ESSENT REINSURANCE LTD.

(A Wholly-Owned Subsidiary of Essent Group Ltd.)
Consolidated Financial Statements - U.S. GAAP Basis
For the years ended December 31, 2020 and 2019

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(A Wholly-Owned Subsidiary of Essent Group Ltd.)

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Report of Independent Auditors

To the Board of Directors and Stockholder of Essent Reinsurance Ltd. (a wholly-owned subsidiary of Essent Group Ltd.):

We have audited the accompanying consolidated financial statements of Essent Reinsurance Ltd. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019 and the related consolidated statements of comprehensive income, of changes in stockholder's equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Essent Reinsurance Ltd. and its subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 9 to the consolidated financial statements, the Company has entered into significant transactions with related parties. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

March 26, 2021

ESSENT REINSURANCE LTD.
CONSOLIDATED BALANCE SHEETS
(U.S. dollars in thousands, except per share amounts)

	December 31,	
	2020	2019
Assets		
Investments available for sale, at fair value:		
Fixed maturities (amortized cost: $1,121,596 and $934,493 in 2020 and 2019)	$ 1,146,221	$ 940,970
Short-term investments (amortized cost: $44,578 and $30,384 in 2020 and 2019)	44,578	30,384
Total investments	1,190,799	971,354
Cash	746	1,189
Accrued investment income	4,340	4,118
Accounts receivable	47,311	36,045
Deferred policy acquisition costs	14,049	15,366
Property and equipment (at cost, less accumulated depreciation of $104 and $83 in 2020 and 2019)	221	354
Other assets	224	122
Total assets	$ 1,257,690	$ 1,028,548
Liabilities and Stockholder's Equity		
Liabilities		
Reserve for losses and LAE	$ 91,606	$ 16,106
Unearned premium reserve	61,084	66,811
Due to affiliates	621	793
Other accrued liabilities	3,376	5,478
Total liabilities	156,687	89,188
Commitments and Contingencies		
Stockholder's Equity		
Common Shares ($1.00 par, 120,000 shares authorized, issued and outstanding)	120	120
Additional paid-in capital	493,665	493,665
Accumulated other comprehensive income	24,625	6,477
Retained earnings	582,593	439,098
Total stockholder's equity	1,101,003	939,360
Total liabilities and stockholder's equity	$ 1,257,690	$ 1,028,548

See accompanying notes to consolidated financial statements.

ESSENT REINSURANCE LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(U.S. dollars in thousands)

	Year Ended December 31, 2020	Year Ended December 31, 2019
Revenues		
Net premiums written - affiliate	$ 199,283	$ 169,039
Decrease in unearned premiums	5,727	2,473
Net premiums earned - affiliate	205,010	171,512
Net premiums earned - third party	46,189	35,667
Net investment income	19,380	20,576
Realized investment gains, net	563	860
Other income	4,260	2,308
Total revenues	275,402	230,923
Losses and expenses		
Provision for losses and LAE	78,817	8,347
Other underwriting and operating expenses	53,090	46,183
Total losses and expenses	131,907	54,530
Net income	143,495	176,393
Other comprehensive income:		
Unrealized appreciation on investments	18,148	19,356
Total other comprehensive income	18,148	19,356
Comprehensive income	$ 161,643	$ 195,749

See accompanying notes to consolidated financial statements.

ESSENT REINSURANCE LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
(U.S. dollars in thousands)

	Common Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholder's Equity
Balance at January 1, 2019	**$ 120**	**$ 493,665**	**$ (12,879)**	**$ 317,706**	**$ 798,612**
Net income				176,393	176,393
Other comprehensive income			19,356		19,356
Dividends paid				(55,001)	(55,001)
Balance at December 31, 2019	**$ 120**	**$ 493,665**	**$ 6,477**	**$ 439,098**	**$ 939,360**
Net income				143,495	143,495
Other comprehensive income			18,148		18,148
Balance at December 31, 2020	**$ 120**	**$ 493,665**	**$ 24,625**	**$ 582,593**	**$ 1,101,003**

See accompanying notes to consolidated financial statements.

ESSENT REINSURANCE LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. dollars in thousands)

	Year Ended December 31,	
	2020	2019
Operating Activities		
Net income	$ 143,495	$ 176,393
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on the sale of investments, net	(563)	(860)
Depreciation and amortization	21	23
Amortization of premium on investment securities	6,349	2,521
Change in:		
Other assets	(4,910)	(1,230)
Other accrued liabilities	270	1,041
Amounts due to affiliates	(172)	12
Reserve for losses and LAE	75,500	5,683
Premiums receivable from affiliate	(6,568)	(4,396)
Unearned premium reserve	(5,727)	(2,473)
Deferred policy acquisition costs	1,317	569
Net cash provided by operating activities	209,012	177,283
Investing Activities		
Net change in short-term investments	(14,194)	(13,598)
Purchases of investments available for sale	(630,108)	(360,803)
Proceeds from sales and maturity of investments available for sale	434,847	251,699
Purchases of property and equipment	—	(32)
Net cash used in investing activities	(209,455)	(122,734)
Financing Activities		
Dividends paid	—	(55,001)
Net cash used in financing activities	—	(55,001)
Net decrease in cash	(443)	(452)
Cash at beginning of year	1,189	1,641
Cash at end of year	$ 746	$ 1,189
Non Cash Transactions		
Operating lease liabilities arising from obtaining right-of-use assets	$ —	$ 367

See accompanying notes to consolidated financial statements.

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

Note 1. Nature of Operations and Basis of Presentation

Essent Reinsurance Ltd. ("Essent Re") is a Bermuda limited liability company, incorporated in 2008 and is a wholly-owned subsidiary of Essent Group Ltd. ("EGL"), a Bermuda-based holding company, which, through its wholly-owned subsidiaries, offers private mortgage insurance (“MI”) and reinsurance for mortgages secured by residential properties located primarily in the United States. Essent Re is registered as a Class 3A Insurer under the Insurance Act 1978 of Bermuda, as amended. In 2016, the Company formed Essent Agency (Bermuda) Ltd., a wholly-owned subsidiary, which provides underwriting consulting services to third-party reinsurers.

Essent Re and Essent Guaranty, Inc. ("Essent Guaranty"), an affiliate, are parties to a quota share reinsurance agreement. Under terms of the reinsurance agreement, Essent Re provides 25% quota share reinsurance coverage of Essent Guaranty's new insurance written effective July 1, 2014. Under a reinsurance agreement, the reinsurer, in consideration of a premium paid to it, agrees to indemnify another insurer, called the ceding company, for part or all of the liability of the ceding company under one or more insurance policies that the ceding company has issued.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of Essent Re and its subsidiary. All intercompany balances and transactions have been eliminated in consolidation.

Note 2. Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(b) Investments Available for Sale

Investments available for sale include securities that we sell from time to time to provide liquidity and in response to changes in the market. Debt securities classified as available for sale are reported at fair value with unrealized gains and losses on these securities reported in other comprehensive income. See Note 6 for a description of the valuation methods for investments available for sale.

We monitor our fixed maturities for unrealized losses that appear to be other-than-temporary. A fixed maturity security is considered to be other-than-temporarily impaired when the security’s fair value is less than its amortized cost basis and 1) we intend to sell the security, 2) it is more likely than not that we will be required to sell the security before recovery of the security’s amortized cost basis, or 3) we believe we will be unable to recover the entire amortized cost basis of the security (i.e., a credit loss has occurred). When we determine that a credit loss has been incurred, but we do not intend to sell the security and it is not more likely than not that we will be required to sell the security before recovery of the security’s amortized cost basis, the portion of the other-than-temporary impairment that is credit related is recorded as a realized loss in the consolidated statements of comprehensive income, and the portion of the other-than-temporary impairment that is not credit related is included in other comprehensive income (loss). For those fixed maturities for which an other-than-temporary impairment has occurred, we adjust the amortized cost basis of the security and record a realized loss in the consolidated statements of comprehensive income.

We recognize purchase premiums and discounts in interest income using the interest method over the securities' estimated holding periods, until maturity, or call date, if applicable. Gains and losses on the sales of securities are recorded on the trade date and are determined using the specific identification method.

Short-term investments are defined as short-term, highly liquid investments, both readily convertible to cash and having maturities at acquisition of twelve months or less.

(c) Insurance Premium Revenue Recognition

We earn insurance premiums from both an affiliate quota share and non-affiliate third party insurance and reinsurance contracts. The revenue streams and earnings from both activities are substantially similar. Mortgage insurance policies, the primary items we reinsure, are contracts that are generally non-cancelable by the insurer, are renewable at a fixed price, and provide for payment of premium on a monthly, annual or single basis. Upon renewal, the primary insurer is not able to re-underwrite or re-price its policies. Consistent with industry accounting practices, premiums written on a monthly basis are earned as coverage is provided. Monthly policies accounted for the majority of assumed earned premium in 2020 and 2019. Premiums written on an annual basis are amortized on a pro rata basis over the year of coverage. Primary mortgage insurance written on policies covering more than one year are referred to as single premium policies. A portion of the revenue from single premium policies is recognized in earned premium in the current period, and the remaining portion is deferred as unearned premium and earned over the expected life of the policy. If single premium policies related to insured loans are cancelled due to repayment by the borrower, and the premium is non-refundable, then the remaining unearned premium related to each cancelled policy is recognized as earned premium upon notification of the cancellation. Unearned premium represents the portion of premium written that is applicable to the estimated unexpired risk of insured loans. Rates used to determine the earning of single premium policies are estimates based on an analysis of the expiration of risk.

(d) Deferred Policy Acquisition Costs

We defer certain costs directly related to the successful acquisition of new reinsurance policies and amortize these costs over the period in which the related estimated gross profits are recognized in order to match costs and revenues. Costs related to the acquisition of mortgage reinsurance business for annual and single premium policies, primarily ceding commissions on the affiliate quota share reinsurance agreement, are initially deferred and reported as deferred policy acquisition costs. Consistent with industry accounting practice, amortization of these costs for each underwriting year book of business is recognized in proportion to estimated gross profits. The deferred costs are adjusted as appropriate for policy cancellations to be consistent with our revenue recognition policy. Deferred policy acquisition costs are reviewed periodically to determine that they do not exceed recoverable amounts, after considering investment income. Policy acquisition costs deferred were $7,159 and $5,507 for the years ended December 31, 2020 and 2019, respectively. Amortization of deferred policy acquisition costs for the years ended December 31, 2020 and 2019 were $8,476 and $6,076, respectively, and was included in other underwriting and operating expenses on the consolidated statements of comprehensive income. Ceding commissions on monthly premium policies are expensed as incurred to match the premium recognition for these policies and are included in other underwriting and operating expenses on the consolidated statements of comprehensive income.

(e) Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and LAE assumed from Essent Guaranty are based on our best estimate of ultimate claim costs for defaulted loans using the general principles contained in ASC No. 944, in accordance with industry practice. However, consistent with industry standards for mortgage insurers, we do not establish loss reserves for future claims on insured loans which are not currently in default. Loans are classified as in default when the borrower has missed two consecutive payments. Once we are notified that a borrower has defaulted, we will consider internal and third-party information and models, including the status of the loan as reported by its servicer and the type of loan product to determine the likelihood that a default will reach claim status. In addition, we will project the amount that we will pay if a default becomes a claim (referred to as “claim severity”). Based on this information, at each reporting date we determine our best estimate of loss reserves at a given point in time. Included in loss reserves are reserves for incurred but not reported (“IBNR”) claims. IBNR reserves represent our estimated unpaid losses on loans that are in default, but have not yet been reported to us as delinquent by our customers. We will also establish reserves for associated loss adjustment expenses, consisting of the estimated cost of the claims administration process, including legal and other fees and expenses associated with administering the claims process. Establishing reserves is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Our estimates of claim rates and claim sizes will be strongly influenced by prevailing economic conditions, such as the overall state of the economy, current rates or trends in unemployment, changes in housing values and/or interest rates, and our best judgments as to the future values or trends of these macroeconomic factors. Losses incurred are also generally affected by the characteristics of our insured loans, such as the loan amount, loan-to-value ratio, the percentage of coverage on the insured loan and the credit quality of the borrower.

(f) Cash

Cash includes cash equivalents, which are investments with original maturities of three months or less.

(g) Premium Deficiency Reserve

We are required to establish a premium deficiency reserve if the net present value of the expected future losses and expenses for a particular group of policies exceeds the net present value of expected future premium, anticipated investment income and existing reserves for that specified group of policies. We reassess our expectations for premium, losses and expenses of our mortgage insurance and reinsurance business periodically and update our premium deficiency analysis accordingly. As of December 31, 2020 and 2019, we concluded that no premium deficiency reserve was required to be recorded in the accompanying consolidated financial statements.

(h) Recently Issued Accounting Standards

Accounting Standards Adopted During 2020

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments (Topic 326)*. This update is intended to provide financial statement users with more information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The new guidance requires financial assets measured at amortized cost to be presented at the net amount expected to be collected through the use of an allowance for credit losses. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance rather than as a write-down of the amortized cost of the securities. The accounting for insurance losses and loss adjustment expenses ("LAE") are not within the scope of this ASU. The provisions of this update were effective for annual and interim periods beginning after December 15, 2019 and we adopted this standard on January 1, 2020 using the modified retrospective approach. The adoption of this ASU did not have a material effect on the Company's consolidated operating results or financial position.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this update modify the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The provisions of this update were effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted for the removed disclosures. We adopted this standard on January 1, 2020. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

Accounting Standards Not Yet Adopted

In March 2020, the 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, 2022 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.

(U.S. dollars in thousands, unless otherwise noted)

Note 3. 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”):

	December 31,	
	2020	2019
Reserve for losses and LAE at beginning of year	$ 16,106	$ 10,423
Add provision for losses and LAE occurring in:		
Current year	82,898	12,075
Prior years	(4,081)	(3,728)
Net incurred losses and LAE during the current year	78,817	8,347
Deduct payments for losses and LAE occurring in:		
Current year	260	255
Prior years	3,057	2,409
Net loss and LAE payments during the current year	3,317	2,664
Reserve for losses and LAE at end of year	$ 91,606	$ 16,106
Loans in default at end of year	30,136	5,358

For the year ended December 31, 2020, $3,057 was paid for incurred claims and claim adjustment expenses attributable to insured events of prior years. There has been a $4,081 favorable prior year development during the year ended December 31, 2020. Reserves remaining as of December 31, 2020 for prior years are $8,968 as a result of re-estimation of unpaid losses and loss adjustment expenses. For the year ended December 31, 2019, $2,409 was paid for incurred claims and claim adjustment expenses attributable to insured events of prior years. There was a $3,728 favorable prior year development during the year ended December 31, 2019. Reserves remaining as of December 31, 2019 for prior years were $4,286 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 and remained elevated at December 31, 2020. 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 reinsure and has the potential to impact our mortgage portfolio. 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 are ultimately paid. Based on the forbearance programs in place and the credit characteristics of the COVID-19 defaulted loans, we expect the ultimate number of COVID-19-related defaults that result in claims will be less than our historical default-to-claim experience. Accordingly, we recorded a reserve equal to approximately 7% of the risk assumed for the COVID-19 default notices received in April 2020 through September 2020. It is reasonably possible that our estimate of the losses for the COVID-19 defaults could change in the near term as a result of the continued impact of the pandemic on the economic environment, the results of existing and future governmental programs designed to assist individuals and businesses impacted by the virus and the performance of the COVID-19 defaults in the forbearance programs.

The following table summarizes incurred loss and allocated loss adjustment expense development, IBNR plus expected development on reported defaults and the cumulative number of reported defaults. The information about incurred loss development for the years ended December 31, 2014 to 2019 is presented as supplementary information.

	Incurred Loss and Allocated LAE, For the Years Ended December 31,							**As of December 31, 2020**	
	Unaudited								
Accident Year	2014	2015	2016	2017	2018	2019	2020	Total of IBNR plus Expected Development on Reported Defaults	Cumulative Number of Reported Defaults *
2014	$ 58	$ 25	$ 25	$ 25	$ 25	$ 25	$ 25	$ —	3
2015		1,233	730	566	539	420	488	3	46
2016			3,175	1,571	1,197	1,305	1,192	4	129
2017				7,925	3,213	2,383	2,243	18	274
2018					8,119	5,232	4,308	91	520
2019						12,075	9,103	503	1,408
2020							82,898	5,616	28,683
Total							$100,257		

(*) cumulative number of reported defaults includes cumulative paid claims plus loans in default by accident year as of December 31, 2020.

The following table summarizes cumulative paid losses and allocated loss adjustment expenses, net of reinsurance. The information about paid loss development for the years ended December 31, 2014 through 2019 is presented as supplementary information.

	Cumulative Paid Losses and Allocated LAE For the Years Ended December 31,						
	Unaudited						
Accident Year	2014	2015	2016	2017	2018	2019	2020
2014	$ —	$ 25	$ 25	$ 25	$ 25	$ 25	$ 25
2015		33	180	393	420	420	444
2016			86	670	971	1,098	1,135
2017				101	953	1,758	1,986
2018					301	1,778	2,982
2019						255	1,819
2020							260
Total							$ 8,651
All outstanding liabilities before 2014							$ —
Reserve for losses and LAE							$ 91,606

The following table provides a reconciliation of the net incurred losses and paid claims development tables above to the reserve for losses and LAE at December 31, 2020:

(In thousands)	**December 31, 2020**
Reserve for losses and LAE, net of reinsurance	$ 91,606
Reinsurance recoverables on unpaid claims	—
Total gross reserve for losses and LAE	$ 91,606

(U.S. dollars in thousands, unless otherwise noted)

For our mortgage insurance portfolio, our average annual payout of losses as of December 31, 2020 is as follows:

Average Annual Percentage Payout of Incurred Losses and Allocated LAE by Year

Year	1	2	3	4	5	6	7
Average Payout	4%	45%	27%	7%	1%	2%	—%

Note 4. Investments Available for Sale

Investments available for sale at December 31, 2020 and 2019 consist of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2020				
U.S. Treasury securities	$ 142,731	$ 4,422	$ —	$ 147,153
U.S. agency securities	14,432	154	—	14,586
U.S. agency mortgage-backed securities	526,008	14,704	(779)	539,933
Municipal debt securities **(1)**	4,231	271	—	4,502
Corporate debt securities **(2)**	320,845	4,930	(124)	325,651
Commercial mortgage securities	42,918	882	(34)	43,766
Asset-backed securities	70,431	240	(41)	70,630
Money market funds	44,578	—	—	44,578
Total investments available for sale	$ 1,166,174	$ 25,603	$ (978)	$ 1,190,799

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2019				
U.S. Treasury securities	$ 169,002	$ 2,060	$ (355)	$ 170,707
U.S. agency securities	33,620	36	(51)	33,605
U.S. agency mortgage-backed securities	432,515	5,480	(1,272)	436,723
Municipal debt securities **(1)**	3,055	8	(2)	3,061
Corporate debt securities **(2)**	239,552	1,114	(148)	240,518
Commercial mortgage securities	21,810	1	(379)	21,432
Asset-backed securities	34,939	6	(21)	34,924
Money market funds	30,384	—	—	30,384
Total investments available for sale	$ 964,877	$ 8,705	$ (2,228)	$ 971,354

(U.S. dollars in thousands, unless otherwise noted)

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

	December 31, 2020	December 31, 2019
Special revenue bonds	100.0 %	94.6 %
General obligation bonds	—	5.4
Total	100.0 %	100.0 %

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

	December 31, 2020	December 31, 2019
Financial	39.5%	40.7%
Consumer, Non-cyclical	18.5	22.6
Consumer, Cyclical	11.6	11.6
Technology	8.2	8.0
Energy	8.0	1.8
Communications	7.9	7.9
Industrial	3.3	5.1
Utilities	2.7	1.9
Basic Materials	0.3	0.4
Total	100.0 %	100.0 %

Net investment income consists of:

	December 31, 2020	December 31, 2019
Fixed maturities	$ 20,415	$ 21,223
Short-term investments	65	323
Gross investment income	20,480	21,546
Investment expenses	(1,100)	(970)
Net investment income	$ 19,380	$ 20,576

(U.S. dollars in thousands, unless otherwise noted)

The fair value of investments available for sale in an unrealized loss position and the related unrealized losses 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
December 31, 2020						
U.S. agency mortgage-backed securities	$115,119	$ (733)	$ 3,007	$ (46)	$118,126	$ (779)
Corporate debt securities	66,263	(124)	—	—	66,263	(124)
Commercial mortgage securities	11,467	(34)	—	—	11,467	(34)
Asset-backed securities	32,602	(41)	—	—	32,602	(41)
Total	$225,451	$ (932)	$ 3,007	$ (46)	$228,458	$ (978)

	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, 2019						
U.S. Treasury securities	$ 23,142	$ (297)	$ 40,365	$ (58)	$ 63,507	$ (355)
U.S. agency securities	—	—	25,605	(51)	25,605	(51)
U.S. agency mortgage-backed securities	40,021	(449)	87,832	(823)	127,853	(1,272)
Municipal debt securities	251	(2)	—	—	251	(2)
Corporate debt securities	48,343	(145)	5,924	(3)	54,267	(148)
Commercial mortgage securities	20,770	(379)	—	—	20,770	(379)
Asset-backed securities	21,776	(21)	—	—	21,776	(21)
Total	$154,303	$ (1,293)	$159,726	$ (935)	$314,029	$ (2,228)

At December 31, 2020 and 2019, we held 81 and 185 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 December 31, 2020 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 over 99% of the securities at December 31, 2020 had investment-grade ratings. We concluded that gross unrealized losses noted above are principally associated with the changes in credit spreads subsequent to purchase rather than due to credit impairment. There were no impairments recorded in either years ended December 31, 2020 and 2019.

We had realized gross gains on the sale of investments during the years ended December 31, 2020 and 2019 of $867 and $989, respectively, and gross losses of $304 and $129, respectively.

We are required to maintain assets in trusts for the benefit of our contractual counterparties. The fair value of the investments on deposit in these trusts was $1,125 million and $805 million at December 31, 2020 and 2019, respectively.

(U.S. dollars in thousands, unless otherwise noted)

The amortized cost and fair value of investments available for sale at December 31, 2020, 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, commercial mortgage securities and asset-backed securities provide for periodic payments throughout their lives, they are listed below in separate categories.

	December 31, 2020	
	Amortized Cost	Fair Value
U.S. Treasury securities:		
Due in 1 year	$ 47,969	$ 48,334
Due after 1 but within 5 years	76,324	79,152
Due after 5 but within 10 years	17,453	18,525
Due after 10 years	985	1,142
Subtotal	142,731	147,153
U.S. agency securities:		
Due in 1 year	8,906	8,958
Due after 1 but within 5 years	5,526	5,628
Subtotal	14,432	14,586
Municipal debt securities:		
Due in 1 year	—	—
Due after 1 but within 5 years	1,097	1,149
Due after 5 but within 10 years	3,134	3,353
Subtotal	4,231	4,502
Corporate debt securities:		
Due in 1 year	60,537	61,154
Due after 1 but within 5 years	239,096	241,691
Due after 5 but within 10 years	21,212	22,806
Subtotal	320,845	325,651
U.S. agency mortgage-backed securities	526,008	539,933
Commercial mortgage securities	42,918	43,766
Asset-backed securities	70,431	70,630
Money market funds	44,578	44,578
Total investments available for sale	$ 1,166,174	$ 1,190,799

Note 5. Accounts Receivable

Accounts receivable consists of the following at December 31:

(In thousands)	2020	2019
Premiums receivable - affiliate	$ 40,052	$ 33,484
Premiums receivable	5,602	1,865
Other receivables	1,657	696
Total accounts receivable	47,311	36,045
Less: Allowance for doubtful accounts	—	—
Accounts receivable, net	$ 47,311	$ 36,045

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

Note 6. Fair Value of Financial Instruments

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

Fair Value Hierarchy

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

- Level 1-Quoted prices for identical instruments in active markets accessible at the measurement date.
- Level 2-Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and valuations in which all significant inputs are observable in active markets. Inputs are observable for substantially the full term of the financial instrument.
- Level 3-Valuations derived from one or more significant inputs that are unobservable.

Determination of Fair Value

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

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

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

(U.S. dollars in thousands, unless otherwise noted)

Assets and Liabilities Measured at Fair Value

All assets measured at fair value are categorized in the tables 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.

December 31, 2020	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	$ 147,153	$ —	$ —	$ 147,153
U.S. agency securities	—	14,586	—	14,586
U.S. agency mortgage-backed securities	—	539,933	—	539,933
Municipal debt securities	—	4,502	—	4,502
Corporate debt securities	—	325,651	—	325,651
Commercial mortgage securities	—	43,766	—	43,766
Asset-backed securities	—	70,630	—	70,630
Money market funds	44,578	—	—	44,578
Total assets at fair value	$ 191,731	$ 999,068	$ —	$ 1,190,799

December 31, 2019	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	$ 170,707	$ —	$ —	$ 170,707
U.S. agency securities	—	33,605	—	33,605
U.S. agency mortgage-backed securities	—	436,723	—	436,723
Municipal debt securities	—	3,061	—	3,061
Corporate debt securities	—	240,518	—	240,518
Commercial mortgage securities	—	21,432	—	21,432
Asset-backed securities	—	34,924	—	34,924
Money market funds	30,384	—	—	30,384
Total assets at fair value	$ 201,091	$ 770,263	$ —	$ 971,354

(U.S. dollars in thousands, unless otherwise noted)

Note 7. Accumulated Other Comprehensive Income (Loss)

The following table shows the rollforward of accumulated other comprehensive loss for the years ended December 31, 2020 and 2019, respectively:

	December 31, 2020	December 31, 2019
Balance at beginning of year	$ 6,477	$ (12,879)
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period	18,711	20,216
Less: Reclassification adjustment for (gains) losses included in net income (1)	(563)	(860)
Net unrealized gains (losses) on investments	18,148	19,356
Other comprehensive income (loss)	18,148	19,356
Balance at end of year	$ 24,625	$ 6,477

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

Note 8. Income Taxes

Essent Re is incorporated under the laws of Bermuda and, under current Bermuda law, is not obligated to pay any taxes in Bermuda based upon income or capital gains. We have received a written undertaking from the Minister of Finance in Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits, income, gain or appreciation on any capital asset, or any tax in the nature of estate duty or inheritance tax, such tax will not be applicable to us or any of our operations until March 31, 2035. This undertaking does not, however, prevent the imposition of taxes on any person ordinarily resident in Bermuda or any company in respect of its ownership of real property or leasehold interests in Bermuda.

We intend to conduct our operations in a manner that will not cause us to be treated as engaged in a trade or business in the United States and, therefore, will not be required to pay U.S. federal income taxes. However, because there is uncertainty as to the activities which constitute being engaged in a trade or business within the United States, there can be no assurances that the U.S. Internal Revenue Service will not contend successfully that we are engaged in a trade or business in the United States. If we were subject to U.S. income tax, our stockholders' equity and earnings could be materially adversely affected.

Federal Excise Taxes

The United States imposes an excise tax on insurance and reinsurance premiums paid to non-U.S. insurers or reinsurers with respect to risks located in the United States. The rate of tax, unless reduced by an applicable U.S. tax treaty, is four percent for all insurance premiums and one percent for all reinsurance premiums.

Note 9. Related Party Transactions

As described in Note 1, we derive a significant portion of our revenues from Essent Guaranty, an affiliated entity.

During 2020 and 2019, we incurred approximately $354 and $510, respectively, of administrative and support service fees to a wholly-owned subsidiary of EGL, Essent U.S. Holdings, Inc., ("EUSH"). Such fees were incurred pursuant to the terms of a specific administrative and support service agreement between Essent Re and EUSH, and are included in other underwriting and operating expenses in the consolidated statements of comprehensive income. Additionally, the Company and Essent Guaranty are parties to a license, maintenance and service agreement to license certain proprietary software and certain services and training related to software. We paid Essent Guaranty approximately $150 in each of the years ended December 31, 2020 and 2019, related to this agreement. This amount is included in other underwriting and operating expenses in the consolidated statements of comprehensive income.

Certain employees of Essent Re participate in EGL's Restricted Share Plan. Compensation expense related thereto is charged accordingly to Essent Re based upon the fair market value of the restricted shares on the grant date spread ratably over the applicable vesting period. For the years ended December 31, 2020 and 2019, we incurred charges associated with this plan of $810 and $879, respectively.

Note 10. Commitments and Contingencies

Lease Obligations

We lease office space for use in our operations under a lease accounted for as an operating lease. This lease includes an option to extend for a period of up to three years. Our option to extend the term of our primary office location at the greater of existing or prevailing market rates was not recognized in our right-of-use asset and lease liability. When establishing the value of our right-to-use asset and lease liability, we determine the discount rate for the underlying lease using the prevailing market interest rate for a borrowing of the same duration as the lease. The operating lease right-of-use asset of $207 and $319 as of December 31, 2020 and 2019, respectively, is reported on our consolidated balance sheet as property and equipment. The operating lease liability of $206 and $318 as of December 31, 2020 and 2019, respectively, is reported on our consolidated balance sheet as other accrued liabilities. Total rent expense was $132 for both years ended December 31, 2020 and 2019, respectively.

The following table presents lease cost and other lease information as of and for the years ended December 31:

(In thousands)	2020	2019
Lease costs:		
Operating lease cost	$ 132	$ 54
Short-term lease cost	—	78
Total lease cost	$ 132	$ 132
Other information:		
Weighted average remaining lease term -operating lease	1.8 years	2.8 years
Weighted average discount rate -operating lease	3.3 %	3.3 %

The following table presents a maturity analysis of our lease liability as follows:

Year Ended December 31 (In thousands)	
2021	$ 121
2022	91
2023 and thereafter	—
Total lease payments to be paid	212
Less: future interest expense	(6)
Present value of lease liability	$ 206

Note 11. Legal Proceedings

The Company, in common with the insurance industry in general, is subject to litigation and arbitration in the normal course of its business. As of December 31, 2020 and 2019, we were not a party to any litigation or arbitration which is expected by management to have a material adverse effect on our results of operations and financial condition and liquidity.

Note 12. Statutory Information

Under The Insurance Act 1978, as amended, and related regulations of Bermuda (the "Insurance Act"), we are registered as a Class 3A Insurer and are required to annually prepare and file a statutory financial return with the Bermuda Monetary Authority ("BMA"). The Insurance Act also requires that we maintain minimum share capital of $1 million and must ensure that the value of our general business assets exceeds the amount of our 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, 2020 and 2019, all such requirements were met.

We are also required to file a regulatory risk-based capital model that measures risks and determines enhanced capital requirements and a target capital level. In addition, all Class 3A Bermuda insurers must prepare and file with the BMA audited GAAP basis annual financial statements, which must be made publicly available. Declarations of dividends from retained earnings and distributions from additional paid-in capital are subject to these requirements being met. For all applicable periods presented herein, we satisfied these requirements.

The Bermuda Companies Act 1981 limits our ability to pay dividends and distributions to shareholders if there are reasonable grounds for believing that: (a) we are, or would after the payment be, unable to pay our liabilities as they become due; or (b) the realizable value of our assets would thereby be less than the aggregate of our liabilities and issued share capital and share premium accounts. Under the Insurance Act, we are restricted with respect to the payment of dividends. We are prohibited from declaring or paying in any financial year dividends of more than 25% of our total statutory capital and surplus (as shown on its previous financial year's statutory balance sheet) unless we file, at least seven days before payment of such dividends, with the Bermuda Monetary Authority an affidavit stating that we will continue to meet the required margins. In addition, we are prohibited, without prior approval of the Bermuda Monetary Authority, from reducing by 15% or more our total statutory capital, as set out in our previous year's statutory financial statements.

In addition, Bermuda regulations include certain restrictions on the amount of dividends or other distributions available to shareholders without prior approval of the insurance regulatory authorities. For the year ended December 31, 2020, we have paid no dividends.

The statutory capital and surplus for the Company was $1,100,779 and $939,238 at December 31, 2020 and 2019, respectively, and statutory income was $143,495 and $176,393, respectively. Statutory capital and surplus and net income determined in accordance with statutory accounting practices were not significantly different than the amounts determined under GAAP.

Note 13. Subsequent Events

Subsequent events have been evaluated through March 26, 2021, which is the date the consolidated financial statements were available to be issued.