2)(A)(v) of the Code.

(g) “Code” means the U.S. Internal Revenue Code of 1986, as amended from time to time, including the rules and regulations thereunder and any successor provisions, rules and regulations thereto.

(h) “Committee” means the Board or such other committee consisting of two or more individuals appointed by the Board to administer the Plan and each other individual or committee of individuals designated to exercise authority under the Plan.

(i) “Company” means Essent Group Ltd., a limited liability company organized under the laws of Bermuda, and its successors by operation of law.

(j) “Corporate Event” has the meaning set forth in Section 11(b) hereof.

(k) “Data” has the meaning set forth in Section 21(e) hereof.

(l) “Disability” means, in the absence of an Award Agreement or Participant Agreement otherwise defining Disability, the permanent and total disability of such Participant within the meaning of Section 22(e)(3) of the Code. In the event that there is an Award Agreement or Participant Agreement defining Disability, “Disability” shall have the meaning provided in such Award Agreement or Participant Agreement.

(m) “Disqualifying Disposition” means any disposition (including any sale) of Stock acquired upon the exercise of an Incentive Stock Option made within the period that ends either (1) two years after the date on which the Participant was granted the Incentive Stock Option or (2) one year after the date upon which the Participant acquired the Stock.

(n) “Effective Date” means October 30, 2013.

(o) “Eligible Person” means (1) each employee and officer of the Company or any of its Affiliates, including each such employee and officer who may also be a director of the Company or any of its Affiliates, (2) each non-employee director of the Company or any of its Affiliates, (3) each other natural Person who provides substantial services to the Company or any of its Affiliates as a consultant or advisor (or a wholly owned alter ego entity of the natural Person providing such services of which such Person is an employee, shareholder or partner) and who is designated as eligible by the Committee, and (4) each natural Person who has been offered employment by the Company or any of its Affiliates; *provided* that such prospective employee may not receive any payment or exercise any right relating to an Award until such Person has commenced employment or service with the Company or its Affiliates; provided further, however, that (i) with respect to any Award that is intended to qualify as a “stock right” that does not provide for a “deferral of compensation” within the meaning of Section 409A of the Code, the term Affiliate as used in this Section 2(o) shall include only those corporations or other entities in the unbroken chain of corporations or other entities beginning with the Company where each of the corporations or other entities in the unbroken chain other than the last corporation or other entity owns stock possessing at least fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations or other entities in the chain, and (ii) with respect to any Award that is intended to qualify as an Incentive Stock Option, the term “Affiliate” as used in this Section 2(o) shall include only those entities that

qualify as a “subsidiary corporation” with respect to the Company within the meaning of Section 424(f) of the Code. An employee on an approved leave of absence may be considered as still in the employ of the Company or any of its Affiliates for purposes of eligibility for participation in the Plan.

(p) “Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended from time to time, including the rules and regulations thereunder and any successor provisions, rules and regulations thereto.

(q) “Expiration Date” means, with respect to an Option or Stock Appreciation Right, the date on which the term of such Option or Stock Appreciation Right expires, as determined under Section 5(b) or 8(b) hereof, as applicable.

(r) “Fair Market Value” means, as of any date when the Stock is listed on one or more national securities exchanges, the closing price reported on the principal national securities exchange on which such Stock is listed and traded on the date of determination or, if the closing price is not reported on such date of determination, the closing price reported on the most recent date prior to the date of determination. If the Stock is not listed on a national securities exchange, “Fair Market Value” shall mean the amount determined by the Board in good faith, and in a manner consistent with Section 409A of the Code, to be the fair market value per share of Stock.

(s) “GAAP” means the U.S. Generally Accepted Accounting Principles, as in effect from time to time.

(t) “Incentive Stock Option” means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(u) “Nonqualified Stock Option” means an Option not intended to qualify as an Incentive Stock Option.

(v) “Option” means a conditional right, granted to a Participant under Section 5 hereof, to purchase Stock at a specified price during a specified time period.

(w) “Option Agreement” means a written agreement (including an electronic writing to the extent permitted by applicable law) between the Company and a Participant evidencing the terms and conditions of an individual Option grant.

(x) “Participant” means an Eligible Person who has been granted an Award under the Plan or, if applicable, such other Person who holds an Award.

(y) “Participant Agreement” means an employment or other services agreement between a Participant and the Service Recipient that describes the terms and conditions of such Participant’s employment or service with the Service Recipient and is effective as of the date of determination.

(z) “Performance Award” means an Award granted to a Participant under Section 9 hereof, which Award is subject to the achievement of Performance Objectives during a Performance Period. A Performance Award shall be designated as a Performance Share or a Performance Unit at the time of grant.

(aa) “Performance Award Agreement” means a written agreement (including an electronic writing to the extent permitted by applicable law) between the Company and a Participant evidencing the terms and conditions of an individual Performance Award grant.

(ab) “Performance Objectives” means the performance objectives established pursuant to the Plan for Participants who have received Performance Awards.

(ac) “Performance Period” means the period of time designated by the Committee over which the achievement of one or more Performance Objectives will be measured for the purpose of determining a Participant’s right to and the payment of an Award. Performance Periods may be of varying and overlapping duration, at the sole discretion of the Committee.

(ad) “Performance Share” means a Performance Award denominated in shares of Stock which may be earned in whole or in part based upon the achievement of Performance Objectives during a Performance Period.

(ae) “Performance Unit” means a Performance Award denominated as a notional unit representing the right to receive one share of Stock (or the cash value of one share of Stock, if so determined by the Committee) which may be earned in whole or in part based upon the achievement of Performance Objectives during a Performance Period.

(af) “Person” means any individual, corporation, partnership, firm, joint venture, association, joint-stock company, trust, unincorporated organization, or other entity.

(ag) “Plan” means this Essent Group Ltd. 2013 Long-Term Incentive Plan, as may be amended from time to time.

(ah) “Qualified Member” means a member of the Committee who is a “Non-Employee Director” within the meaning of Rule 16b3 under the Exchange Act and an “independent director” as defined under, as applicable, the NASDAQ Listing Rules, the NYSE Listed Company Manual or other applicable stock exchange rules.

(ai) “Qualifying Committee” has the meaning set forth in Section 3(b) hereof.

(aj) “Restricted Stock” means Stock granted to a Participant under Section 6 hereof that is subject to certain restrictions and to a risk of forfeiture.

(ak) “Restricted Stock Agreement” means a written agreement (including an electronic writing to the extent permitted by applicable law) between the Company and a Participant evidencing the terms and conditions of an individual Restricted Stock grant.

(al) “Restricted Stock Unit” means a notional unit representing the right to receive one share of Stock (or the cash value of one share of Stock, if so determined by the Committee) on a specified settlement date.

(am) “RSU Agreement” means a written agreement (including an electronic writing to the extent permitted by applicable law) between the Company and a Participant evidencing the terms and conditions of an individual grant of Restricted Stock Units.

(an) “SAR Agreement” means a written agreement (including an electronic writing to the extent permitted by applicable law) between the Company and a Participant evidencing the terms and conditions of an individual grant of Stock Appreciation Rights.

(ao) “Securities Act” means the U.S. Securities Act of 1933, as amended from time to time, including the rules and regulations thereunder and any successor provisions, rules and regulations thereto.

(ap) “Service Recipient” means, with respect to a Participant holding an Award, either the Company or an Affiliate of the Company by which the original recipient of such Award is, or following a Termination was most recently, principally employed or to which such original recipient provides, or following a Termination was most recently providing, services, as applicable.

(aq) “Stock” means the Company’s common shares, par value \$0.015 per share, and such other securities as may be substituted for such stock pursuant to Section 11 hereof.

(ar) “Stock Appreciation Right” means a conditional right to receive an amount equal to the value of the appreciation in the Stock over a specified period. Except in the event of extraordinary circumstances, as determined in the sole discretion of the Committee, or pursuant to Section 11(b) hereof, Stock Appreciation Rights shall be settled in Stock.

(as) “Substitute Award” has the meaning set forth in Section 4(a) hereof.

(at) “Termination” means the termination of a Participant’s employment or service, as applicable, with the Service Recipient; *provided, however*, that, if so determined by the Committee at the time of any change in status in relation to the Service Recipient (*e.g.*, a Participant ceases to be an employee and begins providing services as a consultant, or vice versa), such change in status will not be deemed a Termination hereunder. Unless otherwise determined by the Committee, in the event that the Service Recipient ceases to be an Affiliate of the Company (by reason of sale, divestiture, spin-off, or other similar transaction), unless a Participant’s employment or service is transferred to another entity that would constitute the Service Recipient immediately following such transaction, such Participant shall be deemed to have suffered a Termination hereunder as of the date of the consummation of such transaction. Notwithstanding anything herein to the contrary, a Participant’s change in status in relation to the Service Recipient (for example, a change from employee to consultant) shall not be deemed a Termination hereunder with respect to any Awards constituting “nonqualified deferred compensation” subject to Section 409A of the Code that are payable upon a Termination unless such change in status constitutes a “separation from service” within the meaning of Section 409A of the Code. Any payments in respect of an Award constituting nonqualified deferred compensation subject to Section 409A of the Code that are payable upon a Termination shall be delayed for such period as may be necessary to meet the requirements of Section 409A(a)(2)(B)(i) of the Code. On the first business day following the expiration of such period, the Participant shall be paid, in a single lump sum without interest, an amount equal to the aggregate amount of all payments delayed pursuant to the preceding sentence, and any remaining payments not so delayed shall continue to be paid pursuant to the payment schedule applicable to such Award.

3. Administration.

(a) Authority of the Committee. Except as otherwise provided below, the Plan shall be administered by the Committee. The Committee shall have full and final authority, in each case subject to and consistent with the provisions of the Plan, to (1) select Eligible Persons to become Participants, (2) grant Awards, (3) determine the type, number of shares of Stock subject to, other terms and conditions of, and all other matters relating to, Awards, (4) prescribe Award Agreements (which need not be identical for each Participant) and rules and regulations for the administration of the Plan, (5) construe and interpret the Plan and Award Agreements and correct defects, supply omissions, and reconcile inconsistencies therein, (6) suspend the right to exercise Awards during any period that the Committee deems appropriate to comply with applicable securities laws, and thereafter extend the exercise period of an Award by an equivalent period of time or such shorter period required by, or necessary to comply with,

applicable law, and (7) make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the Plan. Any action of the Committee shall be final, conclusive, and binding on all Persons, including, without limitation, the Company, its stockholders and Affiliates, Eligible Persons, Participants, and beneficiaries of Participants. Notwithstanding anything in the Plan to the contrary, the Committee shall have the ability to accelerate the vesting of any outstanding Award at any time and for any reason. For the avoidance of doubt, the Board shall have the authority to take all actions under the Plan that the Committee is permitted to take.

(b) Manner of Exercise of Committee Authority. At any time that a member of the Committee is not a Qualified Member, any action of the Committee relating to an Award granted or to be granted to a Participant who is then subject to Section 16 of the Exchange Act in respect of the Company, must be taken by the remaining members of the Committee or a subcommittee, designated by the Committee or the Board, composed solely of two or more Qualified Members (a “Qualifying Committee”). Any action authorized by such a Qualifying Committee shall be deemed the action of the Committee for purposes of the Plan. The express grant of any specific power to a Qualifying Committee, and the taking of any action by such a Qualifying Committee, shall not be construed as limiting any power or authority of the Committee.

(c) Delegation. To the extent permitted by applicable law, the Committee may delegate to officers or employees of the Company or any of its Affiliates, or committees thereof, the authority, subject to such terms as the Committee shall determine, to perform such functions under the Plan, including, but not limited to, administrative functions, as the Committee may determine appropriate. The Committee may appoint agents to assist it in administering the Plan. Any actions taken by an officer or employee delegated authority pursuant to this Section 3(c) within the scope of such delegation shall, for all purposes under the Plan, be deemed to be an action taken by the Committee. Notwithstanding the foregoing or any other provision of the Plan to the contrary, any Award granted under the Plan to any Eligible Person who is not an employee of the Company or any of its Affiliates (including any non-employee director of the Company or any Affiliate) or to any Eligible Person who is subject to Section 16 of the Exchange Act must be expressly approved by the Committee or Qualifying Committee in accordance with Section 3(b) above.

(d) Section 409A; Section 457A. All Awards made under the Plan that are intended to be “deferred compensation” subject to Section 409A or Section 457A of the Code shall be interpreted, administered and construed to comply with Section 409A or Section 457A, as applicable, and all Awards made under the Plan that are intended to be exempt from Section 409A or Section 457A shall be interpreted, administered and construed to comply with and preserve such exemption, as applicable. The Committee shall have full authority to give effect to the intent of the foregoing sentence. To the extent necessary to give effect to this intent, in the case of any conflict or potential inconsistency between the Plan and a provision of any Award or Award Agreement with respect to an Award, the Plan shall govern. Notwithstanding the foregoing, neither the Company nor the Committee shall have any liability to any Person in the event Section 409A or Section 457A applies to any Award in a manner that results in adverse tax consequences for the Participant or any of his or her beneficiaries or transferees.

4. Shares Available Under the Plan; Other Limitations.

(a) Number of Shares Available for Delivery. Subject to adjustment as provided in Section 11 hereof, the total number of shares of Stock reserved and available for delivery in connection with Awards under the Plan shall equal 5,615,530. Shares of Stock delivered under the Plan shall consist of authorized and unissued shares or previously issued shares of Stock reacquired by the Company on the open market or by private purchase.

Notwithstanding the foregoing, (i) except as may be required by reason of Section 422 of the Code, the number of shares of Stock available for issuance hereunder shall not be reduced by shares issued pursuant to Awards issued or assumed in connection with a merger or acquisition as contemplated by, as applicable, NASDAQ Listing Rule 5635(c) and IM-5635-1, NYSE Listed Company Manual Section 303A.08, AMEX Company Guide Section 711, or other applicable stock exchange rules, and their respective successor rules and listing exchange promulgations (each such Award, a “Substitute Award”); and (ii) shares of Stock shall not be deemed to have been issued pursuant to the Plan with respect to any portion of an Award that is settled in cash.

(b) Share Counting Rules. The Committee may adopt reasonable counting procedures to ensure appropriate counting, avoid double-counting (as, for example, in the case of tandem awards or Substitute Awards) and make adjustments if the number of shares of Stock actually delivered differs from the number of shares previously counted in connection with an Award. Other than with respect to a Substitute Award, to the extent that an Award expires or is canceled, forfeited, settled in cash, or otherwise terminated without delivery to the Participant of the full number of shares of Stock to which the Award related, the undelivered shares of Stock will again be available for grant. Shares of Stock withheld in payment of the exercise price or taxes relating to an Award and shares of Stock equal to the number surrendered in payment of any exercise price or taxes relating to an Award shall be deemed to constitute shares delivered to the Participant and shall not be deemed to again be available for delivery under the Plan.

(c) Incentive Stock Options. No more than 5,615,530 shares of Stock (subject to adjustment as provided in Section 11 hereof) reserved for issuance hereunder may be issued or transferred upon exercise or settlement of Incentive Stock Options.

(d) Shares Available Under Acquired Plans. Additionally, to the extent permitted by NYSE Listed Company Manual Section 303A.08, NASDAQ Listing Rule 5635(c) or other applicable stock exchange rules, subject to applicable law, in the event that a company acquired by the Company or with which the Company combines has shares available under a pre-existing plan approved by stockholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the number of shares of Stock reserved and available for delivery in connection with Awards under the Plan; *provided* that Awards using such available shares shall not be made after the date awards could have been made under the terms of such pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not employed by the Company or any subsidiary of the Company immediately prior to such acquisition or combination.

(e) Minimum Vesting Period. No Award may vest over a period that is less than one (1) year from the date of grant; *provided, however*, that the foregoing minimum vesting period shall not apply: (i) to Awards granted in payment of or exchange for an equivalent amount of salary, bonus or other earned cash compensation (including Performance Shares); (ii) to a Substitute Award that does not reduce the vesting period of the award being replaced or assumed; or (iii) to Awards involving an aggregate number of shares of Stock not in excess of five percent (5%) of the aggregate number of shares of Stock that may be delivered in connection with Awards (as set forth in Section 4 hereof).

(f) Limitation on Awards to Non-Employee Directors. Notwithstanding anything to the contrary herein, the maximum number of shares of Stock that may be subject to Awards granted to any non-employee director of the Company in any one calendar year shall not exceed 50,000 shares of Stock (subject to adjustment as provided in Section 11 hereof).

5. Options.

(a) General. Certain Options granted under the Plan may be intended to be Incentive Stock Options; however, no Incentive Stock Options may be granted hereunder following the tenth (10th) anniversary of the Second Restatement Date. Options may be granted to Eligible Persons in such form and having such terms and conditions as the Committee shall deem appropriate; *provided, however*, that Incentive Stock Options may be granted only to Eligible Persons who are employees of the Company or an Affiliate (as such definition is limited pursuant to Section 2(o) hereof) of the Company. The provisions of separate Options shall be set forth in separate Option Agreements, which agreements need not be identical. No dividends or dividend equivalents shall be paid on Options.

(b) Term. The term of each Option shall be set by the Committee at the time of grant; *provided, however*, that no Option granted hereunder shall be exercisable after, and each Option shall expire, ten (10) years from the date it was granted.

(c) Exercise Price. The exercise price per share of Stock for each Option shall be set by the Committee at the time of grant; *provided, however*, that if an Option is intended to qualify as either (1) a “stock right” that does not provide for a “deferral of compensation” within the meaning of Section 409A of the Code, or (2) an Incentive Stock Option, then in each case the applicable exercise price shall not be less than the Fair Market Value on the date of grant, subject to Section 5(g) below in the case of any Incentive Stock Option. Notwithstanding the foregoing, in the case of an Option that is a Substitute Award and that is intended to be either (1) a “stock right” that does not provide for a “deferral of compensation” within the meaning of Section 409A of the Code, or (2) an Incentive Stock Option, the exercise price per share of Stock for such Option may be less than the Fair Market Value on the date of grant; *provided*, that such exercise price is determined in a manner consistent with the provisions of Section 409A of the Code and, if applicable, Section 424(a) of the Code.

(d) Payment for Stock. Payment for shares of Stock acquired pursuant to an Option granted hereunder shall be made in full upon exercise of the Option in a manner approved by the Committee, which may include any of the following payment methods: (1) in immediately available funds in U.S. dollars, or by certified or bank cashier’s check, (2) by delivery of shares of Stock having a value equal to the exercise price, (3) by a broker-assisted cashless exercise in accordance with procedures approved by the Committee, whereby payment of the Option exercise price or tax withholding obligations may be satisfied, in whole or in part, with shares of Stock subject to the Option by delivery of an irrevocable direction to a securities broker (on a form prescribed by the Committee) to sell shares of Stock and to deliver all or part of the sale proceeds to the Company in payment of the aggregate exercise price and, if applicable, the amount necessary to satisfy the Company’s withholding obligations, or (4) by any other means approved by the Committee (including, by delivery of a notice of “net exercise” to the Company, pursuant to which the Participant shall receive the number of shares of Stock underlying the Option so exercised reduced by the number of shares of Stock equal to the aggregate exercise price of the Option divided by the Fair Market Value on the date of exercise). Notwithstanding anything herein to the contrary, if the Committee determines that any form of payment available hereunder would be in violation of Section 402 of the Sarbanes-Oxley Act of 2002, such form of payment shall not be available.

(e) Vesting. Subject to the provisions of Section 4(e), Options shall vest and become exercisable in such manner, on such date or dates, or upon the achievement of performance or other conditions, in each case as may be determined by the Committee and set forth in an Option Agreement; *provided, however*, that notwithstanding any such vesting dates, the Committee may in its sole discretion accelerate the vesting of any Option at any time and for any reason. Unless otherwise specifically determined by the Committee, the vesting of an

Option shall occur only while the Participant is employed by or rendering services to the Service Recipient, and all vesting shall cease upon a Participant's Termination for any reason. If an Option is exercisable in installments, such installments or portions thereof that become exercisable shall remain exercisable until the Option expires, is canceled or otherwise terminates.

(f) Termination of Employment or Service. Except as provided by the Committee in an Option Agreement, Participant Agreement or otherwise:

(1) In the event of a Participant's Termination prior to the applicable Expiration Date for any reason other than (i) by the Service Recipient for Cause, or (ii) by reason of the Participant's death or Disability, (A) all vesting with respect to such Participant's outstanding Options shall cease, (B) all of such Participant's outstanding unvested Options shall terminate and be forfeited for no consideration as of the date of such Termination, and (C) all of such Participant's outstanding vested Options shall terminate and be forfeited for no consideration on the earlier of (x) the applicable Expiration Date and (y) the date that is ninety (90) days after the date of such Termination.

(2) In the event of a Participant's Termination prior to the applicable Expiration Date by reason of such Participant's death or Disability, (i) all vesting with respect to such Participant's outstanding Options shall cease, (ii) all of such Participant's outstanding unvested Options shall terminate and be forfeited for no consideration as of the date of such Termination, and (iii) all of such Participant's outstanding vested Options shall terminate and be forfeited for no consideration on the earlier of (x) the applicable Expiration Date and (y) the date that is twelve (12) months after the date of such Termination. In the event of a Participant's death, such Participant's Options shall remain exercisable by the Person or Persons to whom such Participant's rights under the Options pass by will or by the applicable laws of descent and distribution until the applicable Expiration Date, but only to the extent that the Options were vested at the time of such Termination.

(3) In the event of a Participant's Termination prior to the applicable Expiration Date by the Service Recipient for Cause, all of such Participant's outstanding Options (whether or not vested) shall immediately terminate and be forfeited for no consideration as of the date of such Termination.

(g) Special Provisions Applicable to Incentive Stock Options.

(1) No Incentive Stock Option may be granted to any Eligible Person who, at the time the Option is granted, owns directly, or indirectly within the meaning of Section 424(d) of the Code, stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any parent or subsidiary thereof, unless such Incentive Stock Option (i) has an exercise price of at least one hundred ten percent (110%) of the Fair Market Value on the date of the grant of such Option and (ii) cannot be exercised more than five (5) years after the date it is granted.

(2) To the extent that the aggregate Fair Market Value (determined as of the date of grant) of Stock for which Incentive Stock Options are exercisable for the first time by any Participant during any calendar year (under all plans of the Company and its Affiliates) exceeds \$100,000, such excess Incentive Stock Options shall be treated as Nonqualified Stock Options.

(3) Each Participant who receives an Incentive Stock Option must agree to notify the Company in writing immediately after the Participant makes a

Disqualifying Disposition of any Stock acquired pursuant to the exercise of an Incentive Stock Option.

6. Restricted Stock.

(a) General. Restricted Stock may be granted to Eligible Persons in such form and having such terms and conditions as the Committee shall deem appropriate. The provisions of separate Awards of Restricted Stock shall be set forth in separate Restricted Stock Agreements, which agreements need not be identical. Subject to the restrictions set forth in Section 6(b) hereof, and except as otherwise set forth in the applicable Restricted Stock Agreement, the Participant shall generally have the rights and privileges of a stockholder as to such Restricted Stock, including the right to vote such Restricted Stock. Cash dividends and stock dividends, if any, with respect to the Restricted Stock shall be withheld by the Company for the Participant's account, and shall be subject to forfeiture to the same degree as the shares of Restricted Stock to which such dividends relate. Except as otherwise determined by the Committee, no interest will accrue or be paid on the amount of any cash dividends withheld.

(b) Vesting and Restrictions on Transfer. Subject to the provisions of Section 4(e), Restricted Stock shall vest in such manner, on such date or dates, or upon the achievement of performance or other conditions, in each case as may be determined by the Committee and set forth in a Restricted Stock Agreement; *provided, however*, that notwithstanding any such vesting dates, the Committee may in its sole discretion accelerate the vesting of any Award of Restricted Stock at any time and for any reason. Unless otherwise specifically determined by the Committee, the vesting of an Award of Restricted Stock shall occur only while the Participant is employed by or rendering services to the Service Recipient, and all vesting shall cease upon a Participant's Termination for any reason. In addition to any other restrictions set forth in a Participant's Restricted Stock Agreement, the Participant shall not be permitted to sell, transfer, pledge, or otherwise encumber the Restricted Stock prior to the time the Restricted Stock has vested pursuant to the terms of the Restricted Stock Agreement.

(c) Termination of Employment or Service. Except as provided by the Committee in a Restricted Stock Agreement, Participant Agreement or otherwise, in the event of a Participant's Termination for any reason prior to the time that such Participant's Restricted Stock has vested, (1) all vesting with respect to such Participant's Restricted Stock shall cease, and (2) as soon as practicable following such Termination, the Company shall repurchase from the Participant, and the Participant shall sell, all of such Participant's unvested shares of Restricted Stock at a purchase price equal to the original purchase price paid for the Restricted Stock; *provided*, that if the original purchase price paid for the Restricted Stock is equal to zero dollars (\$0), such unvested shares of Restricted Stock shall be forfeited to the Company by the Participant for no consideration as of the date of such Termination.

7. Restricted Stock Units.

(a) General. Restricted Stock Units may be granted to Eligible Persons in such form and having such terms and conditions as the Committee shall deem appropriate. The provisions of separate Restricted Stock Units shall be set forth in separate RSU Agreements, which agreements need not be identical.

(b) Vesting. Subject to the provisions of Section 4(e), Restricted Stock Units shall vest in such manner, on such date or dates, or upon the achievement of performance or other conditions, in each case as may be determined by the Committee and set forth in an RSU Agreement; *provided, however*, that notwithstanding any such vesting dates, the Committee may in its sole discretion accelerate the vesting of any Restricted Stock Unit at any time and for any reason. Unless otherwise specifically determined by the Committee, the vesting of a Restricted

Stock Unit shall occur only while the Participant is employed by or rendering services to the Service Recipient, and all vesting shall cease upon a Participant's Termination for any reason.

(c) Settlement. Restricted Stock Units shall be settled in Stock, cash, or property, as determined by the Committee, in its sole discretion, on the date or dates determined by the Committee and set forth in an RSU Agreement. Unless otherwise set forth in a Participant's Agreement, Participant shall not be entitled to dividends, if any, or dividend equivalents, with respect to Restricted Stock Units prior to settlement, and, to the extent a Participant is entitled to any rights to any dividends or dividend equivalents, any such dividends or dividend equivalents with respect to the Restricted Stock Units shall be withheld by the Company for the Participant's account, and shall be subject to forfeiture to the same degree as the Restricted Stock Units to which such dividends relate. Except as otherwise determined by the Committee, no interest will accrue or be paid on the amount of any dividends or dividend equivalents withheld.

(d) Termination of Employment or Service. Except as provided by the Committee in an RSU Agreement, Participant Agreement or otherwise, in the event of a Participant's Termination for any reason prior to the time that such Participant's Restricted Stock Units have been settled, (1) all vesting with respect to such Participant's Restricted Stock Units shall cease, (2) all of such Participant's outstanding unvested Restricted Stock Units shall be forfeited for no consideration as of the date of such Termination, and (3) any shares remaining undelivered with respect to vested Restricted Stock Units then held by such Participant shall be delivered on the delivery date or dates specified in the RSU Agreement.

8. Stock Appreciation Rights.

(a) General. Stock Appreciation Rights may be granted to Eligible Persons in such form and having such terms and conditions as the Committee shall deem appropriate. The provisions of separate Stock Appreciation Rights shall be set forth in separate SAR Agreements, which agreements need not be identical. No dividends or dividend equivalents shall be paid on Stock Appreciation Rights.

(b) Term. The term of each Stock Appreciation Right shall be set by the Committee at the time of grant; *provided, however*, that no Stock Appreciation Right granted hereunder shall be exercisable after, and each Stock Appreciation Right shall expire, ten (10) years from the date it was granted.

(c) Base Price. The base price per share of Stock for each Stock Appreciation Right shall be set by the Committee at the time of grant; *provided, however*, that if a Stock Appreciation Right is intended to qualify as a "stock right" that does not provide for a "deferral of compensation" within the meaning of Section 409A of the Code, then the applicable base price shall not be less than the Fair Market Value on the date of grant. Notwithstanding the foregoing, in the case of a Stock Appreciation Right that is a Substitute Award and that is intended to qualify as a "stock right" that does not provide for a "deferral of compensation" within the meaning of Section 409A of the Code, the base price per share of Stock for such Stock Appreciation Right may be less than the Fair Market Value on the date of grant; *provided*, that such base price is determined in a manner consistent with the provisions of Section 409A of the Code.

(d) Vesting. Subject to the provisions of Section 4(e), Stock Appreciation Rights shall vest and become exercisable in such manner, on such date or dates, or upon the achievement of performance or other conditions, in each case as may be determined by the Committee and set forth in a SAR Agreement; *provided, however*, that notwithstanding any such vesting dates, the Committee may in its sole discretion accelerate the vesting of any Stock

Appreciation Right at any time and for any reason. Unless otherwise specifically determined by the Committee, the vesting of a Stock Appreciation Right shall occur only while the Participant is employed by or rendering services to the Service Recipient, and all vesting shall cease upon a Participant's Termination for any reason. If a Stock Appreciation Right is exercisable in installments, such installments or portions thereof that become exercisable shall remain exercisable until the Stock Appreciation Right expires, is canceled or otherwise terminates.

(e) Payment upon Exercise. Payment upon exercise of a Stock Appreciation Right may be made in cash, Stock, or property as specified in the SAR Agreement or determined by the Committee, in each case having a value in respect of each share of Stock underlying the portion of the Stock Appreciation Right so exercised, equal to the difference between the base price of such Stock Appreciation Right and the Fair Market Value of one (1) share of Stock on the exercise date. For purposes of clarity, each share of Stock to be issued in settlement of a Stock Appreciation Right is deemed to have a value equal to the Fair Market Value of one (1) share of Stock on the exercise date. In no event shall fractional shares be issuable upon the exercise of a Stock Appreciation Right, and in the event that fractional shares would otherwise be issuable, the number of shares issuable will be rounded down to the next lower whole number of shares, and the Participant will be entitled to receive a cash payment equal to the value of such fractional share.

(f) Termination of Employment or Service. Except as provided by the Committee in a SAR Agreement, Participant Agreement or otherwise:

(1) In the event of a Participant's Termination prior to the applicable Expiration Date for any reason other than (i) by the Service Recipient for Cause, or (ii) by reason of the Participant's death or Disability, (A) all vesting with respect to such Participant's outstanding Stock Appreciation Rights shall cease, (B) all of such Participant's outstanding unvested Stock Appreciation Rights shall terminate and be forfeited for no consideration as of the date of such Termination, and (C) all of such Participant's outstanding vested Stock Appreciation Rights shall terminate and be forfeited for no consideration on the earlier of (x) the applicable Expiration Date and (y) the date that is ninety (90) days after the date of such Termination.

(2) In the event of a Participant's Termination prior to the applicable Expiration Date by reason of such Participant's death or Disability, (i) all vesting with respect to such Participant's outstanding Stock Appreciation Rights shall cease, (ii) all of such Participant's outstanding unvested Stock Appreciation Rights shall terminate and be forfeited for no consideration as of the date of such Termination, and (iii) each of such Participant's outstanding vested Stock Appreciation Rights shall terminate and be forfeited for no consideration on the earlier of (x) the applicable Expiration Date and (y) the date that is twelve (12) months after the date of such Termination. In the event of a Participant's death, such Participant's Stock Appreciation Rights shall remain exercisable by the Person or Persons to whom such Participant's rights under the Stock Appreciation Rights pass by will or by the applicable laws of descent and distribution until the applicable Expiration Date, but only to the extent that the Stock Appreciation Rights were vested at the time of such Termination.

(3) In the event of a Participant's Termination prior to the applicable Expiration Date by the Service Recipient for Cause, all of such Participant's outstanding Stock Appreciation Rights (whether or not vested) shall immediately terminate and be forfeited for no consideration as of the date of such Termination.

9. Performance Awards.

(a) General. Performance Awards may be granted to Eligible Persons in such form and having such terms and conditions as the Committee shall deem appropriate. The provisions of separate Performance Awards, including the determination of the Committee with respect to the form of payout of Performance Awards, shall be set forth in separate Performance Award Agreements, which agreements need not be identical. Unless otherwise set forth in an Award Agreement evidencing a Participant's Performance Award, (i) cash dividends and stock dividends, if any, with respect to the Performance Awards shall be withheld by the Company for the Participant's account, and shall be subject to forfeiture to the same degree as the Performance Shares to which such dividends relate and (ii) a Participant shall not be entitled to dividends, if any, or dividend equivalents with respect to Performance Awards that are not earned and vested. Except as otherwise determined by the Committee, no interest will accrue or be paid on the amount of any cash dividends withheld.

(b) Value of Performance Awards. Each Performance Unit shall have an initial value that is established by the Committee at the time of grant. Each Performance Share shall have an initial value equal to the Fair Market Value of the Stock on the date of grant. In addition to any other non-performance terms included in the Performance Award Agreement, the Committee shall set the applicable Performance Objectives in its discretion, which objectives, depending on the extent to which they are met, will determine the value and number of Performance Units or Performance Shares, as the case may be, that will be paid out to the Participant.

(c) Earning of Performance Awards. Upon the expiration of the applicable Performance Period or other non-performance-based vesting period, if longer, the holder of a Performance Award shall be entitled to receive with respect to the Performance Units or Performance Shares, a payout based on the value and number of the applicable Performance Units or Performance Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding Performance Objectives have been achieved and any other non-performance-based terms met. The Committee may specify a target, threshold or maximum amount payable and may set a formula for determining the amount of Performance Awards earned if performance is at or above the threshold level but falls short of the maximum achievement of the specified Performance Objectives.

(d) Form and Timing of Payment of Performance Awards. Payment of earned Performance Awards shall be as determined by the Committee and as evidenced in the Performance Award Agreement. Subject to the terms of the Plan, the Committee, in its sole discretion, may pay earned Performance Units and Performance Shares in the form of cash, Stock, or other Awards (or in any combination thereof) equal to the value of the earned Performance Units or Performance Shares, as the case may be, at the close of the applicable Performance Period, or as soon as practicable after the end of the Performance Period. Any cash, Stock, or other Awards issued in connection with a Performance Award may be issued subject to any restrictions deemed appropriate by the Committee.

(e) Termination of Employment or Service. Except as provided by the Committee in a Performance Award Agreement, Participant Agreement or otherwise, if, prior to the end of an applicable Performance Period, a Participant undergoes a Termination for any reason, all of such Participant's Performance Awards shall be forfeited by the Participant to the Company for no consideration.

(f) Performance Objectives. Each Performance Award shall specify the Performance Objectives that must be achieved before such Performance Award shall become earned. The Company may also specify a minimum acceptable level of achievement below which no payment will be made and may set forth a formula for determining the amount of any

payment to be made if performance is at or above such minimum acceptable level but falls short of the maximum achievement of the specified Performance Objectives.

(g) Negative Discretion. Notwithstanding satisfaction of any completion of any Performance Objectives, the number of shares of Stock, cash or other benefits granted, issued, retainable and/or vested under a Performance Award on account of satisfaction of such Performance Objectives may be reduced by the Committee on the basis of such further considerations as the Committee, in its sole discretion, will determine.

10. Other Stock-Based Awards.

The Committee is authorized, subject to limitations under applicable law, to grant to Participants such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based upon or related to Stock, as deemed by the Committee to be consistent with the purposes of the Plan. The Committee may also grant Stock as a bonus (whether or not subject to any vesting requirements or other restrictions on transfer), and may grant other Awards in lieu of obligations of the Company or an Affiliate to pay cash or deliver other property under the Plan or under other plans or compensatory arrangements, subject to such terms as shall be determined by the Committee. The terms and conditions applicable to such Awards shall be determined by the Committee and evidenced by Award Agreements, which agreements need not be identical.

11. Adjustment for Recapitalization, Merger, etc.

(a) Capitalization Adjustments. The aggregate number of shares of Stock that may be delivered in connection with Awards (as set forth in Section 4 hereof), the numerical share limits in Section 4, the number of shares of Stock covered by each outstanding Award, and the price per share of Stock underlying each such Award shall be equitably and proportionally adjusted or substituted, as determined by the Committee, in its sole discretion, as to the number, price, or kind of a share of Stock or other consideration subject to such Awards (1) in the event of changes in the outstanding Stock or in the capital structure of the Company by reason of stock dividends, extraordinary cash dividends, stock splits, reverse stock splits, recapitalizations, reorganizations, mergers, amalgamations, consolidations, combinations, exchanges, or other relevant changes in capitalization occurring after the date of grant of any such Award (including any Corporate Event); (2) in connection with any extraordinary dividend declared and paid in respect of shares of Stock, whether payable in the form of cash, stock, or any other form of consideration; or (3) in the event of any change in applicable laws or circumstances that results in or could result in, in either case, as determined by the Committee in its sole discretion, any substantial dilution or enlargement of the rights intended to be granted to, or available for, Participants in the Plan.

(b) Corporate Events. Notwithstanding the foregoing, except as provided by the Committee in an Award Agreement, Participant Agreement or otherwise, in connection with (i) a merger, amalgamation, or consolidation involving the Company in which the Company is not the surviving corporation, (ii) a merger, amalgamation, or consolidation involving the Company in which the Company is the surviving corporation but the holders of shares of Stock receive securities of another corporation or other property or cash, (iii) a Change in Control, or (iv) the reorganization, dissolution or liquidation of the Company (each, a “Corporate Event”), the Committee may, in its discretion, provide for any one or more of the following:

(1) The assumption or substitution of any or all Awards in connection with such Corporate Event, in which case the Awards shall be subject to the adjustment set forth in Section 11(a) above, and to the extent that such Awards are Performance Awards or other Awards that vest subject to the achievement of Performance Objectives

or similar performance criteria, such Performance Objectives or similar performance criteria shall be adjusted appropriately to reflect the Corporate Event

(2) The acceleration of vesting of any or all Awards, subject to the consummation of such Corporate Event; *provided* that any Performance Awards or other Awards that vest subject to the achievement of Performance Objectives or similar performance criteria will be deemed earned (i) based on actual performance through the date of the Corporate Event, or (ii) at the target level (or if no target is specified, the maximum level), in the event actual performance cannot be measured through the date of the Corporate Event, in each case, with respect to all unexpired Performance Periods or Performance Periods for which satisfaction of the Performance Objectives or other material terms for the applicable Performance Period has not been certified by the Committee prior to the date of the Corporate Event;

(3) The cancellation of any or all Awards (whether vested or unvested) as of the consummation of such Corporate Event, together with the payment to the Participants holding vested Awards (including any Awards that would vest upon the Corporate Event but for such cancellation) so canceled of an amount based upon the per-share consideration being paid for the Stock in connection with such Corporate Event, less, in the case of Options, Stock Appreciation Rights, and other Awards subject to exercise, the applicable exercise or base price; *provided, however*, that holders of Options, Stock Appreciation Rights, and other Awards subject to exercise shall be entitled to consideration in respect of cancellation of such Awards only if the per-share consideration less the applicable exercise or base price is greater than zero dollars (\$0), and to the extent that the per-share consideration is less than or equal to the applicable exercise or base price, such Awards shall be canceled for no consideration;

(4) The cancellation of any or all Options, Stock Appreciation Rights and other Awards subject to exercise not assumed or substituted in connection with such Corporate Event (whether vested or unvested) as of the consummation of such Corporate Event; *provided* that all Options, Stock Appreciation Rights and other Awards to be so canceled pursuant to this paragraph (4) shall first become exercisable for a period of at least ten (10) days prior to such Corporate Event, with any exercise during such period of any unvested Options, Stock Appreciation Rights or other Awards to be (A) contingent upon and subject to the occurrence of the Corporate Event, and (B) effectuated by such means as are approved by the Committee; and

(5) The replacement of any or all Awards (other than Awards that are intended to qualify as “stock rights” that do not provide for a “deferral of compensation” within the meaning of Section 409A of the Code) with a cash incentive program that preserves the value of the Awards so replaced (determined as of the consummation of the Corporate Event), with subsequent payment of cash incentives subject to the same vesting conditions as applicable to the Awards so replaced and payment to be made within thirty (30) days of the applicable vesting date.

Payments to holders pursuant to paragraph (3) above shall be made in cash or, in the sole discretion of the Committee, and to the extent applicable, in the form of such other consideration necessary for a Participant to receive property, cash, or securities (or a combination thereof) as such Participant would have been entitled to receive upon the occurrence of the transaction if the Participant had been, immediately prior to such transaction, the holder of the number of shares of Stock covered by the Award at such time (less any applicable exercise or base price). In addition, in connection with any Corporate Event, prior to any payment or adjustment contemplated under this Section 11(b), the Committee may require a Participant to (A) represent and warrant as to the unencumbered title to his or her Awards, (B) bear such Participant’s pro-rata share of any post-

closing indemnity obligations, and be subject to the same post-closing purchase price adjustments, escrow terms, offset rights, holdback terms, and similar conditions as the other holders of Stock, and (C) deliver customary transfer documentation as reasonably determined by the Committee. The Committee need not take the same action or actions with respect to all Awards or portions thereof or with respect to all Participants. The Committee may take different actions with respect to the vested and unvested portions of an Award.

(c) Fractional Shares. Any adjustment provided under this Section 11 may, in the Committee's discretion, provide for the elimination of any fractional share that might otherwise become subject to an Award. No cash settlements shall be made with respect to fractional shares so eliminated.

12. Use of Proceeds.

The proceeds received from the sale of Stock pursuant to the Plan shall be used for general corporate purposes.

13. Rights and Privileges as a Stockholder.

Except as otherwise specifically provided in the Plan, no Person shall be entitled to the rights and privileges of Stock ownership in respect of shares of Stock that are subject to Awards hereunder until such shares have been issued to that Person.

14. Transferability of Awards.

Awards may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the applicable laws of descent and distribution, and to the extent subject to exercise, Awards may not be exercised during the lifetime of the grantee other than by the grantee. Notwithstanding the foregoing, except with respect to Incentive Stock Options, Awards and a Participant's rights under the Plan shall be transferable for no value to the extent provided in an Award Agreement or otherwise determined at any time by the Committee.

15. Employment or Service Rights.

No individual shall have any claim or right to be granted an Award under the Plan or, having been selected for the grant of an Award, to be selected for the grant of any other Award. Neither the Plan nor any action taken hereunder shall be construed as giving any individual any right to be retained in the employ or service of the Company or an Affiliate of the Company.

16. Compliance with Laws.

The obligation of the Company to deliver Stock upon issuance, vesting, exercise, or settlement of any Award shall be subject to all applicable laws, rules, and regulations, and to such approvals by governmental agencies as may be required. Notwithstanding any terms or conditions of any Award to the contrary, the Company shall be under no obligation to offer to sell or to sell, and shall be prohibited from offering to sell or selling, any shares of Stock pursuant to an Award unless such shares have been properly registered for sale with the U.S. Securities and Exchange Commission pursuant to the Securities Act (or with a similar non-U.S. regulatory agency pursuant to a similar law or regulation) or unless the Company has received an opinion of counsel, satisfactory to the Company, that such shares may be offered or sold without such registration pursuant to an available exemption therefrom and the terms and conditions of such exemption have been fully complied with. The Company shall be under no obligation to register for sale or resale under the Securities Act any of the shares of Stock to be offered or sold

under the Plan or any shares of Stock to be issued upon exercise or settlement of Awards. If the shares of Stock offered for sale or sold under the Plan are offered or sold pursuant to an exemption from registration under the Securities Act, the Company may restrict the transfer of such shares and may legend the Stock certificates representing such shares in such manner as it deems advisable to ensure the availability of any such exemption.

17. Withholding Obligations.

As a condition to the issuance, vesting, exercise, or settlement of any Award (or upon the making of an election under Section 83(b) of the Code), the Committee may require that a Participant satisfy, through deduction or withholding from any payment of any kind otherwise due to the Participant, or through such other arrangements as are satisfactory to the Committee, the amount of all federal, state, and local income and other taxes of any kind required or permitted to be withheld in connection with such issuance, vesting, exercise, or settlement (or election). The Committee, in its discretion, may permit shares of Stock to be used to satisfy tax withholding requirements, and such shares shall be valued at their Fair Market Value as of the issuance, vesting, exercise, or settlement date of the Award, as applicable. Depending on the withholding method, the Company may withhold by considering the applicable minimum statutorily required withholding rates or other applicable withholding rates in the applicable Participant's jurisdiction, including maximum applicable rates that may be utilized without creating adverse accounting treatment under Financial Accounting Standards Board Accounting Standards Codification Topic 718 (or any successor pronouncement thereto).

18. Amendment of the Plan or Awards.

(a) Amendment of Plan. The Board or the Committee may amend the Plan at any time and from time to time.

(b) Amendment of Awards. The Board or the Committee may amend the terms of any one or more Awards at any time and from time to time.

(c) Stockholder Approval; No Material Impairment. Notwithstanding anything herein to the contrary, no amendment to the Plan or any Award shall be effective without stockholder approval to the extent that such approval is required pursuant to applicable law or the applicable rules of each national securities exchange on which the Stock is listed. Additionally, no amendment to the Plan or any Award shall materially impair a Participant's rights under any Award unless the Participant consents in writing (it being understood that no action taken by the Board or the Committee that is expressly permitted under the Plan, including, without limitation, any actions described in Section 11 hereof, shall constitute an amendment to the Plan or an Award for such purpose). Notwithstanding the foregoing, subject to the limitations of applicable law, if any, and without an affected Participant's consent, the Board or the Committee may amend the terms of the Plan or any one or more Awards from time to time as necessary to bring such Awards into compliance with applicable law, including, without limitation, Section 409A of the Code.

(d) No Repricing of Awards Without Stockholder Approval. Notwithstanding Section 18(a) or 18(b) above, or any other provision of the Plan, the repricing of Awards shall not be permitted without stockholder approval. For this purpose, a "repricing" means any of the following (or any other action that has the same effect as any of the following): (1) changing the terms of an Award to lower its exercise or base price (other than on account of capital adjustments resulting from share splits, etc., as described in Section 11(a) hereof), (2) any other action that is treated as a repricing under GAAP, and (3) repurchasing for cash or canceling an Award in exchange for another Award at a time when its exercise or base price is greater than the

Fair Market Value of the underlying Stock, unless the cancellation and exchange occurs in connection with an event set forth in Section 11(b) hereof.

19. Termination or Suspension of the Plan.

The Board or the Committee may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate on the day before the tenth (10th) anniversary of the date the stockholders of the Company approve the second amendment and restatement of the Plan, as approved on the Second Restatement Date. No Awards may be granted under the Plan while the Plan is suspended or after it is terminated; *provided, however*, that following any suspension or termination of the Plan, the Plan shall remain in effect for the purpose of governing all Awards then outstanding hereunder until such time as all Awards under the Plan have been terminated, forfeited, or otherwise canceled, or earned, exercised, settled, or otherwise paid out, in accordance with their terms.

20. Effective Date of the Plan.

The Plan is effective as of the Effective Date.

21. Miscellaneous.

(a) Certificates. Stock acquired pursuant to Awards granted under the Plan may be evidenced in such a manner as the Committee shall determine. If certificates representing Stock are registered in the name of the Participant, the Committee may require that (1) such certificates bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Stock, (2) the Company retain physical possession of the certificates, and (3) the Participant deliver a stock power to the Company, endorsed in blank, relating to the Stock. Notwithstanding the foregoing, the Committee may determine, in its sole discretion, that the Stock shall be held in book-entry form rather than delivered to the Participant pending the release of any applicable restrictions.

(b) Clawback/Recoupment Policy. Notwithstanding anything contained herein to the contrary, all Awards granted under the Plan shall be and remain subject to any incentive compensation clawback or recoupment policy currently in effect or as may be adopted by the Board (or a committee or subcommittee of the Board) and, in each case, as may be amended from time to time. No such policy adoption or amendment shall in any event require the prior consent of any Participant. No recovery of compensation under such a clawback policy will be an event giving rise to a right to resign for “good reason” or “constructive termination” (or similar term) under any agreement with the Company or any of its Affiliates. In the event that an Award is subject to more than one such policy, the policy with the most restrictive clawback or recoupment provisions shall govern such Award, subject to applicable law.

(c) Data Privacy. As a condition of receipt of any Award, each Participant explicitly and unambiguously consents to the collection, use, and transfer, in electronic or other form, of personal data as described in this Section 21(c) by and among, as applicable, the Company and its Affiliates for the exclusive purpose of implementing, administering, and managing the Plan and Awards and the Participant’s participation in the Plan. In furtherance of such implementation, administration, and management, the Company and its Affiliates may hold certain personal information about a Participant, including, but not limited to, the Participant’s name, home address, telephone number, date of birth, social security or insurance number or other identification number, salary, nationality, job title(s), information regarding any securities of the Company or any of its Affiliates, and details of all Awards (the “Data”). In addition to transferring the Data amongst themselves as necessary for the purpose of implementation, administration, and management of the Plan and Awards and the Participant’s participation in the

Plan, the Company and its Affiliates may each transfer the Data to any third parties assisting the Company in the implementation, administration, and management of the Plan and Awards and the Participant's participation in the Plan. Recipients of the Data may be located in the Participant's country or elsewhere, and the Participant's country and any given recipient's country may have different data privacy laws and protections. By accepting an Award, each Participant authorizes such recipients to receive, possess, use, retain, and transfer the Data, in electronic or other form, for the purposes of assisting the Company in the implementation, administration, and management of the Plan and Awards and the Participant's participation in the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom the Company or the Participant may elect to deposit any shares of Stock. The Data related to a Participant will be held only as long as is necessary to implement, administer, and manage the Plan and Awards and the Participant's participation in the Plan. A Participant may, at any time, view the Data held by the Company with respect to such Participant, request additional information about the storage and processing of the Data with respect to such Participant, recommend any necessary corrections to the Data with respect to the Participant, or refuse or withdraw the consents herein in writing, in any case without cost, by contacting his or her local human resources representative. The Company may cancel the Participant's eligibility to participate in the Plan, and in the Committee's discretion, the Participant may forfeit any outstanding Awards if the Participant refuses or withdraws the consents described herein. For more information on the consequences of refusal to consent or withdrawal of consent, Participants may contact their local human resources representative.

(d) Participants Outside of the United States. The Committee may modify the terms of any Award under the Plan made to or held by a Participant who is then a resident, or is primarily employed or providing services, outside of the United States in any manner deemed by the Committee to be necessary or appropriate in order that such Award shall conform to laws, regulations, and customs of the country in which the Participant is then a resident or primarily employed or providing services, or so that the value and other benefits of the Award to the Participant, as affected by non-U.S. tax laws and other restrictions applicable as a result of the Participant's residence, employment, or providing services abroad, shall be comparable to the value of such Award to a Participant who is a resident, or is primarily employed or providing services, in the United States. An Award may be modified under this Section 21(d) in a manner that is inconsistent with the express terms of the Plan, so long as such modifications will not contravene any applicable law or regulation or result in actual liability under Section 16(b) of the Exchange Act for the Participant whose Award is modified. Additionally, the Committee may adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by Eligible Persons who are non-U.S. nationals or are primarily employed or providing services outside the United States.

(e) No Liability of Committee Members. Neither any member of the Committee nor any of the Committee's permitted delegates shall be liable personally by reason of any contract or other instrument executed by such member or on his or her behalf in his or her capacity as a member of the Committee or for any mistake of judgment made in good faith, and the Company shall indemnify and hold harmless each member of the Committee and each other employee, officer, or director of the Company to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against all costs and expenses (including counsel fees) and liabilities (including sums paid in settlement of a claim) arising out of any act or omission to act in connection with the Plan, unless arising out of such Person's own fraud or willful misconduct; *provided, however*, that approval of the Board shall be required for the payment of any amount in settlement of a claim against any such Person. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such Persons may be entitled under the Company's certificate or articles of incorporation or bylaws, each as may be amended from time to time, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

(f) Payments Following Accidents or Illness. If the Committee shall find that any Person to whom any amount is payable under the Plan is unable to care for his or her affairs because of illness or accident, or is a minor, or has died, then any payment due to such Person or his or her estate (unless a prior claim therefor has been made by a duly appointed legal representative) may, if the Committee so directs the Company, be paid to his or her spouse, child, relative, an institution maintaining or having custody of such Person, or any other Person deemed by the Committee to be a proper recipient on behalf of such Person otherwise entitled to payment. Any such payment shall be a complete discharge of the liability of the Committee and the Company therefor.

(g) Governing Law. The Plan shall be governed by and construed in accordance with the internal laws of Bermuda without reference to the principles of conflicts of laws thereof.

(h) Funding. No provision of the Plan shall require the Company, for the purpose of satisfying any obligations under the Plan, to purchase assets or place any assets in a trust or other entity to which contributions are made or otherwise to segregate any assets, nor shall the Company be required to maintain separate bank accounts, books, records, or other evidence of the existence of a segregated or separately maintained or administered fund for such purposes. Participants shall have no rights under the Plan other than as unsecured general creditors of the Company, except that insofar as they may have become entitled to payment of additional compensation by performance of services, they shall have the same rights as other employees and service providers under general law.

(i) Reliance on Reports. Each member of the Committee and each member of the Board shall be fully justified in relying, acting, or failing to act, and shall not be liable for having so relied, acted, or failed to act in good faith, upon any report made by the independent public accountant of the Company and its Affiliates and upon any other information furnished in connection with the Plan by any Person or Persons other than such member.

(j) Electronic Delivery of Documents. The Company may deliver by email or other electronic means (including posting on a web site maintained by the Company or by a third party under contract with the Company) all documents relating to the Plan or any Award thereunder (including without limitation, Plan prospectuses) and all other documents that the Company is required to deliver to its stockholders (including without limitation, annual reports and proxy statements).

(k) Titles and Headings. The titles and headings of the sections in the Plan are for convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

* * *

CERTIFICATION

I, Mark A. Casale, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Essent Group Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2023

/s/ MARK A. CASALE

Mark A. Casale

President, Chief Executive Officer and Chairman

(Principal Executive Officer)

CERTIFICATION

I, David B. Weinstock, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Essent Group Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2023

/s/ DAVID B. WEINSTOCK

David B. Weinstock

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS
ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Mark A. Casale, President, Chief Executive Officer and Chairman of Essent Group Ltd. (the “Company”), and David B. Weinstock, Senior Vice President and Chief Financial Officer of the Company, each hereby certify, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2023 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2023

/s/ MARK A. CASALE

Mark A. Casale
President, Chief Executive Officer and Chairman

/s/ DAVID B. WEINSTOCK

David B. Weinstock
Senior Vice President and Chief Financial Officer