ESSENT REINSURANCE LTD.

(A Wholly-Owned Subsidiary of Essent Group Ltd.)
Consolidated Financial Statements - U.S. GAAP Basis
For the years ended December 31, 2023 and 2022

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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.):

Opinion

We have audited the accompanying consolidated financial statements of Essent Reinsurance Ltd. and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of comprehensive income, of changes in stockholder's equity, and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
March 27, 2024

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

	December 31, 2023	December 31, 2022
Assets		
Investments available for sale, at fair value:		
Fixed maturities (amortized cost: $1,518,720 and $1,621,377 in 2023 and 2022)	$ 1,409,631	$ 1,479,903
Short-term investments (amortized cost: $381,226 and $26,278 in 2023 and 2022)	381,344	26,283
Total investments	1,790,975	1,506,186
Cash	5,037	2,145
Accrued investment income	7,629	7,085
Accounts receivable	63,556	61,004
Deferred policy acquisition costs	10,460	10,880
Property and equipment (at cost, less accumulated depreciation of $130 and $113 in 2023 and 2022)	2,830	20
Deferred tax asset	2,550	—
Other assets	280	123
Total assets	$ 1,883,317	$ 1,587,443
Liabilities and Stockholder's Equity		
Liabilities		
Reserve for losses and LAE	73,643	58,396
Unearned premium reserve	45,387	47,306
Due to affiliates	444	524
Other accrued liabilities	5,178	2,446
Total liabilities	124,652	108,672
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 loss	(108,971)	(141,469)
Retained earnings	1,373,851	1,126,455
Total stockholder's equity	1,758,665	1,478,771
Total liabilities and stockholder's equity	$ 1,883,317	$ 1,587,443

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31, 2023	2022
Revenues		
Net premiums written - affiliate	258,216	234,220
Decrease in unearned premiums	1,919	2,271
Net premiums earned - affiliate	260,135	236,491
Net premiums earned - third party	70,485	53,382
Net investment income	47,739	28,113
Realized investment gains (losses), net	(374)	(543)
Other income	13,484	15,253
Total revenues	391,469	332,696
Losses and expenses		
Provision (benefit) for losses and LAE	18,143	(42,196)
Other underwriting and operating expenses	68,480	59,923
Total losses and expenses	86,623	17,727
Income before income taxes	304,846	314.969
Income tax expense (benefit)	(2,550)	—
Net income	307,396	314,969
Other comprehensive income (loss):		
Unrealized appreciation (depreciation) on investments	32,498	(138,135)
Total other comprehensive income (loss)	32,498	(138,135)
Comprehensive income	$ 339,894	$ 176,834

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 Loss	Retained Earnings	Total Stockholder's Equity
Balance at January 1, 2022	$ 120	$ 493,665	$ (3,334)	$ 811,486	$ 1,301,937
Net income				314,969	314,969
Other comprehensive loss			(138,135)		(138,135)
Balance at December 31, 2022	$ 120	$ 493,665	$ (141,469)	$ 1,126,455	$ 1,478,771
Net income				307,396	307,396
Other comprehensive income			32,498		32,498
Dividends paid				(60,000)	(60,000)
Balance at December 31, 2023	$ 120	$ 493,665	$ (108,971)	$ 1,373,851	$ 1,758,665

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31, 2023	Year Ended December 31, 2022
Operating Activities		
Net income	307,396	314,969
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on the sale of investments, net	374	543
Depreciation and amortization	140	10
Amortization of premium on investment securities	4,529	7,468
Deferred income taxes	(2,550)	—
Change in:		
Other assets	1,897	(9,784)
Other accrued liabilities	(148)	(513)
Due to affiliates	(80)	233
Reserve for losses and LAE	15,247	(43,317)
Premiums receivable from affiliate	(5,149)	(3,331)
Unearned premium reserve	(1,919)	(2,271)
Deferred policy acquisition costs	420	523
Net cash provided by operating activities	320,157	264,530
Investing Activities		
Net change in short-term investments	(354,948)	(12,979)
Purchases of investments available for sale	(159,425)	(485,929)
Proceeds from sales and maturity of investments available for sale	257,178	234,001
Purchases of property and equipment	(70)	(19)
Net cash used in investing activities	(257,265)	(264,926)
Financing Activities		
Dividends paid	(60,000)	—
Net cash used in financing activities	(60,000)	—
Net increase (decrease) in cash	2,892	(396)
Cash at beginning of year	2,145	2,541
Cash at end of year	$ 5,037	$ 2,145
Non Cash Transactions		
Operating lease liabilities arising from obtaining right-of-use assets	$ 2,881	$ —

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. 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 prior to January 1, 2021 will continue to be 25%, the quota share percentage in effect at the time Essent Guaranty's new insurance written was first ceded. 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 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 2023 and 2022. 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 $2,859 and $3,488 for the years ended December 31, 2023 and 2022, respectively. Amortization of deferred policy acquisition costs for the years ended December 31, 2023 and 2022 were $3,279 and $4,010, 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 ("LAE")

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.

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

(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, 2023 and 2022, 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 Not Yet Adopted

In March 2020, the Financial Accounting Standards Board (" FASB") issued Accounting Standards Update ("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 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.

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,	
	2023	**2022**
Reserve for losses and LAE at beginning of year	$ 58,396	$ 101,713
Add provision for losses and LAE occurring in:		
Current year	49,989	31,984
Prior years	(31,846)	(74,180)
Net incurred losses and LAE during the current year	18,143	(42,196)
Deduct payments for losses and LAE occurring in:		
Current year	196	71
Prior years	2,700	1,050
Net loss and LAE payments during the current year	2,896	1,121
Reserve for losses and LAE at end of year	$ 73,643	$ 58,396

For the year ended December 31, 2023, $2,700 was paid for incurred claims and claim adjustment expenses attributable to insured events of prior years. There has been a $31,846 favorable prior year development during the year ended December 31, 2023. Reserves remaining as of December 31, 2023 for prior years are $23,850 as a result of re-estimation of unpaid losses and loss adjustment expenses. For the year ended December 31, 2022, $1,050 was paid for incurred claims and claim adjustment expenses attributable to insured events of prior years. There was a $74,180 favorable prior year development during the year ended December 31, 2022. Reserves remaining as of December 31, 2022 for prior years were $26,483 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.

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

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 and 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 reinsure and has the potential to impact our mortgage portfolio.

Based on the fiscal stimulus, forbearance programs and the foreclosure moratoriums enacted in the United States and the credit characteristics of the defaulted loans, we expected the ultimate number of Early COVID Defaults that result in claims would be less than our historical default-to-claim experience. Accordingly, we recorded a reserve equal to approximately 7% of the risk assumed for the Early COVID Defaults. The reserve for the Early COVID Defaults had not been adjusted as of December 31, 2021. As of March 31, 2022, the defaulted loans reported to us in the second and third quarters of 2020 had reached the end of their forbearance periods. 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 7% estimate of ultimate loss for these defaults. Based on cure activity through March 31, 2022 and our expectations for future cure activity, we lowered our estimate of ultimate loss for the Early COVID Defaults from 7% to 4% of the risk assumed. 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 risk assumed. As of December 31, 2023, approximately 99% of the Early COVID Defaults had cured. During 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 continues to experience 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 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 2022 is presented as supplementary information.

	Incurred Loss and Allocated LAE, For the Years Ended December 31,										**As of December 31, 2023**	
	Unaudited										Total of IBNR plus Expected Development on Reported Defaults	Cumulative Number of Reported Defaults *
Accident Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		
2014	$ 58	$ 25	$ 25	$ 25	$ 25	$ 25	$ 25	$ 25	$ 25	$ 25	$ —	6
2015		1,233	730	566	539	420	488	498	511	511	2	65
2016			3,175	1,571	1,197	1,305	1,192	1,170	1,205	1,166	2	169
2017				7,925	3,213	2,383	2,243	2,176	2,212	2,133	5	318
2018					8,119	5,232	4,308	3,835	3,837	3,701	27	516
2019						12,075	9,103	5,501	5,652	4,500	81	576
2020							82,898	70,021	13,346	5,820	284	525
2021								28,490	10,748	4,516	261	400
2022									31,984	15,301	991	1,610
2023										49,989	3,435	12,176
Total										$ 87,662		

(*) cumulative number of reported defaults includes cumulative paid claims plus loans in default by accident year as of December 31, 2023.

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 2022 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	2021	2022	2023
2014	$ —	$ 25	$ 25	$ 25	$ 25	$ 25	$ 25	$ 25	$ 25	$ 25
2015		33	180	393	420	420	444	487	487	487
2016			86	670	971	1,098	1,135	1,135	1,141	1,141
2017				101	953	1,758	1,986	2,027	2,047	2,058
2018					301	1,778	2,982	3,119	3,255	3,316
2019						255	1,819	2,502	2,893	3,300
2020							260	634	1,001	1,733
2021								74	204	754
2022									71	1,009
2023										197
Total										$ 14,020
All outstanding liabilities before 2014										$ —
Reserve for losses and LAE										$ 73,643

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, 2023:

(In thousands)	December 31, 2023
Reserve for losses and LAE, net of reinsurance	$ 73,643
Reinsurance recoverables on unpaid claims	—
Total gross reserve for losses and LAE	$ 73,643

For our mortgage insurance portfolio, our average annual payout of losses as of December 31, 2023 is as follows:

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

Year	1	2	3	4	5	6	7	8	9	10
Average Payout	4%	34%	21%	7%	3%	1%	2%	—%	—%	—%

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

Note 4. Investments Available for Sale

Investments available for sale at December 31, 2023 and 2022 consist of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2023				
U.S. Treasury securities	$ 539,919	$ 626	$ (14,393)	$ 526,152
U.S. agency mortgage-backed securities	570,041	438	(63,353)	507,126
Municipal debt securities **(1)**	18,437	—	(2,363)	16,074
Corporate debt securities **(2)**	357,866	680	(10,966)	347,580
Commercial mortgage securities	183,174	19	(17,856)	165,337
Asset-backed securities	69,947	16	(1,819)	68,144
Money market funds	160,562	—	—	160,562
Total investments available for sale	$ 1,899,946	$ 1,779	$ (110,750)	$ 1,790,975

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2022				
U.S. Treasury securities	$ 347,244	$ 340	$ (21,113)	$ 326,471
U.S. agency mortgage-backed securities	599,748	258	(72,604)	527,402
Municipal debt securities **(1)**	19,317	—	(3,208)	16,109
Corporate debt securities **(2)**	429,294	279	(19,832)	409,741
Commercial mortgage securities	179,249	—	(22,339)	156,910
Asset-backed securities	56,886	5	(3,255)	53,636
Money market funds	15,917	—	—	15,917
Total investments available for sale	$ 1,647,655	$ 882	$ (142,351)	$ 1,506,186

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

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

	December 31, 2023	December 31, 2022
Special revenue bonds	80.2%	80.7%
General obligation bonds	19.8	19.3
Total	100.0%	100.0%

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

	December 31, 2023	December 31, 2022
Financial	50.7%	50.5%
Consumer, Non-cyclical	16.0	13.9
Utilities	9.5	7.5
Industrial	6.9	6.7
Consumer, Cyclical	5.9	7.0
Communications	4.5	5.9
Technology	3.1	2.6
Energy	2.7	5.2
Basic Materials	0.7	0.7
Total	100.0%	100.0%

Net investment income consists of:

	December 31, 2023	December 31, 2022
Fixed maturities	$ 45,278	$ 29,168
Short-term investments	3,805	256
Gross investment income	49,083	29,424
Investment expenses	(1,344)	(1,311)
Net investment income	$ 47,739	$ 28,113

(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, 2023						
U.S. Treasury securities	$ 93,959	$ (420)	$ 244,146	$ (13,973)	$ 338,105	$ (14,393)
U.S. agency mortgage-backed securities	41,792	(807)	427,363	(62,546)	469,155	(63,353)
Municipal debt securities	—	—	16,074	(2,363)	16,074	(2,363)
Corporate debt securities	44,092	(287)	262,949	(10,679)	307,041	(10,966)
Commercial mortgage securities	7,734	(300)	157,070	(17,556)	164,804	(17,856)
Asset-backed securities	25,233	(96)	39,291	(1,723)	64,524	(1,819)
Total	$ 212,810	$ (1,910)	$ 1,146,893	$ (108,840)	$ 1,359,703	$ (110,750)

	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						
U.S. Treasury securities	$ 159,467	$ (8,420)	$ 140,964	$ (12,693)	$ 300,431	$ (21,113)
U.S. agency mortgage-backed securities	237,357	(20,994)	277,478	(51,610)	514,835	(72,604)
Municipal debt securities	13,496	(2,660)	2,613	(548)	16,109	(3,208)
Corporate debt securities	222,940	(10,897)	163,135	(8,935)	386,075	(19,832)
Commercial mortgage securities	61,286	(6,251)	95,624	(16,088)	156,910	(22,339)
Asset-backed securities	16,694	(852)	36,497	(2,403)	53,191	(3,255)
Total	$ 711,240	$ (50,074)	$ 716,311	$ (92,277)	$ 1,427,551	$ (142,351)

At December 31, 2023 and 2022, we held 881 and 1,220 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, 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 substantially all of the securities at December 31, 2023 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, 2023 and 2022.

We had realized gross gains on the sale of investments during the years ended December 31, 2023 and 2022 of $10 and $1, respectively, and gross losses of $384 and $544, respectively.

We are required to maintain assets in trusts for the benefit of our contractual counterparties. The fair value of the investment on deposit in these trusts was $1,060 million and $972 million at December 31, 2023 and 2022, respectively.

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

	December 31, 2023	
	Amortized Cost	**Fair Value**
U.S. Treasury securities:		
Due in 1 year	$ 303,354	$ 302,033
Due after 1 but within 5 years	204,868	194,980
Due after 5 but within 10 years	17,276	15,655
Due after 10 years	14,421	13,484
Subtotal	539,919	526,152
Municipal debt securities:		
Due in 1 year	—	—
Due after 1 but within 5 years	6,628	6,282
Due after 5 but within 10 years	11,809	9,792
Due after 10 years	—	—
Subtotal	18,437	16,074
Corporate debt securities:		
Due in 1 year	144,500	142,718
Due after 1 but within 5 years	160,513	155,355
Due after 5 but within 10 years	52,853	49,507
Due after 10 years	—	—
Subtotal	357,866	347,580
U.S. agency mortgage-backed securities	570,041	507,126
Commercial mortgage securities	183,174	165,337
Asset-backed securities	69,947	68,144
Money market funds	160,562	160,562
Total investments available for sale	$ 1,899,946	$ 1,790,975

Note 5. Accounts Receivable

Accounts receivable consists of the following at December 31:

(In thousands)	**2023**	**2022**
Premiums receivable - affiliate	$ 50,660	$ 45,511
Premiums receivable	4,856	4,829
Other receivables	8,040	10,664
Total accounts receivable	63,556	61,004
Less: Allowance for doubtful accounts	—	—
Accounts receivable, net	$ 63,556	$ 61,004

Premiums receivable consists of premiums due on our insurance and reinsurance policies. 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, 2023	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	$ 526,152	$ —	$ —	$ 526,152
U.S. agency mortgage-backed securities	—	507,126	—	507,126
Municipal debt securities	—	16,074	—	16,074
Corporate debt securities	—	347,580	—	347,580
Commercial mortgage securities	—	165,337	—	165,337
Asset-backed securities	—	68,144	—	68,144
Money market funds	160,562	—	—	160,562
Total assets at fair value	$ 686,714	$ 1,104,261	$ —	$ 1,790,975

December 31, 2022	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	$ 326,471	$ —	$ —	$ 326,471
U.S. agency mortgage-backed securities	—	527,402	—	527,402
Municipal debt securities	—	16,109	—	16,109
Corporate debt securities	—	409,741	—	409,741
Commercial mortgage securities	—	156,910	—	156,910
Asset-backed securities	—	53,636	—	53,636
Money market funds	15,917	—	—	15,917
Total assets at fair value	$ 342,388	$ 1,163,798	$ —	$ 1,506,186

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

Note 7. Accumulated Other Comprehensive Loss

The following table shows the rollforward of accumulated other comprehensive loss for the years ended December 31, 2023 and 2022, respectively:

	December 31, 2023	December 31, 2022
Balance at beginning of year	$ (141,469)	$ (3,334)
Other comprehensive loss:		
Unrealized holding gains (losses) arising during the period	32,124	(138,678)
Less: Reclassification adjustment for losses included in net income (1)	374	543
Net unrealized appreciation (depreciation) on investments	32,498	(138,135)
Other comprehensive income (loss)	32,498	(138,135)
Balance at end of year	$ (108,971)	$ (141,469)

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

Note 8. Income Taxes

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.

On December 27, 2023, the Government of Bermuda enacted the Corporate Income Tax Act 2023 ("CIT"). Starting January 1, 2025, the CIT will result in a new 15% corporate income tax on in-scope entities that are resident in Bermuda or that have a Bermuda permanent establishment, without regard to any assurances that had previously been given pursuant to the Exempted Undertakings Tax Protection Act 1966. The CIT also includes various transitional provisions and elections that we are in the process of evaluating. In particular, we believe that, based on their current structure and operations, our Bermuda companies will be eligible to elect a five-year "limited international presence" exemption under the CIT. We intend to make this election within the timeframe required under Bermuda law, and therefore do not expect the CIT to have a material impact on Essent Re's effective tax rate until we no longer meet the exemption criteria, or January 1, 2030, the fifth anniversary of the inception date of the tax, whichever may occur sooner. The exemption criteria are subject to interpretation of existing Bermuda law, as well any related new regulations that may be issued by the Government of Bermuda. No assurances can be made that we will continue meeting such criteria for the entire five-year period.

Essent Re recorded a deferred tax asset and a corresponding benefit for income taxes in the amount of $2.6 million upon enactment of the CIT for unrealized losses on the investment portfolio.

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 2023 and 2022, we incurred approximately $565 and $526, 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, 2023 and 2022, 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, 2023 and 2022, we incurred charges associated with this plan of $340 and $370, respectively.

Note 10. Commitments and Contingencies

Lease Obligations

We lease office space for use in our operations under leases accounted for as operating leases. These leases generally include options to extend for periods of up to five years. Our option to extend the term of our primary office locations at the greater of existing or prevailing market rates was not recognized in our right-of-use asset and lease liability. The operating lease right-of-use asset of $2,757 as of December 31, 2023 is reported on our consolidated balance sheet as property and equipment. The operating lease liability of $2,852 as of December 31, 2023 is reported on our consolidated balance sheet as other accrued liabilities. There was no right of use asset or lease liability recorded on our balance sheet as of December 31, 2022. Total rent expense was $314 and $129 for the years ended December 31, 2023 and 2022, respectively.

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

(In thousands)	2023	2022
Lease costs:		
Operating lease cost	$ 186	$ 97
Short-term lease cost	128	32
Total lease cost	$ 314	$ 129
Other information:		
Weighted average remaining lease term - operating leases (years)	9.58	-
Weighted average discount rate - operating leases	5.2%	—%

The following table presents a maturity analysis of our lease liabilities as follows at December 31, 2023:

Year Ending December 31,	
2024	$ 360
2025	360
2026	360
2027	360
2028	380
2029 and thereafter	1,834
Total lease payments to be paid	3,654
Less: Future interest expense	(802)
Present value of lease liabilities	$ 2,852

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, 2023 and 2022, 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, 2023 and 2022, 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, 2023, Essent Re paid dividends totaling $60 million to Essent Group. During the year ended December 31, 2022, Essent Re paid no dividends.

The statutory capital and surplus for the Company was $1,758,387 and $1,478,649 at December 31, 2023 and 2022, respectively, and statutory income was $307,396 and $314,970, 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 27, 2024, which is the date the consolidated financial statements were available to be issued.