

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

- (Mark One)
- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended **March 31, 2017**
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number **001-36174**

**NMI Holdings, Inc.**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of incorporation or organization)

**2100 Powell Street, Emeryville, CA**

(Address of principal executive offices)

**45-4914248**

(I.R.S. Employer Identification No.)

**94608**

(Zip Code)

**(855) 530-6642**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

**YES x NO o**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

**YES x NO o**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

**YES o NO x**

The number of shares of common stock, \$0.01 par value per share, of the registrant outstanding on May 2, 2017 was 59,785,313 shares.

## TABLE OF CONTENTS

<a href="#"><u>Cautionary Note Regarding Forward Looking Statements</u></a>	<a href="#"><u>3</u></a>
<a href="#"><u>PART I</u></a>	<a href="#"><u>5</u></a>
Item 1. <a href="#"><u>Financial Statements</u></a>	<a href="#"><u>5</u></a>
Item 2. <a href="#"><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a>	<a href="#"><u>23</u></a>
Item 3. <a href="#"><u>Quantitative and Qualitative Disclosures About Market Risk</u></a>	<a href="#"><u>41</u></a>
Item 4. <a href="#"><u>Controls and Procedures</u></a>	<a href="#"><u>42</u></a>
<a href="#"><u>PART II</u></a>	<a href="#"><u>43</u></a>
Item 1. <a href="#"><u>Legal Proceedings</u></a>	<a href="#"><u>43</u></a>
Item 1A. <a href="#"><u>Risk Factors</u></a>	<a href="#"><u>43</u></a>
Item 6. <a href="#"><u>Exhibits</u></a>	<a href="#"><u>43</u></a>
<a href="#"><u>Signatures</u></a>	<a href="#"><u>44</u></a>
<a href="#"><u>Exhibit Index</u></a>	<a href="#"><u>i</u></a>

## CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This report contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act), and the U.S. Private Securities Litigation Reform Act of 1995. Any statements about our expectations, beliefs, plans, predictions, forecasts, objectives, assumptions or future events or performance are not historical facts and may be forward looking. These statements are often, but not always, made through the use of words or phrases such as "anticipate," "believe," "can," "could," "may," "predict," "potential," "should," "will," "estimate," "plan," "project," "continuing," "ongoing," "expect," "intend" or words of similar meaning and include, but are not limited to, statements regarding the outlook for our future business and financial performance. All forward looking statements are necessarily only estimates of future results, and actual results may differ materially from expectations. You are, therefore, cautioned not to place undue reliance on such statements which should be read in conjunction with the other cautionary statements that are included elsewhere in this report. Further, any forward looking statement speaks only as of the date on which it is made and we undertake no obligation to update or revise any forward looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. We have based these forward looking statements on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, operating results, business strategy and financial needs. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward looking statements including, but not limited to:

- our future profitability, liquidity and capital resources;
- developments in the world's financial and capital markets and our access to such markets, including reinsurance;
- retention of our existing certificates of authority in each state and the District of Columbia (D.C.) and our ability to remain a mortgage insurer in good standing in each state and D.C.;
- changes in the business practices of Fannie Mae and Freddie Mac (collectively, the GSEs), including decisions that have the impact of decreasing or discontinuing the use of mortgage insurance as credit enhancement;
- our ability to remain an eligible mortgage insurer under the private mortgage insurer eligibility requirements (PMIERS) and other requirements imposed by the GSEs, which they may change at any time;
- actions of existing competitors, including governmental agencies like the Federal Housing Administration (FHA) and the Veterans Administration (VA), and potential market entry by new competitors or consolidation of existing competitors;
- adoption of new or changes to existing laws and regulations that impact our business or financial condition directly or the mortgage insurance industry generally or their enforcement and implementation by regulators;
- changes to the GSEs' role in the secondary mortgage market or other changes that could affect the residential mortgage industry generally or mortgage insurance in particular;
- potential future lawsuits, investigations or inquiries or resolution of current lawsuits or inquiries;
- changes in general economic, market and political conditions and policies, interest rates, inflation and investment results or other conditions that affect the housing market or the markets for home mortgages or mortgage insurance;
- our ability to successfully execute and implement our capital plans, including our ability to access the reinsurance market and to enter into, and receive approval of, reinsurance arrangements on terms and conditions that are acceptable to us, the GSEs and our regulators;
- our ability to implement our business strategy, including our ability to write mortgage insurance on high quality low down payment residential mortgage loans, implement successfully and on a timely basis, complex infrastructure, systems, procedures, and internal controls to support our business and regulatory and reporting requirements of the insurance industry;
- our ability to attract and retain a diverse customer base, including the largest mortgage originators;
- failure of risk management or pricing or investment strategies;
- emergence of unexpected claim and coverage issues, including claims exceeding our reserves or amounts we had expected to experience;
- the inability of our counter-parties, including third party reinsurers, to meet their obligations to us;

- our ability to utilize our net operating loss carryforwards, which could be limited or eliminated in various ways, including if we experience an ownership change as defined in Section 382 of the Internal Revenue Code;
- failure to maintain, improve and continue to develop necessary information technology (IT) systems or the failure of technology providers to perform; and
- ability to recruit, train and retain key personnel.

For more information regarding these risks and uncertainties as well as certain additional risks that we face, you should refer to Part I, Item 2, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and elsewhere in this report on Form 10-Q, including the exhibits hereto. In addition, for additional discussion of those risks and uncertainties that have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner, you should review the *Risk Factors* in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2016 (2016 10-K), as subsequently updated in other reports we file from time to time with the U.S. Securities and Exchange Commission (SEC).

Unless expressly indicated or the context requires otherwise, the terms "we," "our," "us" and "Company" in this document refer to NMI Holdings, Inc., a Delaware corporation, and its wholly owned subsidiaries on a consolidated basis.

**PART I**

**Item 1. Financial Statements and Supplementary Data**

**INDEX TO FINANCIAL STATEMENTS**

Condensed Consolidated Balance Sheets as of March 31, 2017 and December 31, 2016	<a href="#">6</a>
Condensed Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2017 and 2016	<a href="#">7</a>
Condensed Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2017 and the year ended December 31, 2016	<a href="#">8</a>
Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2017 and 2016	<a href="#">9</a>
Notes to Condensed Consolidated Financial Statements	<a href="#">10</a>

NMI HOLDINGS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 31, 2017	December 31, 2016
<i>(In Thousands, except for share data)</i>		
<b>Assets</b>		
Fixed maturities, available-for-sale, at fair value (amortized cost of \$658,463 and \$630,688 as of March 31, 2017 and December 31, 2016, respectively)	\$ 658,640	\$ 628,969
Cash and cash equivalents	12,543	47,746
Premiums receivable	15,566	13,728
Accrued investment income	3,900	3,421
Prepaid expenses	2,935	1,991
Deferred policy acquisition costs, net	32,165	30,109
Software and equipment, net	21,168	20,402
Intangible assets and goodwill	3,634	3,634
Prepaid reinsurance premiums	38,348	37,921
Deferred tax asset, net	50,529	51,434
Other assets	734	542
<b>Total assets</b>	<b>\$ 840,162</b>	<b>\$ 839,897</b>
<b>Liabilities</b>		
Term loan	\$ 144,010	\$ 144,353
Unearned premiums	154,711	152,906
Accounts payable and accrued expenses	14,175	25,297
Reserve for insurance claims and claim expenses	3,761	3,001
Reinsurance funds withheld	31,243	30,633
Deferred ceding commission	4,790	4,831
Warrant liability, at fair value	3,563	3,367
<b>Total liabilities</b>	<b>356,253</b>	<b>364,388</b>
<b>Commitments and contingencies</b>		
<b>Shareholders' equity</b>		
Common stock - class A shares, \$0.01 par value; 59,783,358 and 59,145,161 shares issued and outstanding as of March 31, 2017 and December 31, 2016, respectively (250,000,000 shares authorized)	598	591
Additional paid-in capital	578,081	576,927
Accumulated other comprehensive loss, net of tax	(4,054)	(5,287)
Accumulated deficit	(90,716)	(96,722)
<b>Total shareholders' equity</b>	<b>483,909</b>	<b>475,509</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 840,162</b>	<b>\$ 839,897</b>

*See accompanying notes to consolidated financial statements.*

NMI HOLDINGS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (UNAUDITED)

	For the three months ended March 31,	
	2017	2016
<i>(In Thousands, except for share data)</i>		
<b>Revenues</b>		
Net premiums earned	\$ 33,225	\$ 19,807
Net investment income	3,807	3,231
Net realized investment losses	(58)	(885)
Other revenues	80	32
<b>Total revenues</b>	<b>37,054</b>	<b>22,185</b>
<b>Expenses</b>		
Insurance claims and claims expenses	635	458
Underwriting and operating expenses	25,989	22,672
<b>Total expenses</b>	<b>26,624</b>	<b>23,130</b>
<b>Other (expense) income</b>		
(Loss) gain from change in fair value of warrant liability	(196)	670
Interest expense	(3,494)	(3,632)
<b>Total other expense</b>	<b>(3,690)</b>	<b>(2,962)</b>
<b>Income (loss) before income taxes</b>	<b>6,740</b>	<b>(3,907)</b>
Income tax expense	1,248	—
<b>Net income (loss)</b>	<b>\$ 5,492</b>	<b>\$ (3,907)</b>
<b>Earnings (loss) per share</b>		
Basic	\$ 0.09	\$ (0.07)
Diluted	\$ 0.09	\$ (0.07)
<b>Weighted average common shares outstanding</b>		
Basic	59,183,973	58,936,694
Diluted	62,338,856	58,936,694
<b>Net income (loss)</b>	<b>\$ 5,492</b>	<b>\$ (3,907)</b>
<b>Other comprehensive income, net of tax:</b>		
Net unrealized gains in accumulated other comprehensive income, net of tax expense of \$664 and \$0 for the quarters ended March 31, 2017 and March 31, 2016, respectively	1,175	9,101
Reclassification adjustment for losses included in net loss (gain), net of tax expense of \$0 for the quarters ended March 31, 2017 and 2016	58	885
<b>Other comprehensive income, net of tax</b>	<b>1,233</b>	<b>9,986</b>
<b>Comprehensive income</b>	<b>\$ 6,725</b>	<b>\$ 6,079</b>

*See accompanying notes to consolidated financial statements.*

NMI HOLDINGS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

	Common Stock - Class A		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount				
	<i>(In Thousands)</i>					
Balances, January 1, 2016	58,808	\$ 588	\$ 570,340	\$ (7,474)	\$ (160,723)	\$ 402,731
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	337	3	(227)	—	—	(224)
Share-based compensation expense	—	—	6,814	—	—	6,814
Change in unrealized investment gains/losses, net of tax expense of \$1,178	—	—	—	2,187	—	2,187
Net income	—	—	—	—	64,001	64,001
Balances, December 31, 2016	59,145	\$ 591	\$ 576,927	\$ (5,287)	\$ (96,722)	\$ 475,509
Cumulative effect of change in accounting principle	—	—	—	—	514	514
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	638	7	(1,117)	—	—	(1,110)
Share-based compensation expense	—	—	2,271	—	—	2,271
Change in unrealized investment gains/losses, net of tax expense of \$664	—	—	—	1,233	—	1,233
Net income	—	—	—	—	5,492	5,492
Balances, March 31, 2017	59,783	\$ 598	\$ 578,081	\$ (4,054)	\$ (90,716)	\$ 483,909

*See accompanying notes to consolidated financial statements.*



NMI HOLDINGS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the three months ended March 31,	
	2017	2016
Cash flows from operating activities	<i>(In Thousands)</i>	
Net income (loss)	\$ 5,492	\$ (3,907)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Net realized investment losses	58	885
Loss (gain) from change in fair value of warrant liability	196	(670)
Depreciation and amortization	1,502	990
Net amortization of premium on investment securities	357	326
Amortization of debt discount and debt issuance costs	403	418
Share-based compensation expense	1,911	1,410
Changes in operating assets and liabilities:		
Accrued investment income	(479)	(271)
Premiums receivable	(1,838)	(1,435)
Prepaid expenses	(944)	(1,304)
Deferred policy acquisition costs, net	(2,056)	(3,418)
Other assets	(192)	16
Deferred tax asset	1,146	—
Unearned premiums	1,805	18,322
Reserve for insurance claims and claims expenses	760	458
Reinsurance balances, net	141	—
Accounts payable and accrued expenses	(10,351)	(11,085)
Net cash (used in) provided by operating activities	(2,089)	735
Cash flows from investing activities		
Purchase of short-term investments	(38,663)	(40,234)
Purchase of fixed-maturity investments, available-for-sale	(60,212)	(31,085)
Proceeds from maturity of short-term investments	46,845	24,347
Proceeds from redemptions, maturities and sale of fixed-maturity investments, available-for-sale	23,841	65,075
Software and equipment	(3,069)	(2,319)
Net cash (used in) provided by investing activities	(31,258)	15,784
Cash flows from financing activities		
Proceeds from issuance of common stock related to employee equity plans	2,392	449
Taxes paid related to net share settlement of equity awards	(3,503)	(608)
Repayments of term loan	(375)	(375)
Payments of debt modification costs	(370)	—
Net cash used in financing activities	(1,856)	(534)
Net (decrease) increase in cash and cash equivalents	(35,203)	15,985
Cash and cash equivalents, beginning of period	47,746	57,317
Cash and cash equivalents, end of period	\$ 12,543	\$ 73,302
Supplemental disclosures of cash flow information		
Noncash financing activities		
Interest paid	\$ 3,314	\$ 3,225
Taxes paid	170	—

*See accompanying notes to consolidated financial statements.*

## 1. Organization and Basis of Presentation

NMI Holdings, Inc. (NMIH) is a Delaware corporation, incorporated in May 2011, to provide private mortgage guaranty insurance (which we refer to as mortgage insurance or MI) through its wholly owned insurance subsidiaries, National Mortgage Insurance Corporation (NMIC) and National Mortgage Reinsurance Inc One (Re One). In April 2012, we completed a private placement of our securities, through which we offered and sold an aggregate of 55,000,000 of our Class A common stock resulting in net proceeds of approximately \$510 million (the Private Placement), and we completed the acquisition of our insurance subsidiaries for \$8.5 million in cash, common stock and warrants, plus the assumption of \$1.3 million in liabilities. In November 2013, we completed an initial public offering of 2.4 million shares of our common stock, and our common stock began trading on the NASDAQ exchange on November 8, 2013, under the symbol "NMIH."

In April 2013, NMIC, our primary insurance subsidiary, issued its first mortgage insurance policy. NMIC is licensed to write mortgage insurance in all 50 states and D.C. In August 2015, NMIH capitalized a wholly owned subsidiary, NMI Services, Inc. (NMIS), through which we offer outsourced loan review services on a limited basis to mortgage loan originators.

### *Basis of Presentation*

The accompanying unaudited condensed consolidated financial statements, which include the results of NMIH and its wholly owned subsidiaries, have been prepared in accordance with the instructions to Form 10-Q as prescribed by the SEC for interim reporting and include other information and disclosures required by accounting principles generally accepted in the U.S. (GAAP). Our accounts are maintained in U.S. dollars. These statements should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 31, 2016, included in our 2016 10-K. All intercompany transactions have been eliminated. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities as of the balance sheet date. Estimates also affect the reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates. The results of operations for the interim period may not be indicative of the results that may be expected for the full year ending December 31, 2017.

### *Deferred Policy Acquisition Costs*

Costs directly associated with the successful acquisition of mortgage insurance policies, consisting of certain selling expenses and other policy issuance and underwriting expenses, are initially deferred and reported as deferred policy acquisition costs (DAC). DAC is reviewed periodically to determine that it does not exceed recoverable amounts and is adjusted as appropriate for policy cancellations to be consistent with our revenue recognition policy. We estimate the rate of amortization to reflect actual experience and any changes to persistency or loss development. For each book year of business, these costs are amortized to expense in proportion to estimated gross profits over the estimated life of the policies. Total amortization of DAC for the three months ended March 31, 2017 and 2016, net of a portion of ceding commission related to the 2016 QSR Transaction (see Note 5, "Reinsurance"), was \$1.0 million and \$0.9 million, respectively.

### *Premium Deficiency Reserves*

We consider whether a premium deficiency exists at each fiscal quarter using best estimate assumptions as of the testing date. Per ASC 944, a premium deficiency reserve shall be recognized if the sum of expected claim costs and claim adjustment expenses, expected dividends to policyholders, unamortized acquisition costs, and maintenance costs exceeds related unearned premiums and anticipated investment income. We have determined that no premium deficiency reserves were necessary for the three months ended March 31, 2017 or 2016.

### *Reinsurance*

We account for premiums, losses and loss expenses that are ceded to reinsurers on bases consistent with those we use to account for the original policies we issue and pursuant to the terms of our reinsurance contracts. We account for premiums ceded to reinsurers as reductions to premium revenue. We earn profit commissions, which represent a percentage of the profits recognized by the reinsurers that are returned to us, based on the level of losses ceded. We recognize any profit commissions we earn as increases in net premium revenue.

We receive ceding commissions, calculated as a percentage of ceded written premiums, which are intended to cover our costs to acquire and service the direct policies. We earn the ceding commissions in a manner consistent with our recognition of earnings on the underlying insurance policies, over the terms of the policies reinsured. We account for ceding commissions as reductions to underwriting and operating expenses.

We cede a portion of loss reserves, paid losses and loss expenses, which are accounted for as reductions to loss expense and as reinsurance recoverables. We remain directly liable for all loss payments in the event we are unable to collect from any reinsurer.

#### *Premiums Receivable*

Premiums receivable consist of premiums due on our mortgage insurance policies. If a mortgage insurance premium is unpaid for more than 120 days, the receivable is written off against earned premium and the related insurance policy is canceled.

#### *Recent Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). This update is intended to provide a consistent approach in recognizing revenue. In accordance with the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, ASU 2015-14 deferred the provisions of ASU 2014-09 to be effective for interim and annual periods beginning after December 15, 2017. In addition, this guidance amends the existing requirements for the recognition of a gain or loss on the transfer of non-financial assets that are not in a contract with a customer (ASU 2017-05). The Company is currently evaluating the impact the adoption of this ASU will have, if any, on the consolidated financial statements; however, this update is not expected to impact the recognition of revenue related to insurance premiums or investments, which represent the majority of our total revenues.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This update requires that businesses recognize rights and obligations associated with certain leases as assets and liabilities on the balance sheet. The standard also requires additional disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases. For public business entities, this update is effective for annual periods beginning after December 15, 2018 and interim periods therein. Early adoption is permitted in any period. We expect to adopt this guidance on January 1, 2019. We anticipate this standard will have a material impact on our financial position, primarily due to our office space operating lease, as we will be required to recognize lease assets and lease liabilities on our consolidated balance sheet. We will continue to assess the potential impacts of this standard, including the impact the adoption of this guidance will have on our results of operations or cash flows.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses* (Topic 326). This update requires companies to measure all expected credit losses for financial assets held at the reporting date. The accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration also is amended in the standard. The standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently in the early stages of evaluating the impact the adoption of this ASU will have, if any, on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows* (Topic 230). This update is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company is currently in the early stages of evaluating the impact the adoption of this ASU will have, if any, on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-16, *Income Taxes- Intra-Entity Transfers of Assets Other Than Inventory* (Topic 740). This update is intended to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted at the beginning of any annual reporting period. The Company is currently in the early stages of evaluating the impact the adoption of this ASU will have, if any, on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other* (Topic 350). This update is intended to simplify the test for goodwill impairment. The standard will take effect for public business entities for fiscal years, and interim periods within those fiscal years, after December 15, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently in the early stages of evaluating the impact the adoption of this ASU will have, if any, on the consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, *Receivables - Nonrefundable Fees and Other Costs* (Subtopic 310-20). This update shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. The standard will take effect for public business entities for fiscal years beginning after December 15, 2017. Early adoption is permitted, and if an entity early adopts the guidance in an interim period, any adjustments are reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently in the early stages of evaluating the impact the adoption of this ASU will have, if any, on the consolidated financial statements.

*Immaterial Correction of Prior Period Amounts*

During the first quarter of 2017, after filing its 2016 10-K, including the audited financial statements included therein, the Company discovered that \$1.8 million of deferred taxes on vested options associated with employees who had terminated employment in previous years had not been reversed. Because the Company's deferred tax asset (DTA) was subject to a valuation allowance prior to December 2016, no expense would have been recognized by the Company in periods prior to December 2016. However, at December 31, 2016, when the Company released the valuation allowance against its DTA, the DTA was overstated by \$1.8 million. The release of the valuation allowance resulted in a \$1.8 million overstatement of the Company's 2016 income tax benefit and net income.

In order to provide consistency in the consolidated statements and as permitted by Staff Accounting Bulletin (SAB) 108, revisions for these immaterial amounts to previously reported annual amounts are reflected in the Consolidated Balance Sheet financial information herein and will be reflected in the Consolidated Statement of Operations in future filings containing such financial information as permitted by SAB 108. A comparison of the effected amounts as reported and as adjusted are reported below.

As of and for the full year ended December 31, 2016	As previously reported		As adjusted	
	<i>(In thousands)</i>			
<b>Income Statement</b>				
Net income	\$	65,841	\$	64,001
Income tax (benefit)		(54,389)		(52,550)
Basic EPS		1.11		1.08
Diluted EPS		1.08		1.05
<b>Balance Sheet</b>				
Deferred tax asset, net	\$	53,274	\$	51,434
Total assets		841,737		839,897
Accumulated deficit		(94,882)		(96,722)
Total shareholder's equity		477,349		475,509

*Change in Accounting Principle*

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting* (Topic 718), which intends to simplify various aspects of the accounting for and reporting of share-based payments. The new accounting is required to be adopted using a modified retrospective approach, with a cumulative-effect adjustment to opening retained earnings for any outstanding liability awards that qualify for equity classification under the new guidance.

As the guidance is effective for annual and interim reporting periods beginning after December 15, 2016, the Company adopted the new guidance in the first quarter of 2017. This requires us to reflect any adjustments as of January 1, 2017, the beginning of the annual period that includes the interim period of adoption. The primary impact of adoption was the recognition of excess tax benefits in our provision for income taxes in our consolidated statement of earnings. Additionally, our consolidated statement of cash flows now present excess tax benefits as an operating activity on a prospective basis. Finally, we have elected to account for forfeitures as they occur, rather than estimate expected forfeitures. The net cumulative effect of this change was recognized as a \$0.5 million reduction to the retained deficit as of January 1, 2017.

*Subsequent Event*

On May 2, 2017, we entered into an excess of loss reinsurance agreement with Oaktown Re Ltd., a Bermuda-domiciled special purpose insurer. In connection with the transaction, NMIC will receive \$211.3 million of fully collateralized excess of loss reinsurance protection, covering an existing portfolio of mortgage insurance policies written from 2013 through 2016. In connection

with the note offering, as is customary in such capital markets transactions, NMIH indemnified the underwriter with respect to information provided in the offering materials about NMIC and the reinsured loans.

## 2. Investments

We have designated our investment portfolio as available-for-sale and report it at fair value. The related unrealized gains and losses are, after considering the related tax expense or benefit, recognized as a component of accumulated other comprehensive income and loss in shareholders' equity. Net realized investment gains and losses are reported in income based upon specific identification of securities sold.

### *Fair Values and Gross Unrealized Gains and Losses on Investments*

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<i>(In Thousands)</i>				
<b>As of March 31, 2017</b>				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 66,555	\$ 3	\$ (850)	\$ 65,708
Municipal debt securities	70,543	316	(463)	70,396
Corporate debt securities	360,955	2,466	(1,781)	361,640
Asset-backed securities	107,008	696	(313)	107,391
<b>Total bonds</b>	<b>605,061</b>	<b>3,481</b>	<b>(3,407)</b>	<b>605,135</b>
Short-term investments	53,402	103	—	53,505
<b>Total investments</b>	<b>\$ 658,463</b>	<b>\$ 3,584</b>	<b>\$ (3,407)</b>	<b>\$ 658,640</b>

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<i>(In Thousands)</i>				
<b>As of December 31, 2016</b>				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 64,135	\$ 6	\$ (962)	\$ 63,179
Municipal debt securities	40,801	131	(663)	40,269
Corporate debt securities	349,712	1,722	(2,356)	349,078
Asset-backed securities	114,456	765	(560)	114,661
<b>Total bonds</b>	<b>569,104</b>	<b>2,624</b>	<b>(4,541)</b>	<b>567,187</b>
Short-term investments	61,584	198	—	61,782
<b>Total investments</b>	<b>\$ 630,688</b>	<b>\$ 2,822</b>	<b>\$ (4,541)</b>	<b>\$ 628,969</b>

As of March 31, 2017 and December 31, 2016, there were approximately \$6.9 million of cash and investments in the form of U.S. Treasury securities on deposit with various state insurance departments to satisfy regulatory requirements.

### *Scheduled Maturities*

The amortized cost and fair values of available for sale securities as of March 31, 2017 and December 31, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Because most asset-backed securities provide for periodic payments throughout their lives, they are listed below in separate categories.

NMI HOLDINGS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As of March 31, 2017	Amortized Cost	Fair Value
(In Thousands)		
Due in one year or less	\$ 120,819	\$ 120,890
Due after one through five years	147,875	148,565
Due after five through ten years	266,793	266,076
Due after ten years	15,968	15,718
Asset-backed securities	107,008	107,391
<b>Total investments</b>	<b>\$ 658,463</b>	<b>\$ 658,640</b>

  

As of December 31, 2016	Amortized Cost	Fair Value
(In Thousands)		
Due in one year or less	\$ 94,382	\$ 94,584
Due after one through five years	173,296	173,251
Due after five through ten years	242,005	240,060
Due after ten years	6,549	6,413
Asset-backed securities	114,456	114,661
<b>Total investments</b>	<b>\$ 630,688</b>	<b>\$ 628,969</b>

*Aging of Unrealized Losses*

As of March 31, 2017, the investment portfolio had gross unrealized losses of \$3.4 million, \$0.4 million of which has been in an unrealized loss position for a period of 12 months or greater. We did not consider these securities to be other-than-temporarily impaired as of March 31, 2017. We based our conclusion that these investments were not other-than-temporarily impaired as of March 31, 2017 on the following facts: (i) the unrealized losses were primarily caused by interest rate movements since the purchase date; (ii) we do not intend to sell these investments; and (iii) we do not believe that it is more likely than not that we will be required to sell these investments before recovery of our amortized cost basis, which may not occur until maturity. For those securities in an unrealized loss position, the length of time the securities were in such a position is as follows:

	Less Than 12 Months			12 Months or Greater			Total		
	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses
(Dollars in Thousands)									
As of March 31, 2017									
U.S. Treasury securities and obligations of U.S. government agencies	37	\$ 61,703	\$ (850)	—	\$ —	\$ —	37	\$ 61,703	\$ (850)
Municipal debt securities	14	27,663	(431)	1	1,718	(32)	15	29,381	(463)
Corporate debt securities	60	100,085	(1,465)	6	11,022	(316)	66	111,107	(1,781)
Asset-backed securities	23	29,086	(241)	10	8,547	(72)	33	37,633	(313)
<b>Total investments</b>	<b>134</b>	<b>\$ 218,537</b>	<b>\$ (2,987)</b>	<b>17</b>	<b>\$ 21,287</b>	<b>\$ (420)</b>	<b>151</b>	<b>\$ 239,824</b>	<b>\$ (3,407)</b>

	Less Than 12 Months			12 Months or Greater			Total		
	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses
(Dollars in Thousands)									
As of December 31, 2016									
U.S. Treasury securities and obligations of U.S. government agencies	33	\$ 51,093	\$ (962)	—	\$ —	\$ —	33	\$ 51,093	\$ (962)
Municipal debt securities	14	28,659	(617)	1	1,704	(46)	15	30,363	(663)
Corporate debt securities	77	135,115	(1,955)	8	13,873	(401)	85	148,988	(2,356)
Asset-backed securities	30	38,702	(510)	6	2,472	(50)	36	41,174	(560)
<b>Total investments</b>	<b>154</b>	<b>\$ 253,569</b>	<b>\$ (4,044)</b>	<b>15</b>	<b>\$ 18,049</b>	<b>\$ (497)</b>	<b>169</b>	<b>\$ 271,618</b>	<b>\$ (4,541)</b>

*Net Investment Income*

	For the three months ended March 31,	
	2017	2016
	<i>(In Thousands)</i>	
Investment income	\$ 3,993	\$ 3,408
Investment expenses	(186)	(178)
Net investment income	\$ 3,807	\$ 3,231

*Net Realized Investment Gains (Losses)*

	For the three months ended March 31,	
	2017	2016
	<i>(In Thousands)</i>	
Gross realized investment gains	\$ 279	\$ 556
Gross realized investment losses	(337)	(1,441)
Net realized investment losses	\$ (58)	\$ (885)

*Investment Securities - Other-than-Temporary Impairment (OTTI)*

For the quarter ended March 31, 2017, we recognized an OTTI loss in earnings of \$144 thousand based on a negative outlook with an unfavorable forecasted recovery.

There were no credit losses recognized in earnings for which a portion of an OTTI loss was recognized in accumulated other comprehensive income (loss).

**3. Fair Value of Financial Instruments**

The following describes the valuation techniques used by us to determine the fair value of financial instruments held at March 31, 2017 and December 31, 2016:

We established a fair value hierarchy by prioritizing the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this standard are described below:

Level 1 - Unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date for identical assets or liabilities. Financial assets utilizing Level 1 inputs are U.S. Treasury securities;

Level 2 - Prices or valuations based on observable inputs other than quoted prices in active markets for identical assets and liabilities. Financial assets utilizing Level 2 inputs include certain obligations of U.S. government agencies, municipal and corporate debt securities and asset-backed securities; and

Level 3 - Unobservable inputs that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. We value our warrant liability utilizing Level 3 inputs.

The level of market activity used to determine the fair value hierarchy is based on the availability of observable inputs market participants would use to price an asset or a liability, including market value price observations.

*Assets classified as Level 1 and Level 2*

To determine the fair value of securities available-for-sale in Level 1 and Level 2 of the fair value hierarchy, independent pricing sources have been utilized. One price is provided per security based on observable market data. To ensure securities are appropriately classified in the fair value hierarchy, we review the pricing techniques and methodologies of the independent pricing

NMI HOLDINGS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

sources 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. A variety of inputs are utilized by the independent pricing sources including benchmark yields, reported trades, non-binding broker/dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers and reference data including data published in market research publications. Inputs may be weighted differently for any security, and not all inputs are used for each security evaluation. Market indicators, industry and economic events are also considered. This information is evaluated using a multidimensional pricing model. Quality controls are performed by the independent pricing sources throughout this process, which include reviewing tolerance reports, trading information and data changes, and directional moves compared to market moves. This model combines all inputs to arrive at a value assigned to each security. We have not made any adjustments to the prices obtained from the independent pricing sources. There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the quarter ended March 31, 2017.

*Liabilities classified as Level 3*

We calculate the fair value of outstanding warrants using a Black-Scholes option-pricing model in combination with a binomial model. Variables in the model include the risk-free rate of return, dividend yield, expected life and expected volatility of our stock price.

ASC 825, *Disclosures about Fair Value of Financial Instruments*, requires all entities to disclose the fair value of their financial instruments, both assets and liabilities recognized and not recognized in the balance sheet, for which it is practicable to estimate fair value.

The following is a list of those assets and liabilities that are measured at fair value by hierarchy level:

	Fair Value Measurements Using			Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<i>(In Thousands)</i>				
<b>As of March 31, 2017</b>				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 55,746	\$ 9,962	\$ —	\$ 65,708
Municipal debt securities	—	70,396	—	70,396
Corporate debt securities	—	361,640	—	361,640
Asset-backed securities	—	107,391	—	107,391
Cash, cash equivalents and short-term investments	66,048	—	—	66,048
Total assets	<u>\$ 121,794</u>	<u>\$ 549,389</u>	<u>\$ —</u>	<u>\$ 671,183</u>
Warrant liability	—	—	3,563	3,563
Total liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,563</u>	<u>\$ 3,563</u>

	Fair Value Measurements Using			Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<i>(In Thousands)</i>				
<b>As of December 31, 2016</b>				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 50,719	\$ 12,460	\$ —	\$ 63,179
Municipal debt securities	—	40,269	—	40,269
Corporate debt securities	—	349,078	—	349,078
Asset-backed securities	—	114,661	—	114,661
Cash, cash equivalents and short-term investments	109,528	—	—	109,528
Total assets	<u>\$ 160,247</u>	<u>\$ 516,468</u>	<u>\$ —</u>	<u>\$ 676,715</u>
Warrant liability	—	—	3,367	3,367
Total liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,367</u>	<u>\$ 3,367</u>



The following is a roll-forward of Level 3 liabilities measured at fair value:

Warrant Liability	For the three months ended March 31,	
	2017	2016
	<i>(In Thousands)</i>	
Balance, January 1	\$ 3,367	\$ 1,467
Change in fair value of warrant liability included in earnings	196	(670)
Balance, March 31	<u>\$ 3,563</u>	<u>\$ 797</u>

We revalue the warrant liability quarterly using a Black-Scholes option-pricing model, in combination with a binomial model, and we value the pricing protection features within the warrants using a Monte-Carlo simulation model. As of March 31, 2017, the assumptions used in the option-pricing model were as follows: a common stock price as of March 31, 2017 of \$11.40, risk free interest rate of 1.70%, expected life of 3.92 years, expected volatility of 30.5% and a dividend yield of 0%. The change in fair value is primarily attributable to an increase in the price of our common stock from December 31, 2016 to March 31, 2017.

#### 4. Term Loan

On November 10, 2015, the Company entered into a credit agreement (the Credit Agreement) to obtain a three-year senior secured term loan B (the Term Loan) for \$150 million. On February 10, 2017, we entered into an amendment to the Credit Agreement, to extend the maturity date by one year and reduce the interest rate. We performed an analysis and concluded the amendment to the Credit Agreement should be treated as a modification. As of March 31, 2017, the Term Loan bears interest at the Eurodollar Rate, as defined in the Credit Agreement, (1% floor) plus an annual margin rate of 6.75% (an all-in rate of 8.0% as of March 31, 2017), payable quarterly. Quarterly principal payments of \$375 thousand are also required. The outstanding balance as of March 31, 2017 was \$147.8 million.

Debt issuance costs totaling \$4.8 million and a 1% debt discount are being amortized to interest expense, using the effective interest method, over the contractual life of the Term Loan, including \$370 thousand related to the modification. Effective interest rate for the Term Loan includes interest, amortization of issuance cost and the discount. For the three months ended March 31, 2017, the Company recorded \$3.5 million of interest expense, including amortization of the issuance cost and discount.

NMIH is subject to certain quarterly covenants under the Credit Agreement. These covenants include, but are not limited to the following: a maximum debt-to-total capitalization ratio (as defined) of 35%, maximum risk-to-capital (RTC) ratio of 22.0:1.0, liquidity (as defined) of \$33.4 million as of March 31, 2017, compliance with the PMIERS financial requirements (subject to any GSE-approved waivers), and equity requirements. This description is not intended to be complete in all respects and is qualified in its entirety by the terms of the Credit Agreement, including its covenants and events of default. We were in compliance with all covenants as of March 31, 2017.

Future principal payments for the Company's Term Loan as of March 31, 2017 are as follows:

As of March 31, 2017	Principal
	<i>(In thousands)</i>
2017	\$ 1,125
2018	1,500
2019	145,125
Total	<u>\$ 147,750</u>

#### 5. Reinsurance

In September 2016, in order to continue to grow our business and manage insurance risk and our *minimum required assets* under PMIERS financial requirements, the Company entered into a quota-share reinsurance transaction with a panel of third-party reinsurers, subject to certain conditions (2016 QSR Transaction). Each of the third-party reinsurers has an insurer financial strength rating of A- or better by Standard and Poor's Rating Services (S&P), A.M. Best or both. The GSEs and the

NMI HOLDINGS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Wisconsin Office of the Commissioner of Insurance (Wisconsin OCI) approved the 2016 QSR Transaction (subject to certain conditions), giving full capital credit under PMIERS and statutory accounting principles, respectively, for the risk ceded under the agreement. The credit that we receive under PMIERS is subject to periodic review by the GSEs.

Under the 2016 QSR Transaction, effective September 1, 2016, NMIC ceded premiums related to:

- 25% of existing risk written on eligible policies as of August 31, 2016;
- 100% of our existing risk under our pool agreement with Fannie Mae; and
- 25% of risk on eligible policies written from September 1, 2016 through December 31, 2017.

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

	For the three months ended	
	March 31, 2017	March 31, 2016
<i>(In Thousands)</i>		
<b>Net premiums written</b>		
Direct	\$ 39,245	\$ 38,129
Ceded	(4,641)	—
<b>Net premiums written</b>	<b>\$ 34,604</b>	<b>\$ 38,129</b>
<b>Net premiums earned</b>		
Direct	\$ 37,438	\$ 19,807
Ceded	(4,213)	—
<b>Net premiums earned</b>	<b>\$ 33,225</b>	<b>\$ 19,807</b>

The following tables show the amounts ceded related to the 2016 QSR Transaction:

	For the three months ended	
	March 31, 2017	March 31, 2016
<i>(In Thousands)</i>		
Ceded risk-in-force	\$ 2,167,745	\$ —
Ceded premiums written	(4,641)	—
Ceded premiums earned	(4,213)	—
Ceding commission written	2,058	—
Ceding commission earned	2,065	—

NMIC receives a 20% ceding commission for premiums ceded pursuant to this transaction. NMIC will also receive a profit commission, provided that the loss ratio on the loans covered under the agreement generally remains below 60%, as measured annually. Losses on the ceded risk reduce NMIC's profit commission on a dollar-for-dollar basis.

In accordance with the terms of the 2016 QSR Transaction, rather than making a cash payment or transferring investments for ceded premiums written, NMIC established a funds withheld liability, which also includes amounts due to NMIC for ceding and profit commissions. Any loss recoveries and any potential profit commission to NMIC will be realized from this account until exhausted. Ceded premiums written are recorded on the balance sheet as prepaid reinsurance premiums and amortized to ceded premiums earned in a manner consistent with the recognition of income on direct premiums.

The reinsurance recoverable on loss reserves related to our 2016 QSR Transaction was \$564 thousand as of March 31, 2017. The reinsurance recoverable balance is further supported by trust accounts established and maintained by each reinsurer in accordance with the PMIERS funding requirements that address ceded risk.

The agreement is scheduled to terminate on December 31, 2027, except with respect to the ceded pool risk, which is scheduled to terminate on August 31, 2023. However, NMIC has the option, based on certain conditions and subject to a

termination fee, to terminate the agreement as of December 31, 2020, or at the end of any calendar quarter thereafter, which would result in NMIC reassuming the related risk.

## 6. Reserves for Insurance Claims and Claims Expenses

We establish claim reserves to recognize the estimated liability for insurance claims and claim expenses related to defaults on insured mortgage loans. Our method, consistent with industry practice, is to establish claim reserves only for loans that have been reported to us as having been in default for at least 60 days. Our claim reserves also include amounts for estimated claims incurred on loans that have been in default for at least 60 days that have not yet been reported to us by the servicers, often referred to as IBNR. As of March 31, 2017, we have established reserves for insurance claims and claims expenses of \$3.8 million for 207 primary loans in default. We paid 4 claims totaling \$142 thousand during the quarter ended March 31, 2017.

In 2013, we entered into a pool insurance transaction with Fannie Mae. We only establish claim or IBNR reserves for pool risk if we expect claims to exceed the deductible under the pool agreement, which represents the amount of claims absorbed by Fannie Mae before we are obligated to pay any claims. At March 31, 2017, 47 loans in the pool were past due by 60 days or more. These 47 loans represent approximately \$3.1 million in risk-in-force (RIF). Due to the size of the remaining deductible of \$10.1 million, the low level of notices of default (NODs) reported through March 31, 2017 and the expected severity (all loans in the pool have loan-to-value ratios (LTVs) under 80%), we have not established any pool reserves for claims or IBNR for the three months ended March 31, 2017 and 2016. In connection with settlement of pool claims, we applied \$256 thousand to the pool deductible through March 31, 2017. We have not paid any pool claims to date.

The following table provides a reconciliation of the beginning and ending reserve balances for primary insurance claims and claims expenses:

	For the three months ended March 31,	
	2017	2016
	<i>(In Thousands)</i>	
Beginning balance	\$ 3,001	\$ 679
Less reinsurance recoverables <sup>(1)</sup>	(297)	—
Beginning balance, net of reinsurance recoverables	2,704	679
Add claims incurred:		
Claims and claim expenses incurred:		
Current year <sup>(2)</sup>	955	553
Prior years <sup>(3)</sup>	(320)	(95)
Total claims and claims expenses incurred	635	458
Less claims paid:		
Claims and claim expenses paid:		
Current year <sup>(2)</sup>	—	—
Prior years <sup>(3)</sup>	142	—
Total claims and claim expenses paid	142	—
Reserve at end of period, net of reinsurance recoverables	3,197	1,137
Add reinsurance recoverables <sup>(1)</sup>	564	—
Balance, March 31	\$ 3,761	\$ 1,137

<sup>(1)</sup> Related to ceded losses recoverable on the 2016 QSR Transaction, included in "Other Assets" on the Condensed Consolidated Balance Sheets. See Note 5, "Reinsurance" for additional information.

<sup>(2)</sup> Related to defaults occurring in the current year.

<sup>(3)</sup> Related to defaults occurring in prior years.

The "claims incurred" section of the table above shows claims and claim expenses incurred on default notices received in the current year and in prior years. The amount of claims incurred relating to default notices received in the current year represents

NMI HOLDINGS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

the estimated amount to be ultimately paid on such default notices. The decreases during the periods presented in reserves held for prior year defaults are generally the result of ongoing analysis of recent loss development trends. We may increase or decrease our original estimates as we learn additional information about individual defaults and claims.

There was a \$320 thousand favorable prior year development during the three months ended March 31, 2017 as a result of NOD cures and ongoing analysis of recent loss development trends. Reserves of \$2.5 million related to prior year defaults remained as of March 31, 2017.

The following tables provide claim development data, by accident year, and a reconciliation to the reserve for insurance claims and claim expenses, related to the new guidance on short-duration contracts.

<u>Accident Year</u>	<u>Reserves net of Reinsurance</u>					<u>As of March 31, 2017</u>	
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total of IBNR</u>	<u>NODs</u>
<i>(\$ Values In Thousands)</i>							
2013	\$ —	\$ 24	\$ —	\$ —	\$ —	\$ —	—
2014		56	34	—	—	—	—
2015			652	614	408	9	9
2016				2,210	1,921	113	107
2017					716	96	91
				<b>Total</b>	<b>\$ 3,045</b>	<b>\$ 218</b>	<b>207</b>

Our IBNR reserves reflect the actuarial estimate for claims incurred but not reported as of March 31, 2017. The number of NODs outstanding as of March 31, 2017 is the total number of loans in default over 60 days for which we have established reserves.

<u>Accident Year</u>	<u>Cumulative Paid Claims, net of Reinsurance</u>				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<i>(In Thousands)</i>					
2013	\$ —	\$ —	\$ —	\$ —	\$ —
2014				4	—
2015			50	196	105
2016				171	37
2017					—
				<b>Total</b>	<b>\$ 142</b>

**Reconciliation of Disclosure of Incurred and Paid Claims Development to the Liability for Unpaid Claims and Claim Adjustment Expenses**

*(In Thousands)*

	<u>As of March 31, 2017</u>
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	\$ 3,121
Reinsurance recoverable on unpaid claims	564
Unallocated claims adjustment expenses	76
<b>Total gross liability for unpaid claims and claim adjustment expenses</b>	<b>\$ 3,761</b>

The below table shows, on average, the percentage of claims paid over the years after a claim is incurred.

	Average annual percentage payout of incurred claims by age, net of reinsurance				
	Year 1	Year 2	Year 3	Year 4	Year 5
Claims duration disclosure	3%	11%	9%	—%	—%

## 7. Earnings (Loss) per Share

Basic earnings (loss) per share is based on the weighted average number of shares of common stock outstanding, while diluted earnings (loss) per share is based on the weighted average number of shares of common stock outstanding and common stock equivalents that would be issuable upon the exercise of stock options, other share-based compensation arrangements, and the dilutive effect of outstanding warrants. The following table reconciles the net income and the weighted average shares of common stock outstanding used in the computations of basic and diluted earnings (loss) per share of common stock:

	For the three months ended March 31,	
	2017	2016
	<i>(In Thousands, except for per share data)</i>	
Net income (loss)	\$ 5,492	\$ (3,907)
Basic earnings (loss) per share	\$ 0.09	\$ (0.07)
Basic weighted average shares outstanding	59,183,973	58,936,694
Dilutive effect of non-vested shares	3,154,883	—
Dilutive weighted average shares outstanding	62,338,856	58,936,694
Diluted earnings (loss) per share	\$ 0.09	\$ (0.07)

For the three months ended March 31, 2017, 1,121,471 of our common stock equivalents we issued under share-based compensation arrangements were not included in the calculation of diluted earnings (loss) per share because they were anti-dilutive. Non-vested shares of 3,154,883 were included in our weighted average number of common shares outstanding for the three months ended March 31, 2017.

As a result of our net losses for the three months ended March 31, 2016, 7,351,338 of our common stock equivalents we issued under share-based compensation arrangements and warrants were not included in the calculation of diluted earnings (loss) per share as of such dates because they were anti-dilutive.

## 8. Warrants

We issued 992,000 warrants in connection with our Private Placement. Each warrant gives the holder thereof the right to purchase one share of common stock at an exercise price equal to \$10.00. The warrants were issued with an aggregate fair value of \$5.1 million.

Upon exercise of these warrants, the amounts will be treated as additional paid-in capital. No warrants were exercised during the three months ended March 31, 2017 and 2016.

We account for these warrants to purchase our common shares in accordance with ASC 470-20, *Debt with Conversion and Other Options* and ASC 815-40, *Derivatives and Hedging - Contracts in Entity's Own Equity*.

## 9. Income Taxes

We are a U.S. taxpayer and are subject to a statutory U.S. federal corporate income tax rate of 35%. Our holding company files a consolidated U.S. federal and various state income tax returns on behalf of itself and its subsidiaries. Our provision for income taxes for the interim reporting periods are based on an estimated annual effective tax rate for the year ending December 31, 2017. Our effective tax rate on our pre-tax income was 18.5% for the three months ended March 31, 2017, compared to 0.0% for the comparable 2016 period. The increase in the effective tax expense for the three months ended March 31, 2017, against the comparable 2016 period was attributable to the elimination of tax benefits during the comparable 2016 period due to the recognition of a full

valuation allowance which had been recorded to reflect the amount of the deferred taxes that may not be realized. See Item 1, “*Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 1, Organization and Basis of Presentation - Immaterial Correction of Prior Period Amounts*” for further details.

**10. Statutory Information**

Our insurance subsidiaries, NMIC and Re One, file financial statements in conformity with statutory basis accounting principles (SAP) prescribed or permitted by the Wisconsin OCI, NMIC's principal regulator. Prescribed SAP includes state laws, regulations and general administrative rules, as well as a variety of publications of the National Association of Insurance Commissioners. The Wisconsin OCI recognizes only statutory accounting practices prescribed or permitted by the state of Wisconsin for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under Wisconsin insurance laws.

NMIC and Re One's combined statutory net loss, statutory surplus, contingency reserve and risk-to-capital (RTC) ratios were as follows:

As of and for the three months and year ended	March 31, 2017	December 31, 2016
	<i>(In Thousands)</i>	
Statutory net income (loss)	\$ (10,090)	\$ (26,653)
Statutory surplus	404,359	413,809
Contingency reserve	109,198	90,479
Risk-to-Capital	12.4:1	11.6:1

NMIH is not subject to any limitations on its ability to pay dividends except those generally applicable to corporations that are incorporated in Delaware, such as NMIH. Delaware corporation law provides that dividends are only payable out of a corporation's capital surplus or recent net profits (subject to certain limitations). Since inception, NMIC has not paid any dividends to NMIH. As NMIC had a statutory net loss for the year ended December 31, 2016, NMIC cannot pay any dividends to NMIH through December 31, 2017, without the prior approval of the Wisconsin OCI.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following analysis should be read in conjunction with our unaudited consolidated financial statements and the notes thereto included in this report and our audited financial statements, notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our 2016 10-K, for a more complete understanding of our financial position and results of operations. In addition, investors should review the "Cautionary Note Regarding Forward-Looking Statements" above and the "Risk Factors" detailed in Part I, Item 1A of our 2016 10-K and Part II, Item 1A of this report, as subsequently updated in reports we file with the SEC, for a discussion of those risks and uncertainties that have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner. Our results of operations for interim periods are not necessarily indicative of results to be expected for a full fiscal year or for any other period.

### Overview

We provide MI through our insurance subsidiaries. Our primary insurance subsidiary, NMIC, is a qualified MI provider on loans purchased by the GSEs and is licensed in all 50 states and D.C. to issue MI. Our reinsurance subsidiary, Re One, solely provides reinsurance to NMIC on certain loans insured by NMIC to meet state statutory coverage limits. Our subsidiary, NMIS, provides outsourced loan review services on a limited basis to mortgage loan originators. Our stock trades on the NASDAQ under the symbol "NMIH."

MI protects mortgage lenders from all or a portion of default-related losses on residential mortgage loans made to home buyers who generally make down payments of less than 20% of a home's purchase price. By protecting lenders and investors from credit losses, we help facilitate the availability of mortgages to prospective, primarily first-time, U.S. home buyers, thus promoting homeownership while protecting lenders and investors against potential losses related to a borrower's default. MI also facilitates the sale of these mortgage loans in the secondary mortgage market, most of which are sold to the GSEs. We are one of six companies in the U.S. who offer MI. Our business strategy is to continue to expand our customer base and write insurance on high quality, low down payment residential mortgages in the U.S. We reported our first profitable results on an annual basis for the year ended December 31, 2016, and for the quarter ended March 31, 2017, we reported net income of \$5.5 million.

We had total insurance-in-force (IIF) of \$38.3 billion and total risk-in-force (RIF) of \$8.5 billion as of March 31, 2017, compared to total IIF of \$35.8 billion and total RIF of \$7.9 billion as of December 31, 2016. Of total IIF as of March 31, 2017, we had \$34.8 billion of primary IIF and \$3.5 billion of pool IIF, compared to \$32.2 billion of primary IIF and \$3.6 billion of pool IIF as of December 31, 2016. As of March 31, 2017, our primary RIF was \$8.4 billion, compared to primary RIF of \$7.8 billion as of December 31, 2016. Pool RIF was \$93.1 million as of March 31, 2017 and December 31, 2016.

We discuss below our results of operations for the periods presented, as well as the conditions and trends that have impacted or are expected to impact our business, including customer development, new business writings, the composition of our insurance portfolio and other factors that we expect to impact our results. Our headquarters are located in Emeryville, California and our website is [www.nationalmi.com](http://www.nationalmi.com). Our website and the information contained on or accessible through our website are not incorporated by reference into this report.

### Conditions and Trends Impacting Our Business

#### Customer Development

Our sales and marketing strategy is focused on expanding relationships with existing customers and attracting new mortgage originator customers in the U.S. that fall into two primary categories, which we refer to as "National Accounts" and "Regional Accounts." In the recent quarter, we increased our customer base. We had 1,174 master policy holders as of March 31, 2017, compared to 1,023 master policy holders as of March 31, 2016. Of those master policy holders, 537 or 45.7% generated new insurance written (NIW) in the first quarter of 2017, compared to 469, or 45.8% that generated NIW in the first quarter of 2016.

Lenders in the combined residential mortgage market who control the MI decision are currently comprised of three groups:

- Top 10, primarily National Accounts, representing approximately 19% of the MI market;
- Next 30, a combination of National and Regional Accounts, representing approximately 17% of the MI market; and
- Approximately 1,500, primarily Regional Accounts, representing the remainder of the MI market.

Since April 2013, we have increased our customer base significantly, and we expect to continue to acquire new customers. As of March 31, 2017, we had active customer relationships with 31 of the top 40 lenders and expect to develop additional active customer relationships. We believe our most significant growth opportunity is within the large and fragmented market of Regional Accounts, which includes some of the top correspondent lenders. In addition to adding new customers, we believe existing customers will begin to allocate more of their business to us for placement of our MI.

### ***New Insurance Written, Insurance in Force and Premiums***

NMIC's primary insurance may be written on a flow basis, in which loans are insured in individual, loan-by-loan transactions, or on an aggregated basis, in which each loan in a portfolio of loans is individually insured in a single transaction. NMIC has also written pool insurance under an agreement with Fannie Mae, in which it insured a group of loans (or pool) in one transaction. NMIC's pool insurance has a stated aggregate loss limit and a deductible under which no losses are paid by NMIC until losses on the pool of loans exceed the deductible. See Item 1, "*Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 6, Reserves for Insurance Claims and Claims Expenses,*" above. NIW production is impacted by a variety of factors, including the size of the origination and refinance markets, business development, pricing relative to competitors and customer service, among others.

We set premiums for an insured loan at the time the loan is insured, based on our filed rates and rating rules. We offer borrower-paid (BPMP) and lender-paid (LPMP) mortgage insurance options. Premium rates are based on the risk characteristics of each insured loan and the capital required to support particular products. Capital charges are governed primarily by the GSEs' private mortgage insurer eligibility requirements (PMIERS), as well as by regulatory and economic capital requirements. See "*GSE Oversight*" and "*Capital Position of our Insurance Subsidiaries and Financial Strength Ratings,*" below.

We offer monthly, single and annual premium payment plans. For monthly policies, premiums are collected and earned each month as coverage is provided. Policies written on a single premium basis are paid through a single, upfront payment, the majority of which is initially deferred as unearned premium and earned over the policy's expected life. Annual policies represent an insignificant amount of our NIW to date.

### ***Effect of reinsurance on our results***

We utilize third party reinsurance to continue to grow our business and manage insurance risk and our minimum required assets under the PMIERS financial requirements. In September 2016, we entered into the 2016 QSR Transaction. On May 2, 2017, we entered into an excess of loss reinsurance agreement with Oaktown Re Ltd., a Bermuda-domiciled special purpose insurer, to secure \$211.3 million of excess of loss reinsurance coverage (2017 XOL Transaction). Our results of operations are impacted by our reinsurance arrangements; although, we will not experience impacts from the 2017 XOL Transaction until second quarter 2017. We expect reinsurance will continue to be a primary component of our capital structure.

Under the terms of the 2016 QSR Transaction, premiums are ceded to reinsurers who assume a portion of the risk under the insurance policies we write. Our net premiums written and earned are net of ceded amounts, offset by a profit commission associated with the premiums ceded. The 2016 QSR Transaction protects us against a fixed percentage of losses arising from policies covered by the agreement and reduces the capital we are required to hold under state insurance regulations and GSE requirements.

The 2016 QSR Transaction affects premiums, underwriting expenses and losses incurred. In the quarter ended March 31, 2017, our pre-tax net cost of reinsurance was approximately \$1.9 million. With respect to the 2016 QSR Transaction:

- We cede a fixed percentage of premiums on insurance covered by the agreement.
- We cede a fixed percentage of losses incurred on insurance covered by the agreement.
- We receive the benefit of a profit commission through a reduction in the premiums we cede. The profit commission varies directly and inversely with the level of losses on a dollar for dollar basis and is eliminated at levels of losses that we do not expect to occur. This means that lower levels of losses result in our realization of a higher profit commission and less benefit from ceded losses; higher levels of losses result in more benefit from ceded losses and our realization of a lower profit commission (or for levels of losses we do not expect, its elimination).
- We receive the benefit of a ceding commission equal to 20% of premiums ceded. The ceding commission is deferred and recognized as a reduction in underwriting expenses over the expected life of the risk associated with the reinsured policies.

The effects described above result in an implied after-tax cost of reinsurance of approximately 3-4%, so long as loss ratios remain below 60%. The effect of the reinsurance on income will vary from period to period, depending on the level of ceded losses.



## Portfolio Data

The tables below show primary and pool IIF, NIW and premiums written and earned. Single NIW and IIF include policies written on an aggregated and flow basis. Unless otherwise noted, the following tables do not include the effects of the 2016 QSR Transaction, as described above.

Primary and pool IIF and NIW	As of and for the quarter ended			
	March 31, 2017		March 31, 2016	
	IIF	NIW	IIF	NIW
	<i>(In Millions)</i>			
Monthly	\$ 21,511	\$ 2,892	\$ 9,210	\$ 2,492
Single	13,268	667	9,354	1,762
Primary	34,779	3,559	18,564	4,254
Pool	3,545	—	4,136	—
Total	\$ 38,324	\$ 3,559	\$ 22,700	\$ 4,254

For the quarter ended March 31, 2017, primary NIW decreased 16% compared to the first quarter of 2016, primarily due to our continued efforts to reduce the percentage of singles in our product mix. In the first quarter of 2017, monthly premium NIW increased 16% over the first quarter of 2016 as a result of our continuing efforts to increase our volume with existing customers and to build business with new customers. For the three months ended March 31, 2017, 81% of our NIW consisted of monthly premium policies, which is consistent with our long-term goal of achieving a monthly mix in line with the industry average of approximately 75-80%. As of March 31, 2017, our IIF was comprised of approximately 62% of monthly premium policies. We expect our IIF mix to continue to trend toward the industry average.

Primary and pool premiums written and earned	For the quarter ended	
	March 31, 2017	March 31, 2016
	<i>(In Thousands)</i>	
Net premiums written <sup>(1)</sup>	\$ 34,604	\$ 38,129
Net premiums earned <sup>(1)</sup>	33,225	19,807

<sup>(1)</sup> Premiums written and earned are reported net of the 2016 QSR Transaction.

For the quarter ended March 31, 2017, we had net premiums written of \$34.6 million and premiums earned of \$33.2 million, compared to net premiums written of \$38.1 million and premiums earned of \$19.8 million for the quarter ended March 31, 2016. Premiums written and earned are influenced by NIW, product mix, pricing and persistency. Additionally, premiums earned are influenced by the amortization of earnings on our single premium product over the policies' expected lives in accordance with the expiration of risk for policies covering more than one year.

The increase in net premiums earned for the quarter ended March 31, 2017 is primarily the result of the continued growth of our primary flow business. The decrease in premiums written is due to the changing product mix as well as the 2016 QSR Transaction, under which we ceded approximately 25% of premiums written and earned. Period over period, premiums earned increased due to the changing product mix and growing number of monthly premium policies in force during the quarter ended March 31, 2017. Pool premiums written and earned for the quarter ended March 31, 2017 were \$1.0 million, compared to pool premiums written and earned of \$1.2 million for the quarter ended March 31, 2016.

In our industry, a "book" is a group of loans that an MI company insures in a particular period, normally a calendar year. In general, the majority of any underwriting profit (*i.e.*, the earned premium revenue minus claims and expenses, excluding investment income) that a book generates occurs in the early years of the book, with the largest portion of the underwriting profit for that book realized in the first year. This pattern generally occurs because relatively few of the claims that a book will ultimately experience typically occur in the first few years of the book, when premium revenue is highest, while subsequent years are affected by declining premium revenues, as the number of insured loans decreases (primarily due to loan prepayments), and by increasing losses. The earnings we record and the cash flow we receive vary based on the type of MI product (*e.g.*, BPMI or LPMI) and premium plan (*e.g.*, single or monthly) our customers select.

We price our products to achieve a mid-teens percentage return on PMIERS required assets. Our pricing is risk-based, meaning that loans with higher LTVs and lower credit scores will generally be priced higher than loans with lower LTVs and higher credit scores. See "- GSE Oversight," below for a discussion of the PMIERS financial requirements. Since the industry adopted risk-based pricing in 2016, pricing for monthly premium product, which represents approximately 75% - 80% of the market, has generally been stable. Single-premium LPMI, which historically has represented approximately 20% - 25% of industry NIW, has generally been more price competitive.

Our persistency rate is the percentage of IIF that remains on our books after any 12-month period. Because our insurance premiums are earned over the life of a policy, changes in persistency rates can have a significant impact on our earnings. The persistency rate on our portfolio was 81.3% at March 31, 2017. Persistency rates are sensitive to fluctuations in interest rates. Decreases in interest rates typically increase our portfolio's cancellation rate. When cancellations increase, we experience lower profitability and returns on our monthly premium business, and conversely, higher returns on our single premium business because, rather than amortizing the single premium over the expected life of the policy, upon cancellation, we immediately recognize all unamortized single premium as earned.

### Portfolio Statistics

The table below shows primary portfolio trends, by quarter, for the last five quarters.

Primary portfolio trends	As of and for the quarter ended				
	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
	(\$ Values In Millions)				
New insurance written	\$ 3,559	\$ 5,240	\$ 5,857	\$ 5,838	\$ 4,254
New risk written	868	1,244	1,415	1,411	1,016
Insurance in force <sup>(1)</sup>	34,779	32,168	28,228	23,624	18,564
Risk in force <sup>(1)</sup>	8,444	7,790	6,847	5,721	4,487
Policies in force (count) <sup>(1)</sup>	145,632	134,662	119,002	100,547	79,700
Weighted-average coverage <sup>(2)</sup>	24.3%	24.2%	24.3%	24.2%	24.2%
Loans in default (count)	207	179	115	79	55
Percentage of loans in default	0.1%	0.1%	0.1%	0.1%	0.1%
Risk in force on defaulted loans	\$ 12	\$ 10	\$ 6	\$ 4	\$ 3
Average premium yield <sup>(3)</sup>	0.40%	0.44%	0.48%	0.47%	0.45%
Earnings from cancellations	\$ 2.5	\$ 5.1	\$ 5.8	\$ 3.5	\$ 2.3
Annual persistency <sup>(4)</sup>	81.3%	80.7%	81.8%	83.3%	82.7%
Quarterly persistency <sup>(5)</sup>	88.2%	81.6%	78.8%	83.2%	86.1%

<sup>(1)</sup> Reported as of the end of the period.

<sup>(2)</sup> End of period RIF divided by IIF.

<sup>(3)</sup> Average premium yield is calculated by dividing net primary and pool premiums earned, net of reinsurance, by average gross IIF for the period, annualized.

<sup>(4)</sup> Defined as the percentage of IIF that remains on our books after any 12-month period.

<sup>(5)</sup> Defined as the percentage of IIF that remains on our books after any 3-month period, annualized.

The table below reflects a summary of the change in total primary IIF for the three months ended March 31, 2017 and 2016.

Primary IIF	For the three months ended	
	March 31, 2017	March 31, 2016
	(In Millions)	
IIF, beginning of period	\$ 32,168	\$ 14,824
NIW	3,559	4,254
Cancellations and other reductions	(948)	(514)
IIF, end of period	\$ 34,779	\$ 18,564

The table below reflects a summary of our primary IIF and RIF by book year as of March 31, 2017 and 2016.

Primary IIF and RIF	As of March 31, 2017		As of March 31, 2016	
	IIF	RIF	IIF	RIF
	<i>(In Millions)</i>			
March 31, 2017	\$ 3,544	\$ 865	\$ —	\$ —
2016	19,774	4,756	4,232	1,011
2015	9,681	2,384	11,806	2,864
2014	1,735	428	2,461	597
2013	45	11	65	15
Total	\$ 34,779	\$ 8,444	\$ 18,564	\$ 4,487

We utilize certain risk principles that form the basis of how we underwrite and originate primary NIW. We manage our portfolio credit risk by using several loan eligibility matrices which prescribe the maximum LTV, minimum borrower credit score, maximum loan size, property type, loan type, loan term and occupancy status of loans that we will insure. Our loan eligibility matrices, as well as all of our detailed underwriting guidelines, are contained in our Underwriting Guideline Manual that is publicly available on our website. Our eligibility criteria and underwriting guidelines are designed to mitigate the layered risk inherent in a single insurance policy. "Layered risk" refers to the accumulation of borrower, loan and property risk. For example, we have higher credit score and lower maximum allowed LTV requirements for riskier property types, such as investor properties, compared to owner-occupied properties. We monitor the concentrations of various risk attributes in our insurance portfolio. Generally, insuring loans made to borrowers with higher credit scores tends to result in a lower frequency of claims than with loans made to borrowers with lower credit scores.

The tables below reflect our total primary NIW by FICO, LTV and purchase/refinance mix for the three months ended March 31, 2017 and 2016. We calculate the LTV of a loan as the percentage of the original loan amount to the original value of the property securing the loan. In general, the lower the LTV the lower the likelihood of a default, and for loans that default, a lower LTV generally results in lower severity for a resulting claim, as the borrower has more equity in the property.

Primary NIW by FICO	For the three months ended	
	March 31, 2017	March 31, 2016
	<i>(In Millions)</i>	
>= 760	\$ 1,683	\$ 2,283
740-759	551	712
720-739	456	473
700-719	396	411
680-699	264	245
<=679	209	130
Total	\$ 3,559	\$ 4,254

Primary NIW by LTV	For the three months ended	
	March 31, 2017	March 31, 2016
	<i>(In Millions)</i>	
95.01% and above	\$ 274	\$ 209
90.01% to 95.00%	1,612	1,816
85.01% to 90.00%	1,101	1,420
85.00% and below	572	809
Total	\$ 3,559	\$ 4,254

**Primary NIW by purchase/refinance mix**

	For the three months ended	
	March 31, 2017	March 31, 2016
	(In Millions)	
Purchase	\$ 2,984	\$ 2,919
Refinance	575	1,335
<b>Total</b>	<b>\$ 3,559</b>	<b>\$ 4,254</b>

The tables below show the primary weighted average FICO and weighted average LTV, by policy type, for NIW in the quarters presented.

**Weighted Average FICO**

	For the three months ended	
	March 31, 2017	March 31, 2016
Monthly	745	753
Single	764	759

**Weighted Average LTV**

	For the three months ended	
	March 31, 2017	March 31, 2016
Monthly	92%	92%
Single	91%	91%

The tables below reflect our total primary IIF and RIF by FICO, average loan size, LTV and loan type.

**Primary IIF by FICO**

	As of			
	March 31, 2017		March 31, 2016	
	(\$ Values In Millions)			
>= 760	\$ 17,408	50%	\$ 9,146	49%
740-759	5,658	16	3,045	16
720-739	4,460	13	2,515	14
700-719	3,533	10	1,877	10
680-699	2,336	7	1,305	7
<=679	1,384	4	676	4
<b>Total</b>	<b>\$ 34,779</b>	<b>100%</b>	<b>\$ 18,564</b>	<b>100%</b>

**Primary RIF by FICO**

	As of			
	March 31, 2017		March 31, 2016	
	(\$ Values In Millions)			
>= 760	\$ 4,253	50%	\$ 2,207	49%
740-759	1,383	16	747	17
720-739	1,081	13	613	14
700-719	851	10	453	10
680-699	556	7	312	7
<=679	320	4	155	3
<b>Total</b>	<b>\$ 8,444</b>	<b>100%</b>	<b>\$ 4,487</b>	<b>100%</b>

**Primary Average Loan Size by FICO**

	As of	
	March 31, 2017	March 31, 2016
	<i>(In Thousands)</i>	
>= 760	\$ 250	\$ 247
740-759	241	237
720-739	235	232
700-719	233	229
680-699	224	220
<=679	210	206

**Primary IIF by LTV**

	As of			
	March 31, 2017		March 31, 2016	
	<i>(\$ Values In Millions)</i>			
95.01% and above	\$ 1,931	5%	\$ 699	4%
90.01% to 95.00%	15,601	45	8,220	44
85.01% to 90.00%	11,058	32	6,326	34
85.00% and below	6,189	18	3,319	18
<b>Total</b>	<b>\$ 34,779</b>	<b>100%</b>	<b>\$ 18,564</b>	<b>100%</b>

**Primary RIF by LTV**

	As of			
	March 31, 2017		March 31, 2016	
	<i>(\$ Values In Millions)</i>			
95.01% and above	\$ 533	6%	\$ 196	5%
90.01% to 95.00%	4,585	55	2,423	54
85.01% to 90.00%	2,626	31	1,498	33
85.00% and below	700	8	370	8
<b>Total</b>	<b>\$ 8,444</b>	<b>100%</b>	<b>\$ 4,487</b>	<b>100%</b>

**Primary RIF by Loan Type**

	As of	
	March 31, 2017	March 31, 2016
Fixed	99%	98%
Adjustable rate mortgages:		
Less than five years	—	—
Five years and longer	1	2
<b>Total</b>	<b>100%</b>	<b>100%</b>

As of March 31, 2017 and March 31, 2016, 100% of each of our pool IIF and RIF was comprised of insurance on fixed rate mortgages.

The table below shows primary portfolio statistics, by book year, as of March 31, 2017.

Origination year	As of March 31, 2017									
	Original Insurance Written	Remaining Insurance in Force	% Remaining of Original Insurance	Policies Ever in Force	Number of Policies in Force	Number of Loans in Default	# of Claims Paid	Incurred Loss Ratio (Inception to Date) <sup>(1)</sup>	Cumulative default rate <sup>(2)</sup>	
(\$ Values in Millions)										
2013	\$ 162	\$ 45	28%	655	224	—	1	0.2%	0.2%	
2014	3,451	1,735	50%	14,786	8,527	47	5	2.7%	0.4%	
2015	12,422	9,681	78%	52,548	43,414	114	9	2.5%	0.2%	
2016	21,188	19,774	93%	83,628	79,595	46	—	0.9%	0.1%	
2017	3,559	3,544	100%	13,926	13,872	—	—	—%	—%	
Total	\$ 40,782	\$ 34,779		165,543	145,632	207	15			

<sup>(1)</sup> The ratio of total losses incurred (paid and reserved) divided by cumulative premiums earned, net of reinsurance.

<sup>(2)</sup> The sum of claims paid ever to date and notices of default as of the end of the period divided by policies ever in force.

### Geographic Dispersion

The following table shows the distribution by state of our primary RIF. As of March 31, 2017, our RIF continues to be relatively more concentrated in California, primarily as a result of the location and timing of the acquisition of new customers. The distribution of risk across the states as of March 31, 2017 is not necessarily representative of the geographic distribution we expect in the future.

Top 10 primary RIF by state	As of	
	March 31, 2017	March 31, 2016
California	13.8%	13.2%
Texas	7.2	6.8
Virginia	6.3	5.8
Florida	4.4	5.3
Arizona	4.1	3.8
Colorado	3.9	4.1
Maryland	3.7	3.1
Michigan	3.7	4.3
Utah	3.6	3.6
Pennsylvania	3.6	3.6
Total	54.3%	53.6%

### Reserve for Insurance Claims and Claims Expenses

Claims incurred is the expense that is booked within a particular period to reflect actual and estimated claim payments that we believe will ultimately be made as a result of insured loans that are in default. We do not recognize an estimate of claim expense for loans that are not in default. As of March 31, 2017, we have established reserves for insurance claims of \$3.8 million for 207 primary loans in default, compared to a reserve of \$3.0 million for 179 primary loans in default as of December 31, 2016, and a reserve of \$1.1 million for 55 primary loans in default as of March 31, 2016. We also establish reserves for the related claims expenses, which are the estimated costs to adjust and settle claims. We have not established any pool reserves for claims or IBNR to date. For additional discussion of our reserves, see, Item 1, "Financial Statements and Supplementary Data - Notes to Condensed Consolidated Financial Statements - Note 6. Reserves for Insurance Claims and Claims Expenses."

Claims incurred is affected by a variety of factors, including the state of the economy, declines in housing values, product mix of IIF, the size of loans insured and the percentage of coverage on insured loans. Policies with higher loan amounts and coverage percentages tend to result in higher incurred claim amounts.

We expect that claims incurred will be relatively low in the foreseeable future for the following reasons:

- the typical distribution of claims over the life of a book results in fewer defaults during the first two years after loans are originated, usually peaking in years three through six and declining thereafter;
- under the pool insurance agreement between NMIC and Fannie Mae, NMIC is responsible for claims only to the extent they exceed a deductible; and
- we generated low NIW in our early years of operations.

Until our portfolio matures, we expect our reported loss ratio will be less than 10%, due to loss development being generally insignificant in the early years of a loan cycle combined with strong growth in earned premiums on a year-over-year basis. We expect that the frequency of claims on our initial primary books of business should be between 2% and 3% of mortgages insured over the life of the book. For claims that we may receive, we expect the severity of the claim to be between 85% and 95% of the coverage amount. Based on these expectations, we estimate that the loss ratio over the life of each book will be between 20% and 25% of earned premiums, and we price to that expectation.

We developed our estimates of the expected frequency and severity of claims based on statutory filings by many of our competitors, which contain historical book year performance, as well as an industry dataset which consists of nearly 150 million mortgages and 80 data fields per mortgage, gathered over the past 17 years. As state-regulated entities, mortgage insurers are required to file actuarial justifications for premium rate changes in many states, many of which are publicly available and include historical information on claim frequency and severity. Historical performance data from similar underwriting, house price, and interest rate periods were compared to today to determine a range of expected performance. To date, our loss experience is developing at a slower pace than historical trends have shown, as a result of high quality underwriting and a favorable housing market.

The following table provides a reconciliation of the beginning and ending reserve balances for primary insurance claims and claims expenses.

	For the three months ended	
	March 31, 2017	March 31, 2016
	(In Thousands)	
Beginning balance	\$ 3,001	\$ 679
Less reinsurance recoverables <sup>(1)</sup>	(297)	—
Beginning balance, net of reinsurance recoverables	2,704	679
Add claims incurred:		
Claims and claim expenses incurred:		
Current year <sup>(2)</sup>	955	553
Prior years <sup>(3)</sup>	(320)	(95)
Total claims and claims expenses incurred	635	458
Less claims paid:		
Claims and claim expenses paid:		
Current year <sup>(2)</sup>	—	—
Prior years <sup>(3)</sup>	142	—
Total claims and claim expenses paid	142	—
Reserve at end of period, net of reinsurance recoverables	3,197	1,137
Add reinsurance recoverables <sup>(1)</sup>	564	—
Balance, March 31	\$ 3,761	\$ 1,137

<sup>(1)</sup> Related to ceded losses recoverable on the 2016 QSR Transaction. To date, ceded losses have been immaterial. See Item 1, "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 5, Reinsurance" for additional information.

<sup>(2)</sup> Related to defaults occurring in the current year.

<sup>(3)</sup> Related to defaults occurring in prior years.

The "claims incurred" section of the table above shows claims and claim expenses incurred on default notices received in the current year and in prior years. The amount of claims incurred relating to default notices received in the current year represents the estimated amount to be ultimately paid on such default notices. The decreases during the periods presented in reserves held for prior year defaults are generally the result of ongoing analysis of recent loss development trends. We may increase or decrease our original estimates as we learn additional information about individual defaults and claims.

The following table provides a reconciliation of the beginning and ending count of loans in default.

	For the three months ended	
	March 31, 2017	March 31, 2016
Beginning default inventory	179	36
Plus: new defaults	124	39
Less: cures	(92)	(20)
Less: claims paid	(4)	—
Ending default inventory	207	55



The increase in the number of defaults at March 31, 2017 compared to March 31, 2016 was primarily due to an increase in the number of policies in force and expected loss development of our earliest book years.

The following table provides details of our claims paid for the three months ended March 31, 2017 and March 31, 2016.

	For the three months ended	
	March 31, 2017	March 31, 2016
	(\$ Values In Thousands)	
Number of claims paid	4	—
Total amount paid for claims	\$ 142	\$ —
Average amount paid per claim	\$ 35	\$ —
Severity <sup>(1)</sup>	88%	—%

<sup>(1)</sup>Severity represents the total amount of claims paid divided by the related RIF on the loan at the time it goes to claim.

The increase in the number of claims paid for the three months ended March 31, 2017 compared to the same period ended March 31, 2016 is in line with our expectation of loss development in our earliest book years. We believe our severity is below expectations as the result of appreciating home prices in recent years.

Average reserve per default:	As of March 31, 2017	As of March 31, 2016
	(In Thousands)	
Case <sup>(1)</sup>	\$ 16	\$ 19
IBNR	2	2
Total	\$ 18	\$ 21

<sup>(1)</sup>Defined as the gross reserve per insured loan in default.

### GSE Oversight

The GSEs are the principal purchasers of mortgages insured by MI companies. As a result, the practices of the private MI industry in the U.S. are driven in large part by the requirements and practices of the GSEs.

As an *Approved Insurer*, NMIC is subject to ongoing compliance with the PMIERS. (*Italicized* terms have the same meaning that such terms have in the PMIERS, as described below.) The PMIERS establish operational, business, remedial and financial requirements applicable to *Approved Insurers*. The PMIERS financial requirements prescribe a risk-based capital methodology whereby the amount of capital required to be held against each insured loan is determined based on certain risk characteristics, such as FICO, vintage (year of origination), performing vs. non-performing (*i.e.*, current vs. delinquent), LTV and other risk features. An asset charge is calculated for each insured loan based on its risk profile. In general, higher quality loans carry lower capital charges.

Under the PMIERS financial requirements, *Approved Insurers* must maintain *available assets* that equal or exceed *minimum required assets*, which is an amount equal to the greater of (i) \$400 million or (ii) a total *risk-based required asset amount*. The *risk-based required asset amount* is a function of the risk profile of an *Approved Insurer's* net RIF, calculated by applying on a loan-by-loan basis certain risk-based factors derived from tables set out in the PMIERS to the net RIF. The *risk-based required asset amount* for primary insurance is subject to a floor of 5.6% of total, performing, primary RIF, and the *risk-based required asset amount* for pool insurance considers both the factors in the tables and the *net remaining stop loss* for each pool insurance policy. The PMIERS financial requirements also increase the amount of *available assets* that must be held by an *Approved Insurer* for loans originated on or after January 1, 2016 that are insured under LPMI policies.

By April 15th of each year, NMIC must certify it met all PMIERS requirements as of December 31st of the prior year. We certified to the GSEs by April 15, 2017 that NMIC fully complied with the PMIERS as of December 31, 2016. NMIC also has an ongoing obligation to immediately notify the GSEs in writing upon discovery of its failure to meet one or more of the PMIERS requirements. We continuously monitor our compliance with the PMIERS.

The following table provides a comparison of the PMIERS financial requirements as reported by NMIC.

	As of	
	March 31, 2017	March 31, 2016
	<i>(In thousands)</i>	
Available Assets	\$ 466,982	\$ 434,138
Net Risk-Based Required Assets	398,859	302,852
Asset charge % <sup>(1)</sup>	6.14%	6.12%

<sup>(1)</sup>Asset charge represents the *risk-based required asset amount* divided by the outstanding RIF on performing primary loans.

### **Capital Position of Our Insurance Subsidiaries and Financial Strength Ratings**

In addition to GSE-imposed capital requirements, NMIC is also subject to state regulatory minimum capital requirements based on its insured RIF. While formulations of this minimum capital may vary in each jurisdiction, the most common measure allows for a maximum permitted risk-to-capital (RTC) ratio of 25:1.

As of March 31, 2017, NMIC's primary RIF, net of reinsurance, was approximately \$6.3 billion, representing insurance on a total of 145,632 policies in force. NMIC ceded 100% of its pool RIF pursuant to the 2016 QSR Transaction. Based on NMIC's total statutory surplus of \$482.3 million as of March 31, 2017, NMIC's RTC ratio was 13.1:1. Re One had total statutory capital of \$33.4 million as of March 31, 2017, with a RTC ratio of .5:1. We plan to contribute capital or to cede risk as needed to maintain compliance with state capital requirements.

In August 2016, S&P affirmed its "BBB-" financial strength and long-term counter-party credit ratings for NMIC. In July 2015, S&P assigned its "BB-" long-term counter-party credit rating to NMIH. S&P's outlook for both companies is "stable." In March 2017, Moody's Investors Service (Moody's) updated its financial strength rating from "Ba2" to "Ba1" for NMIC. Also at that time, Moody's updated its B2 rating to a B1 rating to the recently amended \$150 million Term Loan held by NMIH. Moody's outlook for both companies is "stable."

### **Competition**

The MI industry is highly competitive and currently consists of six private mortgage insurers, including NMIC, as well as governmental agencies like the FHA and the VA.

MI companies compete based on service, customer relationships, underwriting and other factors, including price (particularly with respect to single premium LPMI). Following industry-wide pricing changes in the first half of 2016, largely in response to higher capital requirements imposed by the PMIERS, pricing in the industry has generally stabilized. We expect the MI market to remain competitive, with pressure for industry participants to grow or maintain their market share. Our competitors' respective shares of the private MI market for the quarter ended December 31, 2016 ranged from 12% to a high of approximately 19%.

#### **Competition with FHA**

Although there has been broad policy consensus toward the need for private capital to play a larger role and government credit risk to be reduced in the U.S. housing finance system, it remains difficult to predict whether the combined market share of governmental agencies such as the FHA and VA will recede to historical levels. In 2015, the FHA reduced some of its single-family annual mortgage insurance premiums, which had the effect of maintaining the FHA's elevated market share and continuing the increased role of government in the mortgage insurance market. In January 2017, the FHA announced further reductions to its annual premiums; however, before such reductions could take effect, the FHA announced that the cuts were suspended indefinitely. To date, the impact from the FHA's 2015 premium reduction has not had a significant impact on our continued growth in the market. We believe our pricing continues to be more attractive than the FHA's current pricing for a substantial majority of borrowers with credit and loan characteristics similar to those whose loans we insure. With the new Presidential administration, it remains uncertain whether FHA will ultimately adopt the suspended reductions or otherwise reduce its mortgage insurance premiums again, or eliminate the non-cancelability of premiums, or whether Congress will continue to consider legislation to reform the FHA. There are factors beyond premium rate that influence a lender's decision to choose private MI over FHA insurance, including among others, the FHA's loan eligibility requirements, cancelability, loan size limits and the relative ease of use of private MI products compared to FHA products.

## Consolidated Results of Operations

Consolidated statements of operations	Three months ended	
	March 31, 2017	March 31, 2016
Revenues	<i>(In Thousands)</i>	
Net premiums earned	\$ 33,225	\$ 19,807
Net investment income	3,807	3,231
Net realized investment losses	(58)	(885)
Other revenues	80	32
<b>Total revenues</b>	<b>37,054</b>	<b>22,185</b>
Expenses		
Insurance claims and claims expenses	635	458
Underwriting and operating expenses	25,989	22,672
<b>Total expenses</b>	<b>26,624</b>	<b>23,130</b>
Other (expense) income		
(Loss) gain from change in fair value of warrant liability	(196)	670
Interest expense	(3,494)	(3,632)
<b>Income (loss) before income taxes</b>	<b>6,740</b>	<b>(3,907)</b>
Income tax expense	1,248	—
<b>Net income (loss)</b>	<b>\$ 5,492</b>	<b>\$ (3,907)</b>
Loss ratio <sup>(1)</sup>	2%	2%
Expense ratio <sup>(2)</sup>	78%	114%
Combined ratio	80%	117%

<sup>(1)</sup> Loss ratio is calculated by dividing the provision for insurance claims and claims expenses by net premiums earned.

<sup>(2)</sup> Expense ratio is calculated by dividing other underwriting and operating expenses by net premiums earned.

### Revenues

For the three months ended March 31, 2017, we had net premiums earned of \$33.2 million, compared to net premiums earned of \$19.8 million for the three months ended March 31, 2016. The principal drivers of the increases in premiums earned for the three months ended March 31, 2017 were the continued growth of our NIW and IIF, primarily related to our monthly products, and the significant development of our customer base, including higher allocations of business to us from existing customers, slightly offset by ceded premiums earned related to the 2016 QSR Transaction. As expected, earnings from cancellations of single premium policies decreased for the three months ended March 31, 2017 compared to the three months ended March 31, 2016, due to the recent rise in interest rates and the related lower incidence of refinance transactions.

Net investment income was higher for the three months ended March 31, 2017 compared to the three months ended March 31, 2016, as a result of an increase in the size of our consolidated securities portfolio.

## *Expenses*

Our expenses have historically been related to business development and operating activities. Although we expect our year-over-year expenses to increase as we continue to grow our business, we ultimately expect that the majority of our operating expenses will be relatively fixed in the long term. Until our business matures, our expense ratio is expected to be significantly higher than the industry given the low levels of premium written compared to our "fixed" costs customary to operating an MI company. We expect to see a continued decrease in our expense ratio as our business matures and our revenues increase.

Insurance claims and claims expenses increased for the three months ended March 31, 2017 compared to the three months ended March 31, 2016, as a result of an increase in our NODs, primarily due to an increase in the number of policies-in-force year-over-year and expected loss development of our earliest book years.

Employee compensation represents the majority of our operating expense, which includes both cash and share-based compensation. Our underwriting and operating expenses grew primarily as the result of hiring new employees and expanding our operations and sales activities. Our headcount, consistent with our plan, grew from 253 as of March 31, 2016 to 289 as of March 31, 2017. In the first quarter, we also incurred \$1.6 million related to the 2017 XOL Transaction and the amendment to the Credit Agreement. Underwriting and operating expenses also include costs related to policy acquisition, technology, professional services and facilities.

We incurred interest expense of \$3.5 million for the three months ended March 31, 2017, compared to interest expense of \$3.6 million for the three months ended March 31, 2016 related to the Term Loan entered into during the fourth quarter of 2015. We expect interest costs to decline in the future by \$275 thousand per quarter, as we amended our Credit Agreement in the first quarter of 2017 to, among other things, reduce the interest rate. See Item 1, *"Financial Statements and Supplementary Data - Notes to Condensed Consolidated Financial Statements - Note 4. Term Loan."*

## *Net Income*

We recognized net income of \$5.5 million for the three months ended March 31, 2017 compared to a net loss of \$3.9 million for the three months ended March 31, 2016. The primary driver of the profitable quarter ended March 31, 2017, compared to the quarter ended March 31, 2016, was the significant increase in premiums earned from growth of our IIF, slightly offset by personnel and external costs.

Consolidated balance sheets	March 31, 2017	December 31, 2016 <sup>(1)</sup>
	(In Thousands)	
Total investment portfolio	\$ 658,640	\$ 628,969
Cash and cash equivalents	12,543	47,746
Premiums receivable	15,566	13,728
Deferred policy acquisition costs, net	32,165	30,109
Software and equipment, net	21,168	20,402
Prepaid reinsurance premiums	38,348	37,921
Deferred tax asset, net	50,529	51,434
Other assets	11,204	9,588
<b>Total assets</b>	<b>\$ 840,162</b>	<b>\$ 839,897</b>
Term loan	\$ 144,010	\$ 144,353
Unearned premiums	154,711	152,906
Accounts payable and accrued expenses	14,175	25,297
Reserve for insurance claims and claims expenses	3,761	3,001
Reinsurance funds withheld	31,243	30,633
Deferred ceding commission	4,790	4,831
Warrant liability	3,563	3,367
<b>Total liabilities</b>	<b>356,254</b>	<b>364,388</b>
Total shareholders' equity	483,909	475,509
<b>Total liabilities and shareholders' equity</b>	<b>\$ 840,162</b>	<b>\$ 839,897</b>

<sup>(1)</sup> The 2016 prior period balance sheet has been revised. See Item 1, "Financial Statements and Supplementary Data - Notes to Condensed Consolidated Financial Statements - Note 1, Organization and Basis of Presentation, Immaterial Correction of Prior Period Amounts" for further details.

As of March 31, 2017, we had approximately \$671.2 million in cash and investments, including \$59.0 million held at NMIH. The decrease in cash and investments from year-end 2016 relates directly to the lower volume of single premiums collected in 2017, as well as the payment of accrued expenses from year-end 2016.

Our cumulative net deferred policy acquisition costs were \$32.2 million as of March 31, 2017, compared to \$30.1 million at December 31, 2016. The increase was driven by the deferrable costs associated with premiums written during the three months ended March 31, 2017 of \$34.6 million.

Our prepaid reinsurance balance was \$38.3 million as of March 31, 2017, which reflects the ceded unearned premium balance related to the 2016 QSR Transaction.

The growth in our unearned premium balance slowed in the first quarter, increasing \$1.8 million from December 31, 2016, as the amount of single premium policies written declined. The balance also decreased as a result of cancellations of lender paid single premium policies and earnings of existing unearned premiums in accordance with the expiration of risk in the related policies.

Our accounts payable and accrued expenses decreased to \$14.2 million as of March 31, 2017, from \$25.3 million at December 31, 2016. The decrease reflects the payment during the quarter of accrued liabilities at year-end, offset by accruals for liabilities related to increased headcount, accrued premium taxes, and an increase in IT projects and expenses from December 31, 2016.

Reinsurance funds withheld was \$31.2 million as of March 31, 2017, representing reinsurance premiums payable, offset by our profit and ceding commission receivables related to the 2016 QSR Transaction.

The following table summarizes our consolidated cash flows from operating, investing and financing activities:

Consolidated cash flows	For the three months ended March 31,	
	2017	2016
Net cash (used in) provided by:	(In Thousands)	
Operating activities	\$ (2,089)	\$ 735
Investing activities	(31,258)	15,784
Financing activities	(1,856)	(534)
Net (decrease) increase in cash and cash equivalents	<u>\$ (35,203)</u>	<u>\$ 15,985</u>

Net cash used in operating activities was \$2.1 million for the three months ended March 31, 2017, compared to cash provided of \$0.7 million in the same period in 2016. The decrease in cash flow from operating activities for the three months ended March 31, 2017 compared to the same period ended March 31, 2016 was the result of lower single premiums written, as well as a decrease in accruals from year-end 2016.

Cash used in investing activities for the three months ended March 31, 2017 was \$31.3 million, compared to cash provided by investing activities of \$15.8 million for the three months ended March 31, 2016, primarily due to the purchase of fixed and short-term maturities during the first quarter of 2017.

The increase in cash used in financing activities for the three months ended March 31, 2017 compared to the same period ended March 31, 2016 was primarily due to an increase in taxes paid related to the net share settlement of equity awards period over period.

### Holding Company Liquidity and Capital Resources

NMIH serves as the holding company for our insurance subsidiaries and does not have any significant operations of its own. NMIH's principal liquidity demands include funds for: (i) payment of certain corporate expenses and reimbursable expenses of its insurance subsidiaries; (ii) capital support for its subsidiaries; (iii) potential tax payments to the Internal Revenue Service (IRS); (iv) the payment of principal and interest related to the Term Loan; and (v) the payment of dividends, if any, on its common stock. NMIH is not subject to any limitations on its ability to pay dividends except those generally applicable to corporations, such as NMIH, that are incorporated in Delaware. Delaware corporation law provides that dividends are only payable out of a corporation's capital surplus or (subject to certain limitations) recent net profits. As of March 31, 2017, NMIH's shareholders' equity was approximately \$484 million.

As of March 31, 2017, NMIH had \$59 million of cash and investments. NMIH's principal source of operating cash is investment income and in the future could include dividends from NMIC, if available and permitted under law and by the GSEs.

NMIH's future capital requirements depend on many factors, including NMIC's ability to successfully write new business, establish premium rates at levels sufficient to cover claims and operating costs and meet *minimum required asset* thresholds under the PMIERS and state capital requirements. NMIH may make additional capital contributions to its insurance subsidiaries to support their applicable capital adequacy requirements from time-to-time.

NMIH has entered into expense-sharing agreements with its subsidiaries which have been approved by the Wisconsin OCI, but such approval may be changed or revoked at any time. With Wisconsin OCI's approval, NMIH began allocating the interest expense on its Term Loan to NMIC in the first quarter of 2017, consistent with the benefits NMIC received from the loan proceeds. NMIC's ability to pay dividends to NMIH is subject to insurance department notice or approval. In general, dividends in excess of prescribed limits are deemed "extraordinary" and require insurance regulatory approval. Since inception, NMIC has not paid any dividends to NMIH. As NMIC had a statutory net loss for the year ended December 31, 2016, NMIC cannot pay any dividends to NMIH through December 31, 2017 without the prior approval of the Wisconsin OCI. Certain other states in which NMIC is licensed also have statutes or regulations that restrict its ability to pay dividends.

Our MI companies' principal operating sources of liquidity are premiums that we receive from policies in force and income generated by our investment portfolio. Our MI companies' primary liquidity needs include the payment of claims on our MI policies, operating expenses, investment expenses and other costs of our business. We anticipate that as our IIF grows, the premium revenue we receive will increase. We expect to manage our fixed operating expenses so that they grow at a slower rate than our NIW over the coming years.

In 2015, NMIH entered into the Credit Agreement for the Term Loan to support the continued growth of its IIF. On February 10, 2017, NMIH amended the Credit Agreement, (the Amendment) to reduce the interest rate and extend the maturity date from November 10, 2018 to November 10, 2019. The Credit Agreement contains various restrictive covenants and required financial ratios and tests (which were not modified by the Amendment) that we are required to meet or maintain. These covenants include, but are not limited to the following: a maximum debt-to-total capitalization ratio (as defined) of 35%, maximum RTC ratio of 22.0:1.0, liquidity (as defined) of \$33.4 million as of March 31, 2017, compliance with PMIERS financial requirements (subject to any GSE-approved waivers), and minimum equity requirements. The Term Loan bears interest at the Eurodollar Rate, with a floor of 1%, plus 6.75% (an all-in rate of 8.0% as of March 31, 2017), payable quarterly. The Company recorded \$3.5 million of interest expense for the three months ended March 31, 2017.

### Consolidated Investment Portfolio

Our net investment income for the three months ended March 31, 2017 was \$3.8 million, compared to \$3.2 million for the three months ended March 31, 2016. As of March 31, 2017, our portfolio conforms with our investment guidelines. The principal factors affecting our investment income include the size and credit rating of our portfolio and its net yield. As measured by amortized cost (which excludes changes in fair market value, such as those resulting from changes in interest rates), the size of our investment portfolio is mainly a function of capital raised, cash generated from operations, such as net premiums received, and investment earnings.

The pre-tax book yield on our portfolio as of March 31, 2017 was 2.3%, excluding unrealized gains and losses. The book yield is calculated on our year-to-date net investment income over our average portfolio book value as of March 31, 2017. We believe that the yield on our investment portfolio likely will change over time based on potential changes to the interest rate environment, the duration or mix of our investment portfolio or other factors.

The sectors of our investment portfolio, including cash and cash equivalents appear in the table below:

Percentage of portfolio's fair value	March 31, 2017	December 31, 2016
1. Corporate debt securities	54%	52%
2. U.S. treasury securities and obligations of U.S. government agencies	10	9
3. Asset-backed securities	16	17
4. Cash, cash equivalents, and short-term investments	10	16
5. Municipal debt securities	10	6
Total	100%	100%

The ratings of our investment portfolio were:

Investment portfolio ratings	March 31, 2017	December 31, 2016
AAA	19%	24%
AA	23	19
A	45	44
BBB	13	13
Total	100%	100%

The ratings above are provided by one or more of: Moody's, S&P and Fitch Ratings. If three ratings are available, we assign the middle rating for classification purposes, otherwise we assign the lowest rating.

## **Taxes**

We are a U.S. taxpayer and are subject to a statutory U.S. federal corporate income tax rate of 35%. Our holding company files a consolidated U.S. federal and various state income tax returns on behalf of itself and its subsidiaries.

Our provision for income taxes for the interim reporting periods are based on an estimated annual effective tax rate for the year ending December 31, 2017. Our effective tax rate on our pre-tax income was 18.5% for the three months ended March 31, 2017, compared to 0.0% for the comparable 2016 period. The increase in the effective tax rate for the three months ended March 31, 2017 against the comparable 2016 period was attributable to the elimination of tax benefits in the comparable 2016 period due to the recognition of a full valuation allowance which was recorded to reflect the amount of the deferred taxes that may not be realized. The difference between our statutory tax rate and our effective tax rate for the three months ended March 31, 2017 was due to a discrete tax benefit associated with excess tax benefits for restricted stock units that were recognized during the period as a result of the adoption of ASU 2016-09 in the quarter. We expect our effective tax rate to return to approximately the statutory tax rate for the year ending December 31, 2017.

## **Other Items**

### *Off-Balance Sheet Arrangements and Contractual Obligations*

We had no off-balance sheet arrangements as of March 31, 2017. There are no material changes outside the ordinary course of business in the contractual obligations specified in our 2016 10-K.

### *Critical Accounting Estimates*

We use accounting principles and methods that conform to GAAP. Where GAAP specifically excludes mortgage insurance we follow general industry practices. We are required to apply significant judgment and make material estimates in the preparation of our financial statements and with regard to various accounting, reporting and disclosure matters. Assumptions and estimates are required to apply these principles where actual measurement is not possible or practical. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

We believe that the assumptions and estimates associated with revenue recognition, fair value measurements, our investment portfolio, deferred policy acquisition costs, premium deficiency reserves, income taxes, reserves for insurance claims and claims expenses, warrants and share-based compensation have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting estimates. There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our 2016 10-K.



### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We own and manage a large portfolio of various holdings, types and maturities. NMIH's principal source of operating cash is investment income. The assets within the investment portfolio are exposed to the same factors that affect overall financial market performance.

We manage market risk via a defined investment policy implemented by our treasury function with oversight from our Board of Director's Risk Committee. Important drivers of our market risk exposure monitored and managed by us include but are not limited to:

- *Changes to the level of interest rates.* Increasing interest rates may reduce the value of certain fixed-rate bonds held in the investment portfolio. Higher rates may cause variable rate assets to generate additional income. Decreasing rates will have the reverse impact. Significant changes in interest rates can also affect persistency and claim rates of our insurance portfolio, and as a result we may determine that our investment portfolio needs to be restructured to better align it with future liabilities and claim payments. Such restructuring may cause investments to be liquidated when market conditions are adverse. Additionally, the changes in Eurodollar based interest rates affect the interest expense related to the Company's debt.
- *Changes to the term structure of interest rates.* Rising or falling rates typically change by different amounts along the yield curve. These changes may have unforeseen impacts on the value of certain assets.
- *Market volatility/changes in the real or perceived credit quality of investments.* Deterioration in the quality of investments, identified through changes to our own or third party (e.g., rating agency) assessments, will reduce the value and potentially the liquidity of investments.
- *Concentration Risk.* If the investment portfolio is highly concentrated in one asset, or in multiple assets whose values are highly correlated, the value of the total portfolio may be greatly affected by the change in value of just one asset or a group of highly correlated assets.
- *Prepayment Risk.* Bonds may have call provisions that permit debtors to repay prior to maturity when it is to their advantage. This typically occurs when rates fall below the interest rate of the debt.

The carrying value of our investment portfolio as of March 31, 2017 and December 31, 2016 was \$659 million and \$629 million, respectively, of which 100% was invested in fixed maturity securities. The primary market risk to our investment portfolio is interest rate risk associated with investments in fixed maturity securities. We mitigate the market risk associated with our fixed maturity securities portfolio by matching the duration of our fixed maturity securities with the expected duration of the liabilities that those securities are intended to support.

As of March 31, 2017, the duration of our fixed income portfolio, including cash and cash equivalents, was 0.56 years, which means that an instantaneous parallel shift (movement up or down) in the yield curve of 100 basis points would result in a change of 0.56% in fair value of our fixed income portfolio. Excluding cash, our fixed income portfolio duration was 1.15 years, which means that an instantaneous parallel shift (movement up or down) in the yield curve of 100 basis points would result in a change of 1.15% in fair value of our fixed income portfolio.

We are also subject to market risk related to our Term Loan. As discussed in Item 1, "*Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 4, Term Loan,*" the Term Loan bears interest at a variable rate and, as a result, increases in market interest rates would generally result in increased interest expense on our outstanding principal.

## **Item 4. Controls and Procedures**

### **Disclosure Controls and Procedures**

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, including our Principal Executive Officer and Principal Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of March 31, 2017, pursuant to Rule 13a-15(e) under the Exchange Act. Management applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature, can provide only reasonable assurance regarding management's control objectives. Management does not expect that our disclosure controls and procedures will prevent or detect all errors and fraud. A control system, irrespective of how well it is designed and operated, can only provide reasonable assurance and cannot guarantee that it will succeed in its stated objectives.

Based upon that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of March 31, 2017, our disclosure controls and procedures were not effective, due to the existence of a material weakness in the design and operating effectiveness of an internal control related to reconciliation support used to validate our deferred tax inventory. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected in a timely basis. As described in Item 1, "*Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 1, Organization and Basis of Presentation - Immaterial Correction of Prior Period Amounts*," above, we detected a \$1.8 million error in the deferred tax balance that was immaterial to the 2016 financial statements. Notwithstanding the material weakness identified, our management has concluded that the consolidated financial statements included in this Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows at and for the periods presented. In addition, there were no material errors in our financial results or balances identified as a result of this control deficiency, and accordingly, amendment of our 2016 Form 10-K is not required.

We are enhancing existing controls and designing and implementing new controls applicable to our deferred tax accounting, including those related to stock compensation, to ensure that our deferred tax asset is accurately calculated and appropriately reflected in our financial statements and reports we file with the SEC. We believe these actions are sufficient to remediate the identified material weakness and strengthen our internal control over financial reporting; however, there can be no guarantee that such remediation will be sufficient. We will continue to monitor the effectiveness of our controls and will make any further changes management determines appropriate.

### **Internal Control Over Financial Reporting**

Other than noted above, there were no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II

### Item 1. Legal Proceedings

Certain lawsuits and claims arising in the ordinary course of business may be filed or pending against us or our affiliates from time to time. In accordance with applicable accounting guidance, we establish accruals for all lawsuits, claims and expected settlements when we believe it is probable that a loss has been incurred and the amount of the loss is reasonably estimable. When a loss contingency is not both probable and estimable, we do not establish an accrual. Any such loss estimates are inherently uncertain, based on currently available information and are subject to management's judgment and various assumptions. Due to the inherent subjectivity of these estimates and unpredictability of outcomes of legal proceedings, any amounts accrued may not represent the ultimate resolution of such matters.

To the extent we believe any potential loss relating to such lawsuits and claims may have a material impact on our liquidity, consolidated financial position, results of operations, and/or our business as a whole and is reasonably possible but not probable, we disclose information relating to any such potential loss, whether in excess of any established accruals or where there is no established accrual. We also disclose information relating to any material potential loss that is probable but not reasonably estimable. Where reasonably practicable, we will provide an estimate of loss or range of potential loss. No disclosures are generally made for any loss contingencies that are deemed to be remote.

Based upon information available to us and our review of lawsuits and claims filed or pending against us to date, we have not recognized a material accrual liability for these matters, nor do we currently expect it is reasonably possible that these matters will result in a material liability to the Company. However, the outcome of litigation and other legal and regulatory matters is inherently uncertain, and it is possible that one or more of such matters currently pending or threatened could have an unanticipated material adverse effect on our liquidity, consolidated financial position, results of operations, and/or our business as a whole, in the future.

### Item 1A. Risk Factors

Risk factors that affect our business and financial results are discussed in Part I, Item 1A of our 2016 10-K. As of the date of this report, we are not aware of any material changes in our risk factors from the risk factors disclosed in our 2016 10-K. You should carefully consider the risks and uncertainties described herein and in our 2016 10-K, which have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner. The risks described herein and in our 2016 10-K are not the only risks we face, as there are additional risks and uncertainties not currently known to us or that we currently deem to be immaterial which may in the future adversely affect our business, financial condition and/or operating results.

### Item 6. Exhibits

An index to exhibits has been filed as part of this report and is incorporated herein by reference.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**NMI HOLDINGS, INC.**

May 4, 2017

By: /s/ Glenn M. Farrell

Name: Glenn M. Farrell

Title: Chief Accounting Officer and Duly Authorized Signatory

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
2.1	Stock Purchase Agreement, dated November 30, 2011, between NMI Holdings, Inc. and MAC Financial Ltd. (incorporated herein by reference to Exhibit 2.1 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
2.2	Amendment to Stock Purchase Agreement, dated April 6, 2012, between NMI Holdings, Inc. and MAC Financial Ltd. (incorporated herein by reference to Exhibit 2.2 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
3.1	Second Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
3.2	Third Amended and Restated By-Laws (incorporated herein by reference to Exhibit 3.1 to our Form 8-K, filed on December 9, 2014)
4.1	Specimen Class A common stock certificate (incorporated herein by reference to Exhibit 4.1 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
4.2	Registration Rights Agreement between NMI Holdings, Inc. and FBR Capital Markets & Co., dated April 24, 2012 (incorporated herein by reference to Exhibit 4.2 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
4.3	Registration Rights Agreement by and between MAC Financial Ltd. and NMI Holdings, Inc., dated April 24, 2012 (incorporated herein by reference to Exhibit 4.3 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
4.4	Registration Rights Agreement between FBR & Co., FBR Capital Markets LT, Inc., FBR Capital Markets & Co., FBR Capital Markets PT, Inc. and NMI Holdings, Inc., dated April 24, 2012 (incorporated herein by reference to Exhibit 4.4 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
4.5	Warrant No. 1 to Purchase Common Stock of NMI Holdings, Inc. issued to FBR Capital Markets & Co., dated June 13, 2013 (incorporated herein by reference to Exhibit 4.5 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
4.6	Form of Warrant to Purchase Common Stock of NMI Holdings, Inc. issued to former stockholders of MAC Financial Ltd.(incorporated herein by reference to Exhibit 4.6 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.1 ~	NMI Holdings Inc. 2012 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 to our Form S-1 Registration Statement (registration No. 333-191635), filed on October 9, 2013)
10.2 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Chief Executive Officer and Chief Financial Officer (incorporated herein by reference to Exhibit 10.2 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.3 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Management (incorporated herein by reference to Exhibit 10.3 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.4 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Restricted Stock Unit Award Agreement for Directors (incorporated herein by reference to Exhibit 10.4 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.5 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Chief Executive Officer and Chief Financial Officer (incorporated herein by reference to Exhibit 10.5 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.6 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Management (incorporated herein by reference to Exhibit 10.6 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.7 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Directors (incorporated herein by reference to Exhibit 10.7 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
10.8 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Chief Executive Officer and Chief Financial Officer (incorporated herein by reference to Exhibit 10.8 to our Form 10-K, filed on February 17, 2017)
10.9 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Employees (incorporated herein by reference to Exhibit 10.9 to our Form 10-K, filed on February 17, 2017)
10.10 ~	Amended and Restated Employment Agreement by and between NMI Holdings, Inc. and Bradley M. Shuster, dated December 23, 2015 (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on December 29, 2015)

- 10.11 ~ Offer Letter by and between NMI Holdings, Inc. and Glenn Farrell, effective December 4, 2014 (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on December 9, 2014)
- 10.12 ~ Offer Letter by and between NMI Holdings, Inc. and William Leatherberry, dated July 11, 2014 (incorporated herein by reference to Exhibit 10.10 to our Form 10-Q, filed on April 28, 2016)
- 10.13~ Offer Letter by and between NMI Holdings, Inc. and Adam Pollitzer, dated February 1, 2017 (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on February 3, 2017)
- 10.14 ~ Form of Indemnification Agreement between NMI Holdings, Inc. and its directors and certain executive officers (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on November 25, 2014)
- 10.15 + Commitment Letter dated July 12, 2013 for Bulk Fannie Mae-Paid Loss-on-Sale Mortgage Insurance on the Portfolio of approximately \$5.46 billion Purchased by Fannie Mae and Identified by Fannie Mae as Deal No. 2013 MIRT 01 and by the Company as Policy No. P-0001-01 (incorporated herein by reference to Exhibit 10.14 to our Form S-1 Registration Statement (Registration No. 333-191635), filed on October 9, 2013)
- 10.16 Credit Agreement, dated November 10, 2015, between NMI Holdings, Inc., the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated herein by reference to Exhibit 4.1 to our Form 8-K, filed on November 10, 2015)
- 10.17 Amendment No. 1, dated February 10, 2017, to the Credit Agreement dated November 10, 2015, between NMI Holdings, Inc., the lender parties thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on February 10, 2017)
- 10.18 ~ NMI Holdings, Inc. 2014 Omnibus Incentive Plan (incorporated herein by reference to Appendix A to our 2014 Annual Proxy Statement, filed on March 26, 2014)
- 10.19 ~ Form of NMI Holdings, Inc. 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Chief Executive Officer and President (incorporated herein by reference to Exhibit 10.16 to our Form 10-K, filed on February 19, 2016)
- 10.20 ~ Form of NMI Holdings, Inc. 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Executive Officers (incorporated herein by reference to Exhibit 10.16 to our Form 10-K, filed on February 19, 2016)
- 10.21 ~ Form of NMI Holdings, Inc. 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Employees (incorporated herein by reference to Exhibit 10.19 to our Form 10-K, filed on February 20, 2015)
- 10.22~ Form of NMI Holdings, Inc. 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement for Independent Directors (incorporated herein by reference to Exhibit 10.20 to our Form 10-K, filed on February 20, 2015)
- 10.23 ~ Form of NMI Holdings, Inc. 2014 Omnibus Incentive Plan Nonqualified Stock Option Award Agreement for Chief Executive Officer and President (incorporated herein by reference to Exhibit 10.21 to our Form 10-K, filed on February 20, 2015)
- 10.24 ~ Form of NMI Holdings, Inc. 2014 Omnibus Incentive Plan Nonqualified Stock Option Award Agreement for Employees (incorporated herein by reference to Exhibit 10.22 to our Form 10-K, filed on February 20, 2015)
- 10.25 ~ Form of NMI Holdings, Inc. 2014 Omnibus Incentive Plan Phantom Unit Award Agreement for Independent Directors (incorporated herein by reference to Exhibit 10.21 to our Form 10-Q, filed on August 5, 2015)
- 10.26 ~ Form of NMI Holdings, Inc. 2014 Omnibus Incentive Plan Performance Based Restricted Stock Unit Award Agreement for Chief Executive Officer (incorporated herein by reference to Exhibit 10.26 to our Form 10-K, filed on February 17, 2017)
- 10.27 ~ NMI Holdings, Inc. Severance Benefit Plan (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on February 17, 2016)
- 10.28~ Change in Control Severance Benefit Plan (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on February 23, 2017)
- 10.29~ Clawback Policy (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, filed on February 23, 2017)
- 21.1 Subsidiaries of NMI Holdings, Inc. (incorporated herein by reference to Exhibit 21.1 to our Form 10-Q filed on October 30, 2015)
- 31.1 Principal Executive Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Principal Financial Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 # Certifications of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- 101 \* The following financial information from NMI Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 formatted in XBRL (eXtensible Business Reporting Language):
- (i) Consolidated Balance Sheets as of March 31, 2017 and December 31, 2016
  - (ii) Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2017 and 2016
  - (iii) Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2017 and the year ended December 31, 2016
  - (iv) Consolidated Statements of Cash Flows for the three months ended March 31, 2017 and 2016, and
  - (v) Notes to Consolidated Financial Statements.

~ Indicates a management contract or compensatory plan or contract.

+ Confidential treatment granted as to certain portions, which portions have been filed separately with the Securities and Exchange Commission.

# In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 34-47986, the certifications furnished in Exhibit 32 hereto are deemed to accompany this Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Exchange Act or deemed to be incorporated by reference into any filing under the Exchange Act or the Securities Act except to the extent that the registrant specifically incorporates it by reference.

\* In accordance with Rule 406T of Regulation S-T, the information furnished in these exhibits will not be deemed "filed" for purposes of Section 18 of the Exchange Act. Such exhibits will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act except to the extent that the registrant specifically incorporates it by reference.

**PRINCIPAL EXECUTIVE OFFICER'S CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bradley M. Shuster, certify that:

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



5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

By: /s/ Bradley M. Shuster

Name: Bradley M. Shuster

Title: Chairman and Chief Executive Officer

**PRINCIPAL FINANCIAL OFFICER'S CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Glenn M. Farrell, certify that:

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

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ Glenn M. Farrell

---

Glenn M. Farrell

Chief Accounting Officer

(Principal Financial Officer)

**CERTIFICATION OF CEO AND CFO PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of NMI Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 4, 2017

/s/ Bradley M. Shuster

---

Bradley M. Shuster  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

Date: May 4, 2017

/s/ Glenn M. Farrell

---

Glenn M. Farrell  
Chief Accounting Officer  
(Principal Financial Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to NMI Holdings, Inc. and will be retained by NMI Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.