AT&T INC.
Form 8-A12B
May 15, 2013

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-A

FOR REGISTRATION OF CERTAIN CLASSES OF SECURITIES

PURSUANT TO SECTION 12(b) OR 12(g) OF

THE SECURITIES EXCHANGE ACT OF 1934

AT&T Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**43-1301883**
(State of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
208. S. Akard Street	
Dallas, Texas	**75202**
(Address of Principal Executive Offices)	**(Zip Code)**

If this form relates to the registration of a class of securities pursuant to Section 12(b) of the Exchange Act and is effective pursuant to General Instruction A.(c), please check the following box: x

If this form relates to the registration of a class of securities pursuant to Section 12(g) of the Exchange Act and is effective pursuant to General Instruction A.(d), please check the following box: ¨

Securities Act registration statement file number to which this form relates:

333-187350

(If applicable)

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

Title of Each Class to be so Registered	Name of Each Exchange on Which Each Class is to be Registered
4.250% Global Notes due 2043	New York Stock Exchange

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

None

(Title of Class)

INFORMATION REQUIRED IN REGISTRATION STATEMENT

Item 1. Description of Registrant s Securities to be Registered.

AT&T Inc. (the Company) hereby incorporates by reference the description of its securities to be registered hereunder contained in the Prospectus dated March 18, 2013 under Description of Debt Securities We May Offer and in the Prospectus Supplement dated May 8, 2013, under Description of the Notes, filed with the Securities and Exchange Commission (the Commission) on May 10, 2013 under Rule 424(b)(5) under the Securities Act of 1933, as amended (the Act), pursuant to a Registration Statement on Form S-3 (No. 333-187350) previously filed with the Commission under the Act.

Item 2. Exhibits.

1. Indenture, dated as of May 15, 2013, between AT&T Inc. and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference as Exhibit 4.1 to the Company s current report on Form 8-K (No. 001-08610), filed on May 15, 2013).

2. Form of 4.250% Global Note due 2043 (incorporated by reference as Exhibit 4.2 to the Company s filing on Form 8-K (No. 001-08610), filed on May 15, 2013).

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, thereto duly authorized.

AT&T Inc.

Date: May 15, 2013

By: /s/ Paul W. Stephens
Paul W. Stephens
Senior Vice President and Controller

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Weighted Average LTV	For the year ended		
	December 31, 2016	December 31, 2015	December 31, 2014
Monthly	91 %	91 %	91 %
Single	90 %	90 %	90 %

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					
	December 31, 2016		December 31, 2015		December 31, 2014	
	($ Values In Millions)					
>= 760	$16,166	50 %	$7,124	48 %	$1,506	45 %
740-759	5,248	16	2,406	16	610	18
720-739	4,130	13	2,111	14	518	16
700-719	3,245	10	1,515	10	345	10
680-699	2,151	7	1,100	8	276	8
<=679	1,228	4	568	4	115	3
Total	$32,168	100%	$14,824	100%	$3,370	100%

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Primary RIF by FICO	As of					
	December 31, 2016		December 31, 2015		December 31, 2014	
	($ Values In Millions)					
>= 760	$3,934	50 %	$1,707	48 %	$352	44 %
740-759	1,281	16	590	16	145	18
720-739	1,000	13	519	14	126	16
700-719	782	10	369	10	83	10
680-699	511	7	267	8	68	8
<=679	282	4	134	4	28	4
Total	$7,790	100%	$3,586	100%	$802	100%

Primary Average Loan Size by FICO	As of		
	December 31, 2016	December 31, 2015	December 31, 2014
	(In Thousands)		
>= 760	$250	$ 246	$ 240
740-759	241	235	237
720-739	235	229	232
700-719	233	228	226
680-699	224	219	221
<=679	210	207	206

Primary IIF by LTV	As of					
	December 31, 2016		December 31, 2015		December 31, 2014	
	($ Values In Millions)					
95.01% and above	$1,686	5 %	$498	3 %	$14	— %
90.01% to 95.00%	14,358	45	6,583	45	1,472	44
85.01% to 90.00%	10,282	32	5,098	34	1,240	37
85.00% and below	5,842	18	2,645	18	644	19
Total	$32,168	100%	$14,824	100%	$3,370	100%

Primary RIF by LTV	As of					
	December 31, 2016		December 31, 2015		December 31, 2014	
	($ Values In Millions)					
95.01% and above	$467	6 %	$139	4 %	$4	— %
90.01% to 95.00%	4,226	55	1,943	54	436	55
85.01% to 90.00%	2,439	31	1,210	34	292	36
85.00% and below	658	8	294	8	70	9
Total	$7,790	100%	$3,586	100%	$802	100%

Primary RIF by Loan Type	As of December 31, 2016	December 31, 2015	December 31, 2014
Fixed	99 %	98 %	96 %
Adjustable rate mortgages:			
Less than five years	—	—	—
Five years and longer	1	2	4
Total	100 %	100 %	100 %

As of December 31, 2016, December 31, 2015 and December 31, 2014, 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 December 31, 2016.

	As of December 31, 2016								
Origination year	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) (1)	Cumulative default rate (2)
	($ Values in Millions)								
2013	$162	$ 48	30 %	655	239	—	1	— %	0.2 %
2014	3,451	1,857	54 %	14,786	9,003	48	3	2.6 %	0.3 %
2015	12,422	10,071	81 %	52,548	44,716	103	7	2.4 %	0.2 %
2016	21,189	20,192	95 %	83,633	80,704	28	—	0.6 %	— %
Total	$37,224	$ 32,168		151,622	134,662	179	11		

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

(2) 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

We intend to build a geographically diverse portfolio without significant geographic concentrations that might expose us to undue risk. We manage geographic concentration risk by establishing targets and limits for new origination mix and/or portfolio limits. If warranted, we would also establish restrictions in certain geographic markets; although, we currently do not have any geographic market restrictions in place. We expect that our insurance origination mix by region will be consistent with the overall distribution of mortgage originations in the U.S. that require mortgage insurance.

On an ongoing and recurring basis, we evaluate changing market conditions to determine if it is appropriate to establish, tighten, loosen or eliminate lending restrictions established by geographic area. The evaluation is expected to include factors such as historical performance and the historical performance of other market participants, forward-looking projections for key risk drivers, estimated impact on loss performance and existing portfolio concentrations. Consistent with our governance processes, the geographic concentrations will be monitored on an ongoing basis and changes to market restrictions will be reviewed and approved.

The following table shows the distribution by state of our primary RIF. For the three years presented below, our RIF was 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 December 31, 2016 is not necessarily representative of the geographic distribution we expect in the future. As we add new customers and receive greater allocations of business from our existing customers, we expect we will have increased flexibility to manage our state concentration levels.

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Top 10 primary RIF by state as of December 31, 2016	As of December 31, 2016	December 31, 2015	December 31, 2014
California	13.6%	12.9 %	16.3 %
Texas	7.0	6.8	6.6
Virginia	6.5	5.2	3.5
Florida	4.5	5.3	4.6
Arizona	3.9	3.7	3.9
Colorado	3.9	4.2	3.5
Maryland	3.7	2.8	2.2
Michigan	3.7	4.4	4.7
Utah	3.7	3.0	1.7
Pennsylvania	3.6	3.7	3.7
Total	54.1%	52.0 %	50.7 %

Reserve for Insurance Claims and Claim 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 December 31, 2016, we have established reserves for insurance claims of $3.0 million for 179 primary loans in default, compared to a reserve of $679 thousand for 36 primary loans in default as of December 31, 2015 and a reserve of $83 thousand for six primary loans in default as of December 31, 2014. 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, Part II., Item 8, "Financial Statements and Supplementary Data - Notes to Condensed Consolidated Financial Statements - Note 7. Reserves for Insurance Claims and Claim Expenses."

Claims incurred are generally affected by:

- the state of the economy, including unemployment, which affects the likelihood that borrowers may default on their loans;
- declines in housing values, as such declines may negatively affect loss mitigation opportunities on loans in default, as well as increase the likelihood that borrowers will default when the value of the home is below or perceived to be below the mortgage balance;
- the product mix of IIF, with loans having higher risk characteristics generally resulting in higher defaults and claims;
- the size of loans insured, with higher average loan amounts tending to increase claims incurred;
- the LTV ratio, with higher average LTV ratios tending to increase claims incurred;
- the percentage of coverage on insured loans, with higher percentages of insurance coverage tending to result in higher incurred claim amounts than lower percentages of insurance coverage;
- higher DTI ratios, which tend to increase incurred claims;
- the rate at which we rescind policies. Because of tighter underwriting standards generally in the mortgage lending industry and the terms of our Master Policy, we expect that our level of rescission activity will be lower than recent rescission activity experienced by the MI industry; and
- the distribution of claims over the life of a book. Historically, the first two to three years after loans are originated are a period of relatively low claims, with claims increasing substantially for several years subsequent and then declining. Factors, such as persistency of the book, the condition of the economy, including unemployment and housing prices, and others, can affect this pattern.

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;

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- under the pool insurance agreement between NMIC and Fannie Mae, NMIC is responsible for claims only to the extent they exceed a deductible; and
- low NIW in our early years of operations.

While 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.

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 years ended December 31, 2016 and December 31, 2015.

	For the year ended December 31,	
	2016	2015
	(In Thousands)	
Beginning balance	$679	$83
Less reinsurance recoverables [1]	—	—
Beginning balance, net of reinsurance recoverables	679	83
Add claims incurred:		
Claims and claim expenses incurred:		
Current year [2]	2,457	699
Prior years [3]	(65)	(49)
Total claims and claims expenses incurred	2,392	650
Less claims paid:		
Claims and claim expenses paid:		
Current year [2]	171	50
Prior years [3]	196	4
Total claims and claim expenses paid	367	54
Reserve at end of period, net of reinsurance recoverables	2,704	679
Add reinsurance recoverables [1]	297	—
Balance, December 31	$3,001	$679

(1) Related to ceded losses recoverable on the 2016 QSR Transaction. To date, ceded losses have been immaterial. See Item 8, "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 6, Reinsurance," for additional information.

(2) Related to defaults occurring in the current year.

(3) Related to defaults occurring in prior years.

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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 year ended December 31, 2016	December 31, 2015
Beginning default inventory	36	4
Plus: new defaults	284	51
Less: cures	(132)	(17)
Less: claims paid	(9)	(2)
Ending default inventory	179	36

The increase in the number of defaults at December 31, 2016 compared to December 31, 2015 was primarily due to an increase in the number of policies in force and the increasing maturity of our portfolio.

The following table provides details of our claims paid for years ended December 31, 2016 and December 31, 2015.

	For the year ended December 31, 2016	December 31, 2015
	($ Values In Thousands)	
Number of claims paid	9	2
Total amount paid for claims	$367	$ 54
Average amount paid per claim	$41	$ 27
Severity(1)	64 %	44 %

(1)Severity represents the total amount of claims paid divided by the related RIF on the loans.

The increase in the number of claims paid for the year ended December 31, 2016 compared to the year ended December 31, 2015 is in line with our expectation of how losses will develop as our book grows. We believe our severity is below expectations as the result of appreciating home prices in recent years.

Average reserve per default:	As of December 31, 2016	As of December 31, 2015
	(In Thousands)	
Case (1)	$ 15	$ 18
IBNR	2	1
Total	$ 17	$ 19

(1)Defined as the gross reserve per insured loan in default.

For the year ended December 31, 2014, default and claims activity in our insured book were not significant. As of December 31, 2014, we had established loss reserves of $83,000 for 6 loans in default.

Cybersecurity

As a participant in the mortgage lending and MI industries, we rely on e-commerce and other technologies to provide and expand our products and services. We have established and implemented security measures, controls and procedures to safeguard our information technology systems and to prevent unauthorized access to such systems and any data processed and/or stored in such systems. We periodically employ third parties to evaluate and test the adequacy of such systems, controls and procedures. In addition, we have established a business continuity plan that is designed to allow our business to continue to operate in the midst of certain disruptive events, including any disruptions to our information technology systems. We also have an incident response plan that is designed to address information security incidents, including breaches of our information technology systems. Despite these safeguards, disruptions to and breaches of our information technology systems are possible and may negatively impact our business.

We maintain cyber errors and omissions coverage to limit our exposure if an incident occurs. This insurance provides coverage for (i) claims related to, among other things, unauthorized network or computer access, unintentional disclosure or misuse of personally identifiable information in our possession, unintentional failure to disclose a breach and (ii) certain costs related to privacy notification, crisis management, cyber extortion, data recovery and business interruption.

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 expect to certify 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 will continue to monitor our compliance with the PMIERs going forward.

The following table provides a comparison of the PMIERs financial requirements as reported by NMIC. Our available assets balance as of December 31, 2016 decreased from the prior quarter as the result of new PMIERs requirements that the GSEs released in December 2016. Under the new requirements, our available assets were reduced as a result of the deduction of our reinsurance funds withheld balance and restricted assets held on deposit by state regulatory agencies.

	As of December 31, 2016	September 30, 2016	June 30, 2016	March 31,2016	December 31, 2015
	($ values in thousands)				
Available Assets	$453,523	$488,635	$432,074	$434,138	$431,411
Net Risk-Based Required Assets	366,584	320,609	377,468	302,852	249,805
Asset charge % [(1)]	6.15 %	6.14 %	6.10 %	6.12 %	6.17 %

[(1)]Asset charge represents the risk-based required asset amount divided by the outstanding RIF on performing primary loans.

Capital Position of Our Insurance Subsidiaries

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 RTC ratio of 25:1.

As of December 31, 2016, NMIC's primary RIF was approximately $7.8 billion representing insurance on a total of 134,662 policies in force, and pool RIF was approximately $0.0 million, representing insurance on a total of 16,917 loans. Based on NMIC's reported total statutory capital of $473 million at December 31, 2016, NMIC's RTC ratio was 12.4:1, significantly below the regulatory

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maximum RTC thresholds. Similarly, Re One had total statutory capital of $33 million at December 31, 2016, with a RTC ratio of .5:1.

As discussed above in Item 1, "Business - U.S. Mortgage Insurance Regulation - State Mortgage Insurance Regulation," we, along with other MI companies, are working with the Mortgage Guaranty Insurance Working Group of the Financial Condition (E) Committee of the NAIC (Working Group). The Working Group will determine and make a recommendation to the Financial Condition (E) Committee of the NAIC as to what changes the Working Group believes are necessary to the solvency and market practices regulation of MI companies, including changes to the Mortgage Guaranty Insurers Model Act (Model #630). The Working Group has proposed a draft revised Model Act that contains risk-based capital requirements, which we and the MI industry are evaluating. We have provided feedback to the Working Group since early 2013, including comments on the risk-based capital approach. The Working Group's discussions are ongoing and the ultimate outcome of these discussions and any potential actions taken by the NAIC cannot be predicted at this time.

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 was "stable." In November 2015, Moody's Investors Service (Moody's) assigned a financial strength rating of "Ba2" for NMIC. Also at that time, Moody's assigned a B2 rating to the $150 million Term Loan held by NMIH. Moody's outlook for both companies was "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. See Part I, Item 1, "Business - Sales and Marketing and Competition - Competition," above.

Private MI

MI companies compete based on service, customer relationships, underwriting, and other factors including price. In the recent past, lenders have pressured MIs to offer discounted rates, primarily on single premium LPMI. Higher capital requirements imposed by the PMIERs have also had an effect on premium rates. We expect the MI market to remain highly competitive, with pressure for industry participants to grow or maintain their market share in the coming years. Our competitors' respective shares of the private MI market for the quarter ended September 30, 2016 ranged from single percentage points penetration 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 Trump 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	For the year ended December 31,		
	2016	2015	2014
Revenues	(In Thousands, except for share data)		
Net premiums earned	$110,481	$45,506	$13,407
Net investment income	13,751	7,246	5,618
Net realized investment (losses) gains	(693)	831	197
Other revenues	276	25	—
Total revenues	123,815	53,608	19,222
Expenses			
Insurance claims and claims expenses	2,392	650	83
Underwriting and operating expenses	93,223	80,599	73,417
Total expenses	95,615	81,249	73,500
Other (expense) income			
(Loss) gain from change in fair value of warrant liability	(1,900)	1,905	2,949
Gain from settlement of warrants	—	—	37
Interest expense	(14,848)	(2,057)	—
Income (loss) before income taxes	11,452	(27,793)	(51,292)
Income tax benefit	(54,389)	—	(2,386)
Net income (loss)	$65,841	$(27,793)	$(48,906)

Revenues

For the year ended December 31, 2016, we had net premiums earned of $110.5 million compared to net premiums earned of $45.5 million for the year ended December 31, 2015 and $13.4 million for the year ended December 31, 2014. The principal drivers of the increase in premiums earned for the year ended December 31, 2016 were the continued growth of our NIW and IIF, primarily related to our monthly products, and the continued 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 of $5.3 million. Premiums earned in 2014 and 2015 were primarily driven by growth of our policies in force and the significant development of our customer base.

Additionally, we had $16.7 million of earned premiums in the year ended December 31, 2016 related to cancellations of single premium policies, compared to $4.4 million for the year ended December 31, 2015 and $1.9 million for the year ended December 31, 2014. We believe revenue from cancellations will be a lower portion of our revenue base as our IIF grows, particularly as interest rates have risen over the last quarter, causing refinance activity to slow. We will continue to experience higher than expected earnings from cancellations of single premium policies if interest rates remain low, and expect single premium policy cancellations to decrease if interest rates rise significantly.

Net investment income has increased year over year from December 31, 2014, as a result of increases in the size of our consolidated investment portfolio. We realized a loss on investments of $0.7 million for the year ended December 31, 2016, compared to gains of $0.8 million and $0.2 million for the years ended December 31, 2015 and December 31, 2014, respectively.

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 claim expenses increased for the year ended December 31, 2016 compared to the years ended December 31, 2015 and December 31, 2014, as a result of increases in our NODs, primarily due to increases in the number of policies-in-force year-over-year.

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Employee compensation represents the majority of our operating expense, which includes both cash and share-based compensation. Our underwriting and operating expenses grew year-over-year primarily as the result of hiring new employees and expanding our operations and sales activities. Our headcount grew from 189 and 243 at December 31, 2014 at December 31, 2015, respectively, to 276 at December 31, 2016. Underwriting and operating expenses also include costs related to policy acquisition, technology, professional services and facilities.

We incurred interest expense in 2015 and 2016 related to the Term Loan entered into during the fourth quarter of 2015.

We recorded $54.4 million of income tax benefit for the year ended December 31, 2016 compared to $0.0 of income tax expense for the year ended December 31, 2015 and $2.4 million of income tax benefit for the year ended December 31, 2014. See Item 8, "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 11, Income Taxes."

Net Income

We recognized net income of $65.8 million for the year ended December 31, 2016 compared to net losses of $27.8 million and $48.9 million for the years ended December 31, 2015 and December 31, 2014, respectively. The primary driver of the profitable year ended December 31, 2016, compared to the years ended December 31, 2015 and December 31, 2014, was the significant increase in premiums earned from our IIF as a result of the addition of new customers and higher allocations of business to us from existing customers, slightly offset by personnel and external costs.

Consolidated balance sheets	December 31, 2016	December 31, 2015
	(In Thousands)	
Total investment portfolio	$628,969	$559,235
Cash and cash equivalents	47,746	57,317
Premiums receivable	13,728	5,143
Deferred policy acquisition costs, net	30,109	17,530
Software and equipment, net	20,402	15,201
Prepaid reinsurance premiums	37,921	—
Deferred tax asset, net	53,274	—
Other assets	9,588	8,025
Total assets	$841,737	$662,451
Term loan	$144,353	$143,939
Unearned premiums	152,906	90,773
Accounts payable and accrued expenses	25,297	22,725
Reserve for insurance claims and claims expenses	3,001	679
Reinsurance funds withheld	30,633	—
Deferred ceding commission	4,831	—
Warrant liability	3,367	1,467
Deferred tax liability	—	137
Total liabilities	364,388	259,720
Total shareholders' equity	477,349	402,731
Total liabilities and shareholders' equity	$841,737	$662,451

As of December 31, 2016, we had approximately $677 million in cash and investments of which $74.1 million was held at NMIH. The increase in cash and investments from year-end 2015 relates directly to the magnitude of premiums collected in 2016, less operating expenses and capital expenditures.

Our deferred policy acquisition asset was $30.1 million as of December 31, 2016 compared to $17.5 million at December 31, 2015. The increase was driven by the deferrable costs associated with premiums written during the year ended December 31, 2016 of $134.7 million.

Our software and equipment balance increased from $15.2 million at December 31, 2015 to $20.4 million at December 31, 2016, primarily due to the continued development of our technology platform to support the growth of our business, offset by depreciation and amortization expense during the year.

Our premiums receivable balance increased from $5.1 million at December 31, 2015 to $13.7 million as of December 31, 2016 primarily as a result of the growth in IIF of our monthly policies.
Our prepaid reinsurance balance was $37.9 million as of December 31, 2016, which reflects the ceded unearned premium balance related to the 2016 QSR Transaction entered into during the third quarter of 2016.
Our unearned premiums balance increased from $90.8 million as of December 31, 2015 to $152.9 million as of December 31, 2016 due to single premiums written in 2016, offset by cancellations of LPMI policies previously discussed and earnings of existing unearned premiums in accordance with the expiration of risk in the related policies.
As a result of NODs received in 2016, our reserves for insurance claims and claims expenses increased to $3.0 million at December 31, 2016 compared to $679 thousand at December 31, 2015. See, Item 8, "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 7, Reserves for Insurance Claims and Claims Expenses."
Our accounts payable and accrued expenses increased to $25.3 million as of December 31, 2016 from $22.7 million at December 31, 2015. The increase was primarily driven by an increase in accruals for liabilities related to increased headcount, accrued premium taxes and IT costs.
Deferred ceding commission related to the 2016 QSR Transaction was $4.8 million as of December 31, 2016.
Reinsurance funds withheld was $30.6 million as of December 31, 2016, representing reinsurance premiums payable, offset by our profit and ceding commission receivables related to the 2016 QSR Transaction.
Our warrant liability increased to $3.4 million at December 31, 2016 from $1.5 million at December 31, 2015, as a result of an increase in our stock price during 2016, from $6.77 at December 31, 2015 to $10.65 at December 31, 2016.
The following table summarizes our consolidated cash flows from operating, investing and financing activities:

Consolidated cash flows	For the year ended December 31,		
	2016	2015	2014
Net cash provided by (used in):	(In Thousands)		
Operating activities	$71,944	$41,463	$(20,967)
Investing activities	(79,792)	(230,165)	68,082
Financing activities	(1,723)	142,998	(23)
Net (decrease) increase in cash and cash equivalents	$(9,571)	$(45,704)	$47,092

Operating activities generated positive cash flow for the years ended December 31, 2016 and December 31, 2015, compared to the year ended December 31, 2014, due primarily to the collection of premiums offset by the continued hiring of management and staff personnel and costs for contract and professional services.
Cash used in investing activities for the years ended December 31, 2016 and December 31, 2015 was $79.8 million and $230.2 million, respectively, compared to cash provided by investing activities in the same period in 2014 of $68.1 million. Amounts used for investment activities in 2015 and 2016 were for securities acquisitions in those years, primarily from the proceeds of the Term Loan.
Cash flow used in financing activities totaled $1.7 million for the year ended December 31, 2016, due primarily to the repayment of principal of $1.5 million under the Term Loan, compared to cash inflows from the Term Loan for the year ended December 31, 2015.
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 December 31, 2016, NMIH's shareholders' equity was approximately $477 million.

As of December 31, 2016, NMIH had $74 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. 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, 2015, NMIC cannot pay any dividends to NMIH through December 31, 2016 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 9, 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 $25.5 million as of December 31, 2016, compliance with PMIERs financial requirements (subject to any GSE-approved waivers), and minimum equity requirements. Prior to the Amendment, the Term Loan accrued interest at the Eurodollar Rate (1%) plus an annual margin rate of 7.5% (an all-in rate of 8.75% at December 31, 2016), payable quarterly. After the Amendment, the Term Loan bears interest at the Eurodollar Rate (1%) plus an annual margin rate of 6.75%, payable quarterly. The Company recorded $14.8 million of interest expense for the year ended December 31, 2016.

Consolidated Investment Portfolio

Our net investment income for the year ended December 31, 2016 was $13.8 million, compared to $7.2 million for the year ended December 31, 2015 and $5.6 million for the year ended December 31, 2014. As of December 31, 2016, 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 (or used in) operations, such as net premiums received, and investment earnings.

Consistent with Wisconsin law, our investment policies emphasize preservation of capital, as well as total return. Based on our guidelines, our current investment portfolio is comprised almost entirely of cash and cash equivalents and fixed-income securities, all of which are investment grade. Prior to the third quarter of 2014, our investment portfolio consisted of A rated securities or better. During the third quarter of 2014, we changed our investment guidelines to allow 10-15% of the investment portfolio to be invested in BBB securities. As of December 31, 2016, approximately 13% of the investment portfolio was invested in BBB securities. Our policy guidelines contain limits on the amount of credit exposure to any one issue, issuer and type of instrument. We expect to preserve the liquidity of our portfolio through diversification and investment in publicly traded securities. We plan to maintain a level of liquidity commensurate with our perceived business outlook and the expected timing, direction and degree of changes in interest rates.

The pre-tax book yield on our portfolio, excluding unrealized gains and losses, was 2.0% for the year ended December 31, 2016, compared to 1.8% for the year ended December 31, 2015 and 1.5% for the year ended December 31, 2014. The book yield for each year presented is calculated on the year-to-date net investment income over our average portfolio book value at December 31. 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	December 31, 2016		December 31, 2015	
1. Corporate debt securities	52	%	56	%
2. U.S. treasury securities and obligations of U.S. government agencies	9		14	
3. Asset-backed securities	17		17	
4. Cash, cash equivalents and short-term investments	16		10	
5. Municipal debt securities	6		3	
Total	100	%	100	%

The ratings of our investment portfolio were:

Investment portfolio ratings	December 31, 2016		December 31, 2015	
AAA	24	%	25	%
AA	19		11	
A	44		51	
BBB	13		13	
Investment grade	100		100	
Below investment grade	—		—	
Total	100	%	100	%

The ratings above are provided by one or more of: Moody's, Standard & Poor's 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 effective income tax rate on our pre-tax income was (474.9)% for the year ended December 31, 2016. Our effective income tax rate on our pre-tax loss was 0.0% and 4.7% for the years ended December 31, 2015 and 2014, respectively. For further information regarding income taxes and their impact on our results of operations and financial position, see, Item 8, "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 11, Income Taxes."

Since inception and prior to December 31, 2016, we recorded a valuation allowance against deferred tax assets, and, as such, we generally did not record a benefit associated with the losses incurred in prior periods or other income tax benefits. (Income tax benefits recognized in prior periods were related to the tax effects of unrealized gains credited to other comprehensive income (OCI).) At December 31, 2016, after weighing applicable evidence, we concluded that it is more-likely-than-not that our deferred tax assets will be realized. As a result, as of December 31, 2016, we have released the valuation allowance on federal and certain state deferred tax assets. A valuation allowance will continue to be recorded against net state deferred tax assets, primarily related to state net operating losses generated by NMIH that we do not expect to be utilized. NMIH operates at a loss and currently only generates revenue from its investment portfolio. Starting in 2017, we expect that our consolidated effective tax rate will approximate the statutory tax rates.

As of December 31, 2016, the positive evidence that weighed in favor of releasing the valuation allowance and ultimately outweighed the negative evidence against releasing the allowance included:

- our current net operating loss carryforwards are expected to be fully utilized by 2018;
- our other deferred tax assets are based on known recognition schedules and our expectation is that the majority will either reverse in the next three years or are related to deferred tax liabilities;
- our significant unearned premium balance which represents future revenue that will be earned over the policies' lives;
- the substantial growth in our IIF driving the increase in net premiums;
- our positive earnings trends from quarterly and annual increases in revenue;

- our taxable income in 2016 and our expected taxable income in future years; and
- our expectation that we will be in a cumulative profit in a three-year period in 2017.

The primary negative evidence that was considered was our cumulative losses in recent years. Although ASC 740 does not define the term or the length of time to consider when calculating the cumulative loss, practice and interpretations suggest that the guideline, not a "bright line", is to aggregate the pretax results as adjusted for permanent items for three years (i.e., the current and the two preceding years).

Management has concluded that positive evidence of sufficient quantity and quality outweighs negative evidence, and supports our conclusion that it is more-likely-than-not that the Company will realize its federal and certain state deferred tax assets. The reversal of the Company's beginning-of-the-year valuation allowance against such deferred tax assets (resulting from a change in judgment about the realizability of the related deferred tax assets in future years) is consistent with the requirements of ASC 740-10-45-20. We have recorded the effects of the change in income from continuing operations, generating a financial statement benefit of $60.0 million and $0.3 million related to net federal and certain state deferred tax assets, respectively. A tax effected valuation allowance of $7.3 million, $66.4 million, and $53.7 million was recorded at December 31, 2016, 2015 and 2014, respectively, to reflect the amount of the deferred taxes that more-likely-than-not will not be realized.

As of December 31, 2016, we had a federal net operating loss carryforward of $121.1 million, which expires from 2030 to 2035, and state net operating loss carryforwards of $63.6 million, which primarily expire from 2031 to 2036. Section 382 of the Internal Revenue Code (Section 382) imposes annual limitations on a corporation's ability to utilize its net operating losses (NOLs) if it experiences an "ownership change." As a result of the acquisition of our insurance subsidiaries, $7.3 million of NOLs are subject to annual limitations of $0.8 million through 2016, then $0.3 million through 2029. If we were to experience another "ownership change," further limitations would apply.

There is a tax sharing agreement between NMIH and its subsidiaries, dated August 23, 2012 and amended on September 1, 2016. Under this agreement, each of the parties mutually agreed to file a consolidated federal income tax return for 2012 and subsequent tax years, with NMIH as the direct tax filer. The tax liability of each subsidiary that is party to the agreement is limited to the amount of liability it would incur if it filed a separate tax return.

Off-Balance Sheet Arrangements and Contractual Obligations

We had no off-balance sheet arrangements at December 31, 2016. Contractual obligations at December 31, 2016 are summarized in the table that follows.

	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(In Thousands)			
Contractual obligations	$—	$—	$—	$ —
Long-term debt obligations*	14,615	159,602	—	—
Capital lease obligations	—	—	—	—
Operating lease obligations	1,488	6,474	5,710	—
Purchase obligations	2,289	126	—	—
Other long-term liabilities reflected on the registrant's balance sheet under GAAP	—	—	—	—
Total	$18,392	$166,202	$5,710	$ —

*Long-term debt relates to our $150 million Credit Agreement and includes future interest payments using the minimum interest rate in effect at December 31, 2016 (prior to the Amendment) of 8.75%.

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. These critical accounting policies and estimates are summarized below.

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Revenue Recognition

In the MI industry, a "book" is a group of loans that an MI company insures in a particular period, normally a calendar year. We set premiums at the time a policy is issued based on our filed rates and rating rules. The policies we issue are guaranteed renewable contracts at the policyholder's option. Premiums may be paid to us on a single, annual or monthly premium basis. We generally have no ability to re-underwrite or reprice these contracts. Premiums written on a single premium basis and an annual premium basis are initially deferred as unearned premium reserve and earned over the policy's expected life commencing in the month coverage is effective. Premiums written on policies covering more than one year are amortized over the policy's expected life in accordance with the expiration of risk, which is the anticipated claim payment pattern based on industry experience. Premiums written on annual policies are earned on a monthly pro rata basis. Premiums written on monthly policies are earned as coverage is provided. Premiums written on pool transactions are earned over the period that coverage is provided. Upon cancellation of a policy, all premium that is non-refundable is immediately earned, and any refundable premium is returned to the policyholder. Premiums returned to policyholders are recorded as a reduction of written and earned premiums in the current period. The actual return of premium for all periods affects premiums written and earned in those periods.

Reserve for Claims and Claims Expenses

Consistent with industry accounting practices, for purposes of establishing claim reserves, we adhere to the general claim reserving principles contained in ASC 944, Financial Services - Insurance (ASC 944), even though that standard expressly excludes mortgage insurance from its guidance. Consistent with our industry, we do not establish claim reserves for anticipated future claims on insured loans that are not currently in default. We do not consider a loan to be in default for claim reserve purposes until we receive notice from the servicer that a borrower has failed to make two consecutive regularly scheduled payments and is at least sixty days in default. Default is defined in our Master Policy as the failure by a borrower to pay when due an amount equal to the scheduled mortgage payment due under the terms of a loan or the failure by a borrower to pay all amounts due under a loan after the exercise of the due on sale clause of such loan. In addition to reserves on reported defaults, we establish IBNR reserves for estimated claims incurred on loans that have been in default for at least sixty days that have not yet been reported to us by the servicers.

The establishment of claim and IBNR reserves is subject to inherent uncertainty and requires significant judgment by management. We establish claim reserves using our best estimates of claim rates, i.e., the percent of loan defaults that ultimately result in claim payments, and claim amounts, i.e., the dollar amounts required to settle claims, to estimate the ultimate claims on loans reported to us as being at least sixty days in default as of the end of each reporting period. We estimate IBNR by analyzing historical lags in default reporting to determine a specific number of IBNR claims in each reporting period. We utilize internal and external data to estimate lags in NOD reporting. Additionally, our estimates of claim rates and claim sizes are strongly influenced by prevailing economic conditions, for example current rates or trends in unemployment, house price appreciation and/or interest rates, and our best judgment as to the future values or trends of these macroeconomic factors.

Fair Value Measurements

The following describes the valuation techniques used by us to determine the fair value of our financial instruments: 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.
- Level 2 - Prices or valuations based on observable inputs other than quoted prices in active markets for identical assets and liabilities.
- 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.

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.

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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 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; however, we do perform quality checks and review the prices received.
Liabilities classified as Level 3
Our outstanding warrants are valued using a Black-Scholes option-pricing model, in combination with a binomial model. We use a Monte-Carlo simulation model to value the pricing protection features within the warrants. 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.
Investments
We have designated our investment portfolio as available-for-sale and report it at fair value. The related unrealized gains and losses, after considering the related tax expense or benefit, are recognized as a component of accumulated other comprehensive (loss) income in shareholders' equity. Net realized investment gains and losses are reported in income based upon specific identification of securities sold, and are reclassified out of accumulated other comprehensive (loss) income.
Purchases and sales of investments are recorded on a trade date basis. Net investment income is recognized when earned, and includes interest and dividend income together with amortization of market premiums and discounts using the effective yield method, and is net of investment management fees and other investment related expenses. For asset-backed securities and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary.
Each fiscal quarter we evaluate our investments in order to determine whether declines in fair value below amortized cost were considered other-than-temporary in accordance with applicable guidance. Under the current guidance, a debt security impairment is deemed other-than-temporary if (i) we either intend to sell the security or it is more likely than not that we will be required to sell the security before recovery or (ii) we do not expect to collect cash flows sufficient to recover the amortized cost basis of the security. In evaluating whether a decline in fair value is other-than-temporary, we consider several factors including, but not limited to:

- our intent to sell the security or whether it is more likely than not that we will be required to sell the security before recovery;
- severity and duration of the decline in fair value;
- the financial condition of the issuer;
- the failure of the issuer to make scheduled interest or principal payments;
- recent credit downgrades of the applicable security or the issuer below investment grade; and
- adverse conditions specifically related to the security, an industry or a geographic area.

Premium Deficiency Reserve

We perform a premium deficiency calculation 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. The calculation of premium deficiency reserves requires the use of significant judgment and estimates to determine the present value of future premiums and present value of expected claims and expenses on our business. The present

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value of future premiums relies on, among other things, assumptions about persistency and repayment patterns on underlying loans. The present value of expected claims and expenses depends on assumptions relating to severity of claims, claim rates on current defaults and expected defaults in future periods. These assumptions may also include an estimate of expected rescission activity. Assumptions used in calculating premium deficiency reserves can be affected by volatility in the current housing and mortgage lending industries. To the extent premium patterns and actual claim experience differ from the assumptions used in calculating a premium deficiency reserve, the differences between the actual results and our estimate will affect future period earnings. In considering the potential sensitivity of the factors underlying our best estimate of premium deficiency reserves, it is possible that even a relatively small change in estimated claim rate or a relatively small percentage change in estimated claim amount could have a significant impact on establishing a premium deficiency reserve, should one be needed, and, correspondingly, on our operating results.

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.

Income Taxes

We account for income taxes using the liability method in accordance with ASC 740, Income Taxes. The liability method measures the expected future tax effects of temporary differences at the enacted tax rates applicable for the period in which the deferred asset or liability is expected to be realized or settled. Temporary differences are differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements that would result in future increases or decreases in taxes owed on a cash basis compared to amounts already recognized as tax expense in the consolidated statement of operations. We evaluate the need for a valuation allowance against deferred tax assets on a quarterly basis. In the course of our review, we assess all available evidence, both positive and negative, including future sources of income, tax planning strategies, future contractual cash flows and reversing temporary differences. Additional valuation allowance benefits or charges could be recognized in the future due to changes in management's expectations regarding the realization of tax benefits.

Warrants

We account for 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. Our outstanding warrants may be settled by us using either (i) a physical settlement method or (ii) cashless exercise, where shares that are issued upon exercise of the warrants are reduced to cover the cost of the exercise, in lieu of the holder remitting a cash payment of the exercise price. The warrants expire, and are not exercisable after the 10^{th} anniversary of the date they were issued. The exercise price and the number of warrants are subject to anti-dilution provisions whereby the existing exercise price is adjusted downward, and the number of warrants increased, for events that may not be dilutive. The adjustment may be in excess of any dilution suffered. As a result, the warrants are classified as a liability. We revalue the warrants at the end of each reporting period, and any change in fair value is reported in the statements of operations in the period in which the change occurred. We calculate the fair value of the warrants using a Black-Scholes option-pricing model in combination with a binomial model. We use a Monte Carlo simulation model to value the pricing protection features within the warrants. Variables in the model include the fair value of the stock, risk-free rate of return, dividend yield, expected life and expected volatility of the Company's stock price.

Share-Based Compensation

We account for share-based compensation in accordance with ASC 718, Compensation - Stock Compensation (ASC 718). ASC 718 addresses accounting for share-based awards and recognizes compensation expense, measured using grant date fair value, over the requisite service or performance period of the award. Share-based payments include stock options and restricted stock unit (RSU) grants under the 2012 Stock Incentive Plan and the NMIH 2014 Omnibus Incentive Plan. We determine the fair value of issued stock option grants using an option pricing model, which takes into account various assumptions that are subjective. Key assumptions used in the stock option valuation include the expected term of the option award, taking into account the contractual term of the award, the effects of expected exercise and post-vesting termination behavior, expected volatility, expected dividends and the risk-free interest rate for the expected term of the award. RSU grants to employees contain a market and/or service condition. The fair value of RSU grants to employees prior to our IPO was determined using a Monte Carlo Simulation model at the date of grant. Following the IPO, fair value was determined based on closing price on the grant date. Restricted grants to non-employee directors are valued at our stock price on the date of grant less the present value of anticipated dividends. Expense is recognized over the required service period, which is generally a three-year vesting period for the options (vesting in one-third increments per year).

There were no stock options granted in 2016. The estimated grant date fair values of the stock options granted during 2015 and 2014 were calculated using the Black-Scholes valuation model. See Item 8, "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 10, Share-Based Compensation."

Restricted Stock Units

For RSUs which are subject to a service condition, expense is recognized over the required service period, which is generally a three-year vesting period (vesting in one-third increments per year). Expense is measured by multiplying the number of RSUs by the grant date fair value.

The estimated grant date fair values of the RSUs granted in 2012 that are subject to both a market and service condition were calculated using a Monte Carlo Simulation model based on the average outcome of 150,000 simulations using the following assumptions:

	2012	
Expected life	5 years	
Risk free interest rate	0.86	%
Dividend yield	0.00	%
Expected stock price volatility	39.00	%
Projected forfeiture rate	1.00	%

In February 2013, the Board approved a modification to the vesting terms of approximately 400,000 granted and non-vested RSUs held by our employees. The modification to the vesting terms removed the market condition leaving the RSUs subject to a service condition only. The modification resulted in a change in the period over which compensation costs are recognized and prospective recognition of incremental compensation cost. Incremental compensation cost is measured as the excess of the fair value of the modified award over the fair value of the original award immediately before its terms are modified using relevant valuation inputs as of the modification date.

Item 7A. 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'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 December 31, 2016 and 2015 was $629 million and $559 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 December 31, 2016, 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 1.02 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 1.02% in fair value of our fixed income portfolio.

We are also subject to market risk related to our Term Loan. As discussed in Item 8, "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note 5, 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 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
NMI Holdings, Inc.
Emeryville, CA

We have audited the accompanying consolidated balance sheets of NMI Holdings, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income(loss), changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. In connection with our audits of the financial statements, we have also audited the financial statement schedules listed in the accompanying index. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedules. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NMI Holdings, Inc. at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ BDO USA, LLP
San Francisco, CA.

February 17, 2017

NMI HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

Assets	December 31, 2016	December 31, 2015
	(In Thousands, except for share data)	
Fixed maturities, available-for-sale, at fair value (amortized cost of $630,688 and $564,319 as of December 31, 2016 and December 31, 2015, respectively)	$628,969	$559,235
Cash and cash equivalents	47,746	57,317
Premiums receivable	13,728	5,143
Accrued investment income	3,421	2,873
Prepaid expenses	1,991	1,428
Deferred policy acquisition costs, net	30,109	17,530
Software and equipment, net	20,402	15,201
Intangible assets and goodwill	3,634	3,634
Prepaid reinsurance premiums	37,921	—
Deferred tax asset, net	53,274	—
Other assets	542	90
Total assets	$841,737	$662,451
Liabilities		
Term loan	$144,353	$143,939
Unearned premiums	152,906	90,773
Accounts payable and accrued expenses	25,297	22,725
Reserve for insurance claims and claim expenses	3,001	679
Reinsurance funds withheld	30,633	—
Deferred ceding commission	4,831	—
Warrant liability, at fair value	3,367	1,467
Deferred tax liability, net	—	137
Total liabilities	364,388	259,720
Commitments and contingencies		
Shareholders' equity		
Common stock - class A shares, $0.01 par value;		
59,145,161 and 58,807,825 shares issued and outstanding as of December 31, 2016 and December 31, 2015, respectively (250,000,000 shares authorized)	591	588
Additional paid-in capital	576,927	570,340
Accumulated other comprehensive loss, net of tax	(5,287)	(7,474)
Accumulated deficit	(94,882)	(160,723)
Total shareholders' equity	477,349	402,731
Total liabilities and shareholders' equity	$841,737	$662,451

See accompanying notes to consolidated financial statements.

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

	For the years ended December 31,		
	2016	2015	2014
	(In Thousands, except for share data)		
Revenues			
Net premiums earned	110,481	45,506	$ 13,407
Net investment income	13,751	7,246	5,618
Net realized investment (losses) gains	(693)	831	197
Other revenues	276	25	—
Total revenues	123,815	53,608	19,222
Expenses			
Insurance claims and claims expenses	2,392	650	83
Underwriting and operating expenses	93,223	80,599	73,417
Total expenses	95,615	81,249	73,500
Other (expense) income			
(Loss) gain from change in fair value of warrant liability	(1,900)	1,905	2,949
Gain from settlement of warrants	—	—	37
Interest expense	(14,848)	(2,057)	—
Total other (expense) income	(16,748)	(152)	2,986
Income (loss) before income taxes	11,452	(27,793)	(51,292)
Income tax benefit	(54,389)	—	(2,386)
Net income (loss)	$ 65,841	$ (27,793)	$ (48,906)
Earnings (loss) per share			
Basic	$ 1.11	$ (0.47)	$ (0.84)
Diluted	$ 1.08	$ (0.47)	$ (0.84)
Weighted average common shares outstanding			
Basic	59,070,948	58,683,194	58,281,425
Diluted	60,829,372	58,683,194	58,281,425
Net income (loss)	$ 65,841	$ (27,793)	$ (48,906)
Other comprehensive income (loss), net of tax:			
Net unrealized gains (losses) in accumulated other comprehensive income (loss), net of tax expense of $1,178, $0, and $2,390 for each of the years in the three-year period ended December 31, 2016, respectively	1,429	(3,518)	3,636
Reclassification adjustment for (gains) losses included in net income (loss), net of tax expense of $0 for the each of the years in the three-year period ended December 31, 2016	758	(349)	(196)
Other comprehensive income (loss), net of tax	2,187	(3,867)	3,440
Comprehensive income (loss)	$ 68,028	$ (31,660)	$ (45,466)

See accompanying notes to consolidated financial statements.

NMI HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Stock - Class A Amount	Class B	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	(In Thousands)					
Balances, January 1, 2014	$581	$ —	$553,707	$ (7,047)	$ (84,024)	$463,217
Common stock: class A shares issued under related to warrants	*	—	13	—	—	13
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	3	—	11	—	—	14
Share-based compensation expense	—	—	9,180	—	—	9,180
Change in unrealized investment gains/losses, net of tax of $2,390	—	—	—	3,440	—	3,440
Net loss	—	—	—	—	(48,906)	(48,906)
Balances, December 31, 2014	584	—	562,911	(3,607)	(132,930)	426,958
Common stock: class A shares issued under stock plans, net of shares withheld for employee taxes	4	—	(694)	—	—	(690)
Share-based compensation expense	—	—	8,123	—	—	8,123
Change in unrealized investment gains/losses, net of tax of $0	—	—	—	(3,867)	—	(3,867)
Net loss	—	—	—	—	(27,793)	(27,793)
Balances, December 31, 2015	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	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	—	—	—	—	65,841	65,841
Balances, December 31, 2016	$591	$ —	$576,927	$ (5,287)	$ (94,882)	$477,349

* During 2014, we issued 1,115 common shares with a par value of $0.01 related to the exercise of warrants, which is not identifiable in this schedule due to rounding.

See accompanying notes to consolidated financial statements.

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NMI HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,		
	2016	2015	2014
Cash flows from operating activities	(In Thousands)		
Net income (loss)	$65,841	$(27,793)	$(48,906)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Net realized investment losses (gains)	693	(831)	(197)
Loss (gain) from change in fair value of warrant liability	1,900	(1,905)	(2,949)
Depreciation and amortization	5,660	4,861	8,080
Net amortization of premium on investment securities	1,259	—	—
Amortization of debt discount and debt issuance costs	1,914	251	—
Deferred income taxes	(54,749)	—	—
Share-based compensation expense	6,854	8,174	9,180
Changes in operating assets and liabilities:			
Current tax payable	—	—	(2,386)
Accrued investment income	(548)	(1,166)	294
Premiums receivable	(8,585)	(4,095)	(1,029)
Prepaid expenses	(563)	626	(535)
Deferred policy acquisition costs, net	(12,579)	(14,545)	(2,895)
Other assets	(452)	419	(446)
Unearned premiums	62,133	68,704	20,622
Reserve for insurance claims and claim expenses	2,322	596	83
Reinsurance balances, net	(2,456)	—	—
Accounts payable and accrued expenses	3,300	8,167	117
Net cash provided by (used in) operating activities	71,944	41,463	(20,967)
Cash flows from investing activities			
Purchase of short-term investments	(170,067)	(21,160)	—
Purchase of fixed-maturity investments, available-for-sale	(143,568)	(343,771)	(60,462)
Proceeds from maturity of short-term investments	129,033	—	—
Proceeds from redemptions, maturities and sale of fixed-maturity investments, available-for-sale	116,281	140,901	136,764
Purchase of software and equipment	(11,471)	(6,135)	(8,220)
Net cash (used in) provided by investing activities	(79,792)	(230,165)	68,082
Cash flows from financing activities			
Taxes paid related to net share settlement of equity awards	(755)	(1,105)	(1,083)
Proceeds from issuance of common stock	532	415	1,097
Gain from settlement of warrants	—	—	(37)
Proceeds from term loan, net of discount	—	148,500	—
Repayments of term loan	(1,500)	(375)	—
Payments of debt issuance costs	—	(4,437)	—
Net cash (used in) provided by financing activities	(1,723)	142,998	(23)
Net (decrease) increase in cash and cash equivalents	(9,571)	(45,704)	47,092
Cash and cash equivalents, beginning of period	57,317	103,021	55,929
Cash and cash equivalents, end of period	$47,746	$57,317	$103,021

Supplemental disclosures of cash flow information
Noncash financing activities

Interest paid	$9,669	$5	$—
Income tax payments	200	—	—

See accompanying notes to consolidated financial statements.

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NMI HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

1. Organization and Basis of Presentation

NMI Holdings, Inc. (NMIH) is a Delaware corporation, formed in May 2011, to provide mortgage insurance 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 shares 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." For a further discussion, see "Note 15, Common Stock Offerings."

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 consolidated financial statements include the results of NMIH and its wholly owned subsidiaries. All inter-company transactions have been eliminated. These financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) and our accounts are maintained in US dollars. 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.

2. Summary of Accounting Principles

Revenue Recognition

In the mortgage insurance industry, a "book" is a group of loans that a mortgage insurance (MI) company insures in a particular period, normally a calendar year. We set premiums at the time a policy is issued based on our filed rates and rating rules. The policies we issue are guaranteed renewable contracts at the policyholder's option. Premiums may be paid to us on a single, annual or monthly basis. Premiums written on a single premium basis and an annual premium basis are initially deferred as unearned premium reserve and earned over the policy's expected life commencing in the month coverage is effective. Premiums written on policies covering more than one year are amortized over the policy life in accordance with the expiration of risk, which is the anticipated claim payment pattern based on industry experience. Premiums written on annual policies are earned on a monthly pro rata basis. Premiums written on monthly policies are earned as coverage is provided. Premiums written on pool transactions are earned over the period that coverage is provided. Upon cancellation of a policy, all premium that is non-refundable is immediately earned and any refundable premium is returned to the policyholder. Premiums returned to policyholders are recorded as a reduction of written and earned premiums in the current period. The actual return of premium for all periods affects premiums written and earned in those periods.

For the year ended December 31, 2016, one customer represented a material portion of our revenues. At December 31, 2016, approximately 14% of our total risk-in-force (RIF) was concentrated in California. We expect our RIF and state concentrations to lessen and align to industry averages as our insurance portfolio matures.

Use of 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.

Reserves for Insurance Claims and Claims Expenses

Consistent with industry accounting practices, for purposes of establishing claim reserves, we adhere to the general claim reserving principles contained in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 944, Financial Services - Insurance (ASC 944), even though that standard expressly excludes mortgage insurance from its guidance. Consistent with our industry, we do not establish claim reserves for anticipated future claims on insured loans that are not currently in default. We do not consider a loan to be in default for claim reserve purposes until we receive notice from the servicer that a borrower has failed to make two consecutive regularly scheduled payments and is at least 60 days in default. In addition to reserves on reported defaults, we establish IBNR reserves 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.

Investments

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

Purchases and sales of investments are recorded on a trade date basis. Net investment income is recognized when earned, and includes interest and dividend income together with amortization of market premiums and discounts using the effective yield method, and is net of investment management fees and other investment related expenses. For asset-backed securities and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to the change in effective yields and maturities are recognized on a prospective basis through yield adjustments.

Each quarter, we evaluate our investments in order to determine whether declines in fair value below amortized cost were considered other-than-temporary in accordance with applicable guidance. Under the current guidance, a debt security impairment is deemed other-than-temporary if (i) we either intend to sell the security or it is more likely than not that we will be required to sell the security before recovery or (ii) we do not expect to collect cash flows sufficient to recover the amortized cost basis of the security. In evaluating whether a decline in fair value is other-than-temporary, we consider several factors including, but not limited to:

- our intent to sell the security or whether it is more likely than not that we will be required to sell the security before recovery;
- severity and duration of the decline in fair value;
- the financial condition of the issuer;
- the failure of the issuer to make scheduled interest or principal payments;
- recent credit downgrades of the applicable security or the issuer below investment grade; and
- adverse conditions specifically related to the security, an industry, or a geographic area.

We consider items such as commercial paper with original maturities of 90 days or less to be short-term investments.

NMI HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 each of the three years in the three-year period ended December 31, 2016, net of a portion of ceding commission related to the 2016 QSR Transaction (see Note 6, Reinsurance), was $0.4 million, $2.8 million, and $4.3 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 any of the years in the three-year period ended December 31, 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.

Income Taxes

We account for income taxes using the liability method in accordance with ASC Topic 740, Income Taxes. The liability method measures the expected future tax effects of temporary differences at the enacted tax rates applicable for the period in which the deferred asset or liability is expected to be realized or settled. Temporary differences are differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements that would result in future increases or decreases in taxes owed on a cash basis compared to amounts already recognized as tax expense in the consolidated statement of operations.

Warrants

We account for 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. Our outstanding warrants may be settled by us using either (i) physical settlement method or (ii) cashless exercise, where shares that are issued upon exercise of the warrants are reduced, to cover the cost of the exercise, in lieu of the holder remitting a cash payment of the exercise price. The warrants expire and are not exercisable after the 10th anniversary of the date the warrant was issued. The exercise price and the number of warrants are subject to anti-dilution provisions whereby the existing exercise price is adjusted downward, and the number of warrants increased, for events that may not be dilutive. The adjustment may be in excess of any dilution suffered. As a result, the warrants are classified as a liability. We revalue the warrants at the end of each reporting period, and any change in fair value is reported in the statements of operations in the period in which the change occurred. We calculated the fair value of the warrants using a Black-Scholes option-pricing model in combination with a binomial model.

NMI HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Share-Based Compensation

We account for stock compensation in accordance with ASC 718, Compensation - Stock Compensation, which addresses accounting for share-based awards and recognition of compensation expense, measured using grant date fair value, over the requisite service or performance period of the award. Share-based payments include restricted stock unit (RSU) and stock option grants under the 2012 Stock Incentive Plan and the NMIH 2014 Omnibus Incentive Plan. We determine the fair value of issued stock option grants using an option pricing model, which takes into account various assumptions that are subjective. Key assumptions used in the stock option valuation include the expected term of the option award, taking into account the contractual term of the award, the effects of expected exercise and post-vesting termination behavior, expected volatility, expected dividends and the risk free interest rate for the expected term of the award. RSU grants to employees contain a market condition and/or service condition. The fair value of RSU grants to employees with a market condition is determined based on a Monte Carlo simulation model at the date of grant. RSU grants to employees with a service condition and RSU grants to non-employee directors are valued at our stock price on the date of grant less the present value of anticipated dividends.

Earnings per Share

Basic net earnings (loss) per share is based on the weighted-average number of common shares outstanding, while diluted net earnings (loss) per share is based on the weighted-average number of common shares outstanding and common stock equivalents that would be issuable upon the exercise of stock options, other stock-based compensation arrangements, and the dilutive effect of outstanding warrants. For the year ending December 31, 2016, the computation of diluted EPS includes the dilutive effect of 1,758,424 shares; 4,763,826 shares were not included in the calculation of diluted net income as the average price of the common stock during the period was below the exercise price of such shares. As a result of our net losses for the years ended December 31, 2015 and December 31, 2014, 6,266,905 shares, and 5,839,909 shares, respectively. of our common stock equivalents issued under stock-based compensation arrangements and warrants were not included in the calculation of diluted net loss per share as of such dates because they were anti-dilutive.

Cash and Cash Equivalents

We consider items such as certificates of deposit and money market funds with original maturities of 90 days or less to be cash equivalents.

Software and Equipment

Certain costs associated with the development of internal-use software are capitalized. Software and equipment are stated at cost, less accumulated amortization and depreciation. Once the software is ready for its intended use, amortization and depreciation are calculated using the straight-line method over the estimated useful lives of the respective assets ranging typically from 3 to 7 years, unless factors indicate a shorter useful life. Amortization of software and depreciation of equipment commences at the beginning of the month following our placement of the assets into use. For further detail, see "Note 12, Software and Equipment."

Business Combinations, Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the estimated fair value of net assets acquired from a business combination. In accordance with ASC 350, Intangibles - Goodwill and Other, we test goodwill for impairment during the third quarter each year, or more frequently if we believe indicators of impairment exist. We have not identified any impairments of goodwill through December 31, 2016.

Our intangible assets consist of state licenses and GSE applications which have indefinite lives. We test indefinite-lived intangible assets for impairment during the fourth quarter of each year or more frequently if we believe indicators of impairment exist. We do not believe that the indefinite-lived intangible assets were impaired as of December 31, 2016.

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 Standards Updates

In May 2014, the FASB issued 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. 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 May 2015, the FASB issued ASU 2015-09, Disclosures about Short-Duration Contracts (Topic 944), which requires insurance entities to disclose additional information related to the liability for unpaid claims and claims adjustment expenses. These disclosures include the nature, amount, timing and uncertainty of cash flows related to those liabilities and the effects of those cash flows on comprehensive income. This update is effective for annual periods beginning after December 15, 2015 and interim periods within annual periods beginning after December 15, 2016. For the year ended December 31, 2016, we have included additional information in our financial statements and notes therein related to this guidance.

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, if any.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718). This update is intended to provide improvements to employee share-based payment accounting. The areas for simplification in the update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The Company will adopt this guidance in the first quarter of 2017 and has evaluated the impact the adoption of this ASU will have on the consolidated financial statements. The Company will elect to recognize forfeitures as they occur. The Company will record deferred tax assets for past unrecognized excess tax benefits on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of January 1, 2017, which we expect will not have a material impact on stockholders' equity as of January 1, 2017. The classification of excess tax benefits and tax deficiencies as income tax benefit or expense may result in net income volatility in reporting periods subsequent to 2016. The amount of excess tax benefits or tax deficiencies in future periods will vary based on the market value of the Company's common stock at the vesting dates of non-vested common share units. The Company does not expect to adjust prior period consolidated statement of 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. While the Company is still in the early states of evaluating this ASU, we do not expect it to impact our accounting for insurance losses and loss adjustment expenses (LAE) as these items are not within the scope of the this ASU.

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 presentation of 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.

Reclassifications

Certain items in the financial statements as of and for the periods ending December 31, 2014 have been reclassified to conform to the current period's presentation. There was no effect on net income or shareholders' equity previously reported.

Subsequent Events

We have considered subsequent events through the date of this filing.

On February 10, 2017, the Company entered into an amendment to the Credit Agreement, dated as of November 10, 2015, to, among other things, extend the maturity date of the Credit Agreement, reduce the interest rate, and make certain changes to the financial covenants and other provisions.

Borrowings under the Amended Credit Agreement will bear interest at a variable rate per annum equal to, at the Company's option, (i) the Eurodollar Rate (as defined in the Amended Credit Agreement) plus 6.75% (subject to a Eurodollar Rate floor of 1.00% per annum), or (ii) the Base Rate (as defined in the Amended Credit Agreement) plus 5.75% (subject to a Base Rate floor of 2.00% per annum). The loans under the Amended Credit Agreement will mature on November 10, 2019.

In the event that the Company prepays all or any portion of the borrowings under the Amended Credit Agreement in connection with certain repricing transactions within 12 months after the effective date of the Amendment, the Company shall pay
a prepayment premium in an amount equal to 1.0% of the principal amount of the borrowings so prepaid.

3. Investments

Fair Values and Gross Unrealized Gains and Losses on Investments

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of December 31, 2016	(In Thousands)			
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
Total bonds	569,104	2,624	(4,541)	567,187
Short-term investments	61,584	198	—	61,782
Total investments	$630,688	$2,822	$(4,541)	$628,969

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of December 31, 2015	(In Thousands)			
U.S. Treasury securities and obligations of U.S. government agencies	$84,968	$4	$(490)	$84,482
Municipal debt securities	20,209	44	(174)	20,079
Corporate debt securities	337,273	431	(4,377)	333,327
Asset-backed securities	101,320	76	(603)	100,793
Total bonds	543,770	555	(5,644)	538,681

Short-term investments	20,549	5	—	20,554
Total investments	$564,319	$560	$(5,644)	$559,235

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Scheduled Maturities

The amortized cost and fair values of available for sale securities at December 31, 2016 and 2015, 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.

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
Total investments	$630,688	$628,969

As of December 31, 2015	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	$62,745	$62,743
Due after one through five years	187,633	186,629
Due after five through ten years	193,379	190,055
Due after ten years	19,242	19,015
Asset-backed securities	101,320	100,793
Total investments	$564,319	$559,235

Aging of Unrealized Losses

At December 31, 2016, the investment portfolio had gross unrealized losses of $4.5 million, $0.5 million of which has been in an unrealized loss position for a period of twelve months or greater. We did not consider these securities to be other-than-temporarily impaired as of December 31, 2016. We based our conclusion that these investments were not other-than-temporarily impaired at December 31, 2016 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
As of December 31, 2016	(Dollars in Thousands)								
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)
Total investments	154	$253,569	$(4,044)	15	$18,049	$(497)	169	$271,618	$(4,541)

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	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
As of December 31, 2015	(Dollars in Thousands)								
U.S. Treasury securities and obligations of U.S. government agencies	14	$50,558	$(397)	4	$10,194	$(93)	18	$60,752	$(490)
Municipal debt securities	4	11,293	(165)	1	3,242	(9)	5	14,535	(174)
Corporate debt securities	83	244,128	(4,124)	4	9,220	(253)	87	253,348	(4,377)
Asset-backed securities	27	69,878	(498)	4	9,208	(105)	31	79,086	(603)
Total investments	128	$375,857	$(5,184)	13	$31,864	$(460)	141	$407,721	$(5,644)

Net Investment Income

Net investment income is comprised of the following:

	For the year ended December 31,		
	2016	2015	2014
	(In Thousands)		
Fixed maturities	$14,121	$7,726	$6,127
Short-term investments	382	3	8
Investment income	14,503	7,729	6,135
Investment expenses	(752)	(483)	(517)
Net investment income	$13,751	$7,246	$5,618

Net Realized Investment Gains (Losses)

	For the year ended December 31,		
	2016	2015	2014
	(In Thousands)		
Gross realized investment gains	$748	$1,526	$694
Gross realized investment losses	(1,441)	(695)	(497)
Net realized investment gains (losses)	$(693)	$831	$197

As of December 31, 2016 and December 31, 2015, 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.

4. Fair Value of Financial Instruments

The following describes the valuation techniques used by us to determine the fair value of financial instruments held at December 31, 2016 and December 31, 2015:

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

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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 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 year ended December 31, 2016.

Securities classified as Level 2 assets include Federal Home, Farm and Agriculture agency obligations, municipal debt securities, corporate debt securities and asset-backed securities. Corporate securities are broadly diversified across industries and include $31.0 million of U.S. denominated foreign securities (Yankee Bonds) as of December 31, 2016. Asset-backed securities consist primarily of securities in the automobile and industrial sectors and include $3.7 million of Yankee Bonds as of December 31, 2016. Short-term investments included $5.0 million of Yankee Bonds as of December 31, 2016.

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.

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The following is a list of those assets and liabilities that are measured at fair value by hierarchy level as of December 31, 2016 and December 31, 2015:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
As of December 31, 2016	(In Thousands)			
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	$160,247	$ 516,468	$ —	$676,715
Warrant liability	$—	$ —	$ 3,367	$3,367
Total liabilities	$—	$ —	$ 3,367	$3,367

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
As of December 31, 2015	(In Thousands)			
U.S. Treasury securities and obligations of U.S. government agencies	$65,185	$ 19,297	$ —	$84,482
Municipal debt securities	—	20,079	—	20,079
Corporate debt securities	—	333,327	—	333,327
Asset-backed securities	—	100,793	—	100,793
Cash, cash equivalents and short-term investments	77,872	—	—	77,872
Total assets	$143,057	$ 473,496	$ —	$616,553
Warrant liability	$—	$ —	$ 1,467	$1,467
Total liabilities	$—	$ —	$ 1,467	$1,467

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

	For the year ended December 31,		
	2016	2015	2014
	(In Thousands)		
Balance, January 1,	$1,467	$3,372	$6,371

Change in fair value of warrant liability included in earnings	1,900	(1,905)	(2,949)
Gain on settlement of warrants	—	—	(37)
Issuance of common stock on warrant exercise	—	—	(13)
Balance, December 31	$3,367	$1,467	$3,372

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 December 31, 2016, the assumptions used in the option pricing model were as follows: a common stock price as of December 31, 2016 of $10.65, risk free interest rate of 1.78%, expected life of 4.33 years, expected volatility of 32.7% and a dividend yield of 0%. The

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change in fair value is primarily attributable to an increase in the price of our common stock during the year ended December 31, 2016.

As of December 31, 2015, the assumptions used in the option pricing model were : a common stock price as of December 31, 2015 of $6.77, risk free interest rate of 1.91%, expected life of 5.92 years, expected volatility of 32.7% and a dividend yield of 0%. The change in fair value was primarily attributable to a decline in the price of our common stock from December 31, 2014 to December 31, 2015.

There were no transfers in or out of Level 3 of the fair value hierarchy during the year ended December 31, 2016.

5. Term Loan

On November 10, 2015, we entered into a credit agreement (the Credit Agreement) to obtain a three-year senior secured term loan B (the Term Loan) for $150 million. As of December 31, 2016, the Term Loan accrued interest at the Eurodollar rate, as defined in the Credit Agreement, (1% floor) plus an annual margin rate of 7.5% (an all-in rate of 8.75% as of December 31, 2016), payable quarterly. Quarterly principal payments of $375 thousand are also required. The outstanding balance as of December 31, 2016 was $148.1 million.

Debt issuance costs totaling $4.4 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. Effective interest rate for the Term Loan includes interest, amortization of issuance cost and the discount. For the year ended December 31, 2016, the Company recorded $14.8 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 RTC ratio of 22.0:1.0, liquidity (as defined) of $25.5 million, 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 at December 31, 2016.

Future principal payments for the Company's Term Loan as of December 31, 2016 are as follows:

As of December 31, 2016	Principal
	(In thousands)
2017	1,500
2018	146,625
Total	$ 148,125

On February 10, 2017, the Company entered into an amendment to the Credit Agreement. See "Note 2. Summary of Accounting Principles" for further details of this subsequent event.

6. 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 S&P, A.M. Best or both. The GSEs and the 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

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- 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 year ended December 31, 2014, there were no reinsurance effects on net premiums written and earned.

	For the year ended December 31, 2016	December 31, 2015
	(In Thousands)	
Net premiums written		
Direct	$177,962	$ 114,210
Ceded	(43,270)	—
Net premiums written	$134,692	$ 114,210
Net premiums earned		
Direct	$115,830	$ 45,506
Ceded	(5,349)	—
Net premiums earned	$110,481	$ 45,506

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

	For the year ended December 31, 2016	December 31, 2015
	(In Thousands)	
Ceded risk-in-force	$2,008,385	$ —
Ceded premiums written	(43,270)	—
Ceded premiums earned	(5,349)	—
Ceding commission written	10,111	—
Ceding commission earned	2,303	—

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 is net of 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 $297 thousand as of December 31, 2016, reflected with other assets. 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.

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7. Reserves for Insurance Claims and Claim 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 in default. Our claim reserves also include amounts for reserves incurred but not reported (IBNR). As of December 31, 2016, we have established reserves for insurance claims of $3.0 million for 179 primary loans in default, compared to a reserve of $679 thousand for the year ended December 31, 2015. We paid nine claims totaling $367 thousand during the year ended December 31, 2016.

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 December 31, 2016, fifty-six loans in the pool were past due by sixty days or more. These fifty-six loans represent approximately $3.4 million in RIF. Due to the size of the remaining deductible of$10.1 million, the low level of Notices of Default (NODs) reported through December 31, 2016 and the expected severity (all loans in the pool have loan-to-value (LTV) ratios under 80%), we have not established any pool reserves for claims or IBNR for the years ended December 31, 2016 and December 31, 2015. In connection with the settlement of pool claims, we applied $256 thousand to the pool deductible through December 31, 2016. 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 claim expenses:

	For the year ended December 31,		
	2016	2015	2014
	(In Thousands)		
Beginning balance	$679	$83	$—
Less reinsurance recoverables [1]	—	—	—
Beginning balance, net of reinsurance recoverables	679	83	—
Add claims incurred:			
Claims and claim expenses incurred:			
Current year [2]	2,457	699	83
Prior years [3]	(65)	(49)	—
Total claims and claims expenses incurred	2,392	650	83
Less claims paid:			
Claims and claim expenses paid:			
Current year [2]	171	50	—
Prior years [3]	196	4	—
Total claims and claim expenses paid	367	54	—
Reserve at end of period, net of reinsurance recoverables	2,704	679	83
Add reinsurance recoverables [1]	297	—	—
Balance, December 31	$3,001	$679	$ 83

(1) Related to ceded losses recoverable on the 2016 QSR Transaction. See Note 6, "Reinsurance" for additional information.

(2) Related to defaults occurring in the current year.

(3) 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.

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There was a $65 thousand favorable prior year development for the year ended December 31, 2016, primarily attributable to cures of NOD's received in prior years. Reserves of $418 thousand related to prior year defaults remained as of December 31, 2016.

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.

	Reserves net of Reinsurance				As of December 31, 2016	
Accident Year	2013	2014	2015	2016	Total of IBNR+	NODs
	($ Values In Thousands)					
2013	$ —	$ 24	$ —	$ —	$ —	—
2014		56	34	—	—	—
2015			652	614	14	14
2016				2,210	170	165
			Total	$ 2,824	$ 184	179

Our IBNR reserves reflect the actuarial estimate for claims incurred but not reported as of December 31, 2016. The number of NODs outstanding as of December 31, 2016 is the total number of loans in default over 60 days for which we have established reserves.

	Cumulative Paid Claims, net of Reinsurance			
Accident Year	2013	2014	2015	2016
	(In Thousands)			
2013	$ —	$ —	$ —	$ —
2014		—	4	—
2015			50	196
2016				171
			Total	$ 367

Reconciliation of Disclosure of Incurred and Paid Claims Development to the Liability for Unpaid Claims and Claim Adjustment Expenses
(In Thousands)

	As of December 31, 2016
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	$ 2,641
Reinsurance recoverable on unpaid claims	297
Unallocated claims adjustment expenses	63
Total gross liability for unpaid claims and claim adjustment expenses	$ 3,001

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
Claims duration disclosure	4%	14%	—%	—%

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8. Earnings (Loss) per Share (EPS)

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 (loss) 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 year ended December 31,		
	2016	2015	2014
	(In Thousands, except for per share data)		
Net income (loss)	$65,841	$(27,793)	$(48,906)
Basic earnings (loss) per share	$1.11	$(0.47)	$(0.84)
Basic weighted average shares outstanding	59,070,948	58,683,194	58,281,425
Dilutive effect of un-vested shares	1,758,424	—	—
Dilutive weighted average shares outstanding	60,829,372	58,683,194	58,281,425
Diluted earnings (loss) per share	$1.08	$(0.47)	$(0.84)

For the year ended December 31, 2016, 4,763,826 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 because they were anti-dilutive. Un-vested shares of 1,758,424 were included in our weighted average number of common shares outstanding for the year ended December 31, 2016,

As a result of our net loss for the years ended December 31, 2015 and December 31, 2014, 6,266,905 and 5,839,909 of our common stock equivalents we issued under share-based compensation arrangements and warrants, respectively, were not included in the calculation of diluted earnings (loss) per share as of such date because they were anti-dilutive.

9. Warrants

We issued 992,000 warrants in connection with our Private Placement. Each warrant gave 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. During the first quarter of 2014, 7,790 warrants were exercised and we issued 1,115 Class A common shares via a cashless exercise. Upon exercise, we reclassified the fair value of the warrants from warrant liability to additional paid in capital and recognized a gain of approximately $37 thousand. No other warrants were exercised during 2015 or 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.

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10. Share-Based Compensation

The 2012 Stock Incentive Plan (Plan) was approved by the Board on April 16, 2012 and authorized 5.5 million shares to be reserved for issuance under the Plan, with 3.85 million shares available for stock options and 1.65 million shares available for RSUs. Options granted under the Plan are non-qualified stock options and may be granted to employees, directors and other key persons. The exercise price per share for the common stock covered by this Plan is determined by the Board at the time of grant, but shall not be less than the fair market value, defined as the closing price of our common stock, on the date of the grant. The term of the stock option grants is established by the Board, but no stock option shall be exercisable more than ten years after the date the stock option is granted. The vesting period of the stock option grants is also established by the Board at the time of grant and generally is for a three-year period. Upon the exercise of stock options, we issue shares from the authorized, unissued share reserve.

On May 8, 2014, NMIH held its annual shareholder meeting, at which our shareholders voted to approve the NMIH 2014 Omnibus Incentive Plan, which authorizes us to make 4 million shares of NMIH's class A common stock available to be granted. These shares may be either authorized but unissued shares or treasury shares.

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A summary of option activity in the plan during the years ended December 31, 2016, December 31, 2015, and December 31, 2014 is as follows:

For the year ended December 31, 2016	Shares	Weighted Average Grant Date Fair Value per Share	Weighted Average Exercise Price
	(Shares in Thousands)		
Options outstanding at December 31, 2015	3,851	$ 3.94	$ 10.21
Options granted	—	—	—
Options exercised	—	—	—
Options forfeited	(41)	3.33	8.92
Options expired	(784)	3.87	10.06
Options outstanding at December 31, 2016	3,026	$ 3.97	$ 10.27

For the year ended December 31, 2015	Shares	Weighted Average Grant Date Fair Value per Share	Weighted Average Exercise Price
	(Shares in Thousands)		
Options outstanding at December 31, 2014	3,630	$ 4.16	$ 10.66
Options granted	789	3.06	8.49
Options exercised	—	—	—
Options forfeited	(64)	4.90	12.20
Options expired	(504)	4.05	10.48
Options outstanding at December 31, 2015	3,851	$ 3.94	$ 10.21

For the Year Ended December 31, 2014	Shares	Weighted Average Grant Date Fair Value per Share	Weighted Average Exercise Price
	(Shares in Thousands)		
Options outstanding at December 31, 2013	3,062	$ 3.98	$ 10.31
Options granted	780	4.85	12.03
Options exercised	(109)	3.85	10.00
Options forfeited	(87)	4.47	11.35
Options expired	(16)	4.25	10.93
Options outstanding at December 31, 2014	3,630	$ 4.16	$ 10.66

As of December 31, 2016, there were approximately 2.4 million options fully vested and exercisable. There were no exercises during the year. The weighted average exercise price for the fully vested and exercisable options was $10.43. The remaining weighted average contractual life of options fully vested and exercisable as of December 31, 2016 was 6.03 years. The aggregate intrinsic value for fully vested and exercisable options was $1.5 million as of December 31, 2016.

The remaining weighted average contractual life of options outstanding as of December 31, 2016 was 6.38 years. As of December 31, 2016, there was $0.3 million of total unrecognized compensation cost related to un-vested stock options. The weighted-average period over which total compensation related to un-vested stock options will be recognized is 0.86 years.

We account for stock options under ASC 718, which requires all share-based payments to be recognized in the financial statements at their fair values. To measure the fair value of stock options granted, we utilize the Black-Scholes options pricing model. Expense is recognized over the required service period, which is generally the three-year vesting period of the options (vesting in one-third increments per year).

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There were no stock options granted during 2016. The estimated grant date fair values of the stock options granted during 2015 and 2014 were calculated using the Black-Scholes valuation model based on the following assumptions:

	2015	2014
Expected life	6 years	6 years
Risk free interest rate	1.65% - 1.78%	1.90% - 2.01%
Dividend yield	0.00 %	0.00 %
Expected stock price volatility	34.40 %	39.00 %
Projected forfeiture rate	7.50 %	5.00 %

Expected Life - is the period of time over which the options granted are expected to remain outstanding giving consideration to vesting schedules, historical exercise and forfeiture patterns. We use the simplified method outlined in SEC Staff Accounting Bulletin No. 107 to estimate expected lives for options granted during the period as historical exercise data is not available and the options meet the requirements set out in the Bulletin. Options granted have a maximum term of ten years.
Risk-Free Interest Rate - is the U.S. Treasury rate for the date of the grant having a term approximating the expected life of the option.
Dividend Yield - is calculated by dividing the expected annual dividend by our stock price at the valuation date.
Expected Price Volatility - is a measure of the amount by which a price has fluctuated or is expected to fluctuate. At the time of grants, our common shares' trading history was not sufficient to calculate an expected volatility representative of the volatility over the expected lives of the options. As a substitute for such estimate, we used historical volatilities of a set of comparable companies in the industry in which we operate.
Projected Forfeiture Rate - is the estimated percentage of options granted that are expected to be forfeited or canceled before becoming fully vested. An increase in the forfeiture rate will decrease compensation expense.
A summary of RSU activity in the plan during the years ended December 31, 2016, December 31, 2015, and December 31, 2014 is as follows:

For the year ended December 31, 2016	Shares	Weighted Average Grant Date Fair Value per Share
	(Shares in Thousands)	
Un-vested restricted stock units at December 31, 2015	1,443	$ 7.81
Restricted stock units granted	1,551	4.98
Restricted stock units vested	(381)	8.71
Restricted stock units forfeited	(75)	5.81
Un-vested restricted stock units at December 31, 2016	2,538	$ 6.01

For the year ended December 31, 2015	Shares	Weighted Average Grant Date Fair Value per Share

	(Shares in Thousands)	
Un-vested restricted stock units at December 31, 2014	1,209	$ 8.90
Restricted stock units granted	784	7.48
Restricted stock units vested	(465)	9.88
Restricted stock units forfeited	(85)	8.95
Un-vested restricted stock units at December 31, 2015	1,443	$ 7.81

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For the Year Ended December 31, 2014	Shares	Weighted Average Grant Date Fair Value per Share
	(Shares in Thousands)	
Un-vested restricted stock units at December 31, 2013	1,242	$ 7.75
Restricted stock units granted	373	11.52
Restricted stock units vested	(360)	9.53
Restricted stock units forfeited	(46)	10.14
Un-vested restricted stock units at December 31, 2014	1,209	$ 8.90

In February 2013, the Board approved a modification to the vesting terms of approximately 400,000 granted and non-vested RSUs held by our employees. The modification to the vesting terms removed the market condition leaving the RSUs subject to a service condition only. The modification resulted in a change in the period over which compensation costs are recognized and prospective recognition of incremental compensation cost. Incremental compensation cost is measured as the excess of the fair value of the modified award over the fair value of the original award immediately before its terms are modified using relevant valuation inputs as of the modification date.

At December 31, 2016, the 2.5 million shares of granted and un-vested RSUs consisted of 0.5 million shares that are subject to both a market and service condition and 2.0 million shares that are subject only to service conditions. The un-vested RSUs subject to both a market and service condition vest in one-half increments upon the achievement of certain market price goals and continued service. Un-vested RSUs subject only to a service condition vest over a service period ranging from one to three years. The fair value of RSUs subject to market and service conditions is determined based on a Monte Carlo simulation model at the date of grant. The fair value of RSUs subject only to service conditions are valued at our stock price on the date of grant less the present value of anticipated dividends.

The estimated grant date fair values of the RSUs granted in 2012 that are subject to both a market and service condition were calculated using a Monte Carlo simulation model based on the average outcome of 150,000 simulations using the following assumption:

	2012	
Expected life	5 years	
Risk free interest rate	0.86	%
Dividend yield	0.00	%
Expected stock price volatility	39.00	%
Projected forfeiture rate	1.00	%

There were no RSUs granted in 2016, 2015, or 2014 that were subject to a market condition, therefore the Monte Carlo simulation was not used.

The remaining weighted average contractual life of un-vested RSUs as of December 31, 2016 was 8.18 years. The weighted-average period over which total compensation related to un-vested RSUs will be recognized is 1.39 years. The RSUs granted in 2016 were valued at our stock price on the date of grant less the present value of anticipated dividends, which was $0. As of December 31, 2016, there was $4.2 million of total unrecognized compensation cost related to un-vested RSUs, compared to $3.1 million and $3.0 million as of December 31, 2015 and December 31, 2014, respectively.

401(k) Savings Plan

Beginning on January 1, 2014, we offered to our employees a 401(k) Savings Plan (401(k) Plan) that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the 401(k) Plan, we match up to 100% of eligible employees' pre-tax contributions up to 4% of eligible compensation. We contributed approximately $1.5 million for the year ended December 31, 2016, compared to $1.2 million for the year ended December 31, 2015. We contributed approximately $0.9 million for the year ended December 31, 2014.

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Phantom Shares
In May 2016, we granted 8,169 phantom stock units to one independent director with a grant date fair market value of $50 thousand. Each phantom unit entitles the participants to a cash award equal to the fair market value of the unit based on the price of our stock on the first anniversary of the grant date. We have accounted for these units in accordance with ASC 718-30, Stock Compensation Awards Classified as Liabilities. The fair value of the awards is remeasured at each reporting period until settled. At December 31, 2016, based on a closing share price of $10.65, we recognized $54 thousand as share-based compensation expense with a corresponding liability which is recorded in accounts payable and accrued expenses in our Consolidated Balance Sheets as of December 31, 2016.

11. Income Taxes

Total income tax expense (benefit) consists of the following components:

	For the year ended December 31,		
	2016	2015	2014
	(In Thousands)		
Current	$360	$ —	$(2,390)
Deferred	(54,749)	—	4
Total income tax benefit	$(54,389)	$ —	$(2,386)

For the year ended December 31, 2016, we had an income tax benefit of $54.4 million related primarily to the release of the valuation allowance recorded against federal and certain state deferred tax assets. The provision for income taxes also include current year alternative minimum tax and changes to deferred tax assets. The income tax benefit of $2.4 million for the year ended December 31, 2014 was related to the tax effects of unrealized gains credited to other comprehensive income (OCI). Generally, the amount of tax expense or benefit allocated to continuing operations is determined without regard to the tax effects of other categories of income or loss, such as OCI. However, an exception to the general rule is provided in ASC 740-20-45-7 when there is a pre-tax loss from continuing operations and there are items charged or credited to other categories, including OCI. The intraperiod tax allocation rules related to items charged or credited directly to OCI can result in disproportionate tax effects that remain in OCI until certain events occur. As a result of a reduction in unrealized losses credited directly to OCI, $2.4 million of income tax expense was netted with unrealized gains in OCI, and $2.4 million of income tax benefit was allocated to the income tax provision for continuing operations. As a result of net unrealized losses to OCI during the year ended December 31, 2015 and pre-tax income from continuing operations during the year ended December 31, 2016, the exception was not applicable.

The reconciliation between the federal statutory income tax rate to our effective income tax (benefit) rate is as follows:

	For the year ended December 31,		
	2016	2015	2014
Federal statutory income tax rate	35.00 %	35.00 %	35.00 %
Valuation allowance	(527.02)	(35.83)	(31.42)
Share-based and other compensation	9.68	—	—
Warrant gain/loss	3.95	1.61	1.40
Other	3.47	(0.78)	(0.32)
True-up from prior year	—	—	(0.01)
Effective income tax rate	(474.92)%	— %	4.65 %

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.

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The components of our net deferred income tax asset (liability) are summarized as follows:

	As of December 31,	
	2016	2015
Deferred tax asset	(In Thousands)	
Net operating loss carry forwards	$47,867	$52,819
Share-based compensation	11,231	9,760
Unearned premium reserve	9,514	7,504
Deferred ceding commissions	1,999	—
Capitalized start-up costs	833	913
Unrealized loss on investments	711	2,101
Alternative minimum tax credit	360	—
Other	5,893	5,438
Total gross deferred tax assets	78,408	78,535
Less: valuation allowance	(7,252)	(66,399)
Total deferred tax assets	71,156	12,136
Deferred tax liability		
Deferred acquisition costs	(12,456)	(7,246)
Capitalized software	(5,076)	(4,753)
Intangible assets	(137)	(137)
Other	(213)	(137)
Total deferred tax liabilities	(17,882)	(12,273)
Net deferred income tax asset (liability)	$53,274	$(137)

At December 31, 2016, we had a net deferred tax asset of $53.3 million compared to a net deferred tax liability of $0.1 million in all prior periods. The change to our net deferred tax asset (liability) was a result of a change in the valuation allowance during the current year and the balance is primarily related to our deferred tax asset for net operating loss carryforwards of $47.9 million. The net deferred tax liability in all prior years was a result of the acquisition of indefinite-lived intangibles from the acquisition of our insurance subsidiaries. The tax liability incurred at the acquisition was recorded as an increase in goodwill.

Excluded from deferred tax assets were a gross $2.2 million and $2.1 million of excess stock compensation as of December 31, 2016 and December 31, 2015, respectively, for which any benefit realized will be recorded to stockholders' equity.

As of December 31, 2016, we had a federal net operating loss carryforward of $121.1 million which expires from 2030 to 2036, and state net operating loss carryforwards of $63.6 million, which expire in varying amounts during the years 2031 to 2035. Section 382 of the Internal Revenue Code imposes annual limitations on a corporation's ability to utilize its net operating loss carryforwards if it experiences an "ownership change." As a result of the acquisition of our insurance subsidiaries, $7.3 million of NOLs are subject to annual limitations of $0.8 million through 2016, then $0.3 million through 2029.

Since inception and prior to December 31, 2016, we recorded a valuation allowance against deferred tax assets, and, as such, we generally did not record a benefit associated with the losses incurred in prior periods or other income tax benefits. The income tax benefit recognized in prior periods was related to the tax effects of unrealized gains credited to other comprehensive income (OCI). At December 31, 2016, management has concluded that positive evidence of sufficient quantity and quality outweighs negative evidence, and supports our conclusion that it is more-likely-than-not that the Company will realize its federal and certain state deferred tax assets. We have recorded the effects of the change in income from continuing operations, generating a financial statement benefit of $60.0 million and $0.3 million related to net federal and certain state deferred tax assets, respectively. A tax effected valuation allowance of $7.3 million, $66.4 million, and $53.7 million was recorded at December 31, 2016, 2015 and 2014, respectively, to reflect the amount of the deferred taxes that may not be realized. The valuation allowance at December 31, 2016 recorded against net state deferred tax assets primarily relates to state net operating losses generated by NMIH that we do not expect to be utilized. NMIH operates at a loss and currently only generates revenue from its investment portfolio.

As of December 31, 2016 , 2015, and 2014, we have no reserve for unrecognized tax benefits, and have taken no material uncertain positions that would require recognition and measurement. It is our policy to classify interest and penalties related to unrecognized tax benefits as income tax expense.

We file income tax returns with the U.S. federal government and various state jurisdictions which are subject to potential examination by tax authorities. We are not currently under examination by federal or state jurisdictions. Our U.S. federal income tax returns for 2013 and subsequent years and state income tax returns for 2012 and subsequent years remain open by statute.

12. Software and Equipment

Software and equipment consist largely of capitalized software developed to support our MI operations. Software and equipment, net of accumulated amortization and depreciation, as of December 31, 2016 and December 31, 2015, consists of the following:

	December 31, 2016	December 31, 2015
	(In Thousands)	
Software	$23,621	$17,267
Equipment	3,102	1,803
Leasehold improvements	3,453	1,028
Subtotal	30,176	20,098
Accumulated amortization and depreciation	(9,774)	(4,897)
Software and equipment, net	$20,402	$15,201

Amortization and depreciation expense for software, equipment, and leasehold improvements for the years ended December 31, 2016, 2015, and 2014 was $4.9 million, $3.2 million, and $5.8 million, respectively.

13. Intangible Assets and Goodwill

Intangible assets and goodwill consist of identifiable intangible assets and goodwill we purchased in connection with the acquisition of our insurance subsidiaries, and at December 31, 2016 and December 31, 2015, were as follows for both years:

	(In Thousands)	Expected Lives
Goodwill	$ 3,244	Indefinite
State licenses	260	Indefinite
GSE applications	130	Indefinite
Total intangible assets and goodwill	$ 3,634	

We test goodwill and intangibles for impairment in the third and fourth quarter, respectively, of every year, or more frequently if we believe indicators of impairment exist. No impairments of indefinite-lived intangibles or goodwill were identified as of December 31, 2016 and 2015.

14. Commitments and Contingencies

PMIERs

In the second quarter of 2015, the FHFA published final updated PMIERs that went into effect on December 31, 2015 (Effective Date) for existing, GSE-approved private mortgage insurers, i.e., Approved Insurers. (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. 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.

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By April 15th of each year, NMIC must certify it met all PMIERs requirements as of December 31st of the prior year. We expect to certify 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.

Office Lease

The company leases office space under a facilities lease in Emeryville, California. In December 2016, the Company amended its lease to extend the term of the lease through March 2023.

As of December 31, 2016, management expects that future minimum lease payments under this lease will be as follows:

Years ending December 31,	(In Thousands)
2017	$ 1,488
2018	1,711
2019	2,346
2020	2,417
2021	2,490
2022	2,564
2023	657
Totals	$ 13,673

We incurred rent expense related to this lease of $1.5 million and $1.5 million for the years ended December 31, 2016 and 2015, respectively. We incurred rent expense related to this lease of $1.6 million for the year ended December 31, 2014.

15. Common Stock Offerings

On November 8, 2013, we filed a final prospectus announcing the sale of 2.1 million shares of Class A common stock through an initial public offering. The underwriters of the offering were granted a 30-day option to purchase up to an additional 315,000 shares of common stock from us at an initial public offering price of $13.00, which they exercised on November 12, 2013. The offering closed on November 14, 2013. Gross proceeds to us were $31.4 million. Net proceeds from the offering were approximately $28 million.

16. Regulatory Information

Statutory Requirements

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 is the Wisconsin OCI. Prescribed SAP includes state laws, regulations and general administrative rules, as well as a variety of publications of the NAIC. 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 RTC ratios for each of the years in the three-year period ended December 31, 2016 were as follows:

	December 31,		
	2016	2015	2014
	(In Thousands)		
Statutory net loss	$(26,653)	$(52,322)	$(47,961)
Statutory surplus	413,809	391,422	236,738
Contingency reserve	90,479	32,564	9,401

Risk-to-capital	11.6:1	8.7:1	3.6:1

Under applicable Wisconsin law and 15 other states, a mortgage insurer must maintain a minimum amount of statutory capital relative to its RIF in order for the mortgage insurer to continue to write new business. While formulations of minimum capital may vary in each jurisdiction that has such a requirement, the most common measure applied allows for a maximum permitted RTC ratio of 25:1. Wisconsin and certain other states, including California and Illinois, apply a substantially similar requirement referred to as minimum policyholders' position. A working group of the National Association of Commissioners (NAIC) is currently developing a loan level capital model applicable to mortgage guaranty insurers that will ultimately be incorporated into a revised NAIC Mortgage Guaranty Insurance Model Act. Following adoption by the NAIC, some or all of the 16 states, and perhaps additional states, will enact a portion or all of the revised Model Act, including the loan-level capital model.

As of December 31, 2016, NMIC had 134,662 policies in force totaling approximately $5.8 billion in total RIF with a RTC ratio of 12.4:1, significantly below the state financial requirements. As of December 31, 2015, NMIC had 63,948 policies in force totaling approximately $3.3 billion of primary RIF, resulting in an RTC ratio of 8.4:1.

Reinsurance

Certain states limit the amount of risk a mortgage insurer may retain on a single loan to 25% of the indebtedness to the insured and, as a result, the portion of such insurance in excess of 25% must be reinsured. NMIC and Re One have entered into a primary excess share reinsurance agreement, effective August 1, 2012, and a facultative pool reinsurance agreement, effective September 1, 2013, under which NMIC cedes premiums, loss reserves and claims to Re One on an excess share basis for any primary or pool policy which offers coverage greater than 25% on any loan insured thereunder. NMIC will use reinsurance provided by Re One solely for purposes of compliance with these state statutory coverage limits.

Dividend Restrictions

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 (subject to certain limitations) recent net profits. As of December 31, 2016, NMIH's shareholders' equity was approximately $477 million. NMIH's total assets, excluding investment and intercompany receivables for NMIC, Re One, and NMIS, were approximately $135 million at December 31, 2016. The insurance subsidiaries are both mono-line mortgage insurance companies, and the assets of each are dedicated only to the support of direct risk and obligations of each mortgage insurance entity. NMIC only writes direct mortgage insurance business and assumes no business from any other entity. Re One only assumes business from NMIC to allow NMIC to comply with statutory risk requirements. Neither NMIC nor Re One have subsidiaries, and therefore do not have subsidiary risks and obligations that compete for its resources.

The ability of our insurance subsidiaries to pay dividends to NMIH is limited by insurance laws of the State of Wisconsin and certain other states. Wisconsin law provides that an insurance company may pay out "ordinary dividends" with 30 days' prior notice to the Wisconsin OCI in an amount, when added to other shareholder distributions made in the prior 12 months, not to exceed the lesser of (a) 10% of statutory policyholders' surplus as of the preceding calendar year end or (b) its adjusted statutory net income (excluding realized capital gains) for the twelve month period ending December 31 of the immediately preceding calendar year. In determining net income, an insurer may carry forward net income from the previous calendar years that has not already been paid out as a dividend. Dividends that exceed this amount are "extraordinary dividends," which require prior approval of the Wisconsin OCI.

As of December 31, 2016, the amount of restricted net assets held by our consolidated insurance subsidiaries totaled approximately $505 million. The amount of restricted assets used to determine any dividend to NMIH, once all restrictions expire, would be computed under SAP which may differ from the amount of restricted assets computed under GAAP. Since inception, NMIC has not paid any dividends to NMIH. As NMIC had a statutory net loss for the year ended December 31, 2015, NMIC cannot pay any dividends to NMIH through December 31, 2016, without the prior approval of the Wisconsin OCI.

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17. Quarterly Financial Data (Unaudited)

	2016 Quarters				2016
	First	Second	Third	Fourth	Year
	(In Thousands, except share data)				
Net premiums earned	$19,807	$26,041	$31,808	$32,825	$110,481
Net investment income	3,231	3,342	3,544	3,634	13,751
Net realized investment (losses) gains	(885)	61	66	65	(693)
Other revenues	32	37	102	105	276
Insurance claims and claims expenses	458	470	664	800	2,392
Underwriting and operating expenses	22,671	23,234	24,037	23,281	93,223
Gain (loss) from change in fair value of warrant liability	670	(59)	(797)	(1,714)	(1,900)
Interest expense	3,632	3,707	3,733	3,776	14,848
Pre-tax (loss) income	(3,907)	2,011	6,289	7,059	11,452
Income tax expense (benefit)	—	—	114	(54,503)	(54,389)
Net (loss) income	(3,907)	2,011	6,175	61,562	65,841
(Loss) income per share: (1)					
Basic (loss) earnings per share	$(0.07)	$0.03	$0.10	$1.04	$1.11
Diluted (loss) earnings per share	(0.07)	0.03	0.10	1.01	1.08
Weighted average common shares outstanding - basic	58,936,694	59,105,613	59,130,401	59,140,011	59,070,948
Weighted average common shares outstanding - diluted	58,936,694	59,830,899	60,284,746	61,229,338	60,829,372

	2015 Quarters				2015
	First	Second	Third	Fourth	Year
	(In Thousands, except share data)				
Net premiums earned	6,936	8,856	12,834	16,880	45,506
Net investment income	1,596	1,688	1,884	2,078	7,246
Net realized investment gains (losses)	613	354	(15)	(121)	831
Other revenues	—	—	—	25	25
Insurance claims and claims expenses	104	(6)	181	371	650
Underwriting and operating expenses	18,350	20,910	19,653	21,686	80,599
Gain (loss) from change in fair value of warrant liability	1,248	(106)	332	431	1,905
Interest expense	—	—	—	2,057	2,057
Pre-tax loss	(8,061)	(10,112)	(4,799)	(4,821)	(27,793)
Income tax (benefit) expense	(241)	241	—	—	—
Net loss	(7,820)	(10,353)	(4,799)	(4,821)	(27,793)
Loss per share (1)					
Basic and diluted loss per share	$(0.13)	$(0.18)	$(0.08)	$(0.08)	$(0.47)
Weighted average common shares outstanding	58,485,899	58,720,095	58,741,328	58,781,566	58,683,194

(1) Due to the use of weighted average shares outstanding when calculating earnings per share, the sum of quarterly per share data may not equal the per share data for the year.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
None.
Item 9A. 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 Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.
Our management, including our Chief Executive Officer and Chief 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 December 31, 2016, 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 Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2016, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us 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.
Internal Control Over Financial Reporting
The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
Under the supervision of our Chief Executive Officer and Chief Financial Officer, our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth in Internal Control-Integrated Framework (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2016.
Due to the Company's status as an EGC, this annual report does not include an attestation report of our registered public accounting firm.
There was no change in our internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.
Item 9B. Other Information
None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated by reference to, and will be contained in, our definitive proxy statement, which will be filed within 120 days after December 31, 2016. Accordingly, we have omitted the information from this Item pursuant to General Instruction G (3) of Form 10-K.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference to, and will be contained in, our definitive proxy statement, which will be filed within 120 days after December 31, 2016. Accordingly, we have omitted the information from this Item pursuant to General Instruction G (3) of Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated by reference to, and will be contained in, our definitive proxy statement, which will be filed within 120 days after December 31, 2016. Accordingly, we have omitted the information from this Item pursuant to General Instruction G (3) of Form 10-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference to, and will be contained in, our definitive proxy statement, which will be filed within 120 days after December 31, 2016. Accordingly, we have omitted the information from this Item pursuant to General Instruction G (3) of Form 10-K.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated by reference to, and will be contained in, our definitive proxy statement, which will be filed within 120 days after December 31, 2016. Accordingly, we have omitted the information from this Item pursuant to General Instruction G (3) of Form 10-K.

PART IV

Item 15. Exhibits and Financial Statement Schedules

1. Financial Statements — See the "Index to Financial Statements" included in Part II, Item 8 of this report for a list of the financial statements filed as part of this report.
2. Financial Statement Schedules — See the "Index to Financial Statement Schedules" on page 112 of this report for a list of the financial statement schedules filed as part of this report.
3. Exhibits — See "Exhibit Index" on page i of this report for a list of exhibits filed as part of this report.

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.

February 17, 2017

By: /s/ Bradley M. Shuster
Name: Bradley M. Shuster
Title: Chairman and Chief Executive Officer

Signature	Title	Date
/s/ Bradley M. Shuster Bradley M. Shuster	Chairman and Chief Executive Officer (Principal Executive Officer)	February 17, 2017
/s/ Glenn M. Farrell Glenn M. Farrell	Chief Financial Officer (Principal Financial and Accounting Officer)	February 17, 2017
/s/ Steven L. Scheid Steven L. Scheid	Director	February 17, 2017
/s/ James G. Jones James G. Jones	Director	February 17, 2017
/s/ Michael Montgomery Michael Montgomery	Director	February 17, 2017
/s/ Michael Embler Michael Embler	Director	February 17, 2017
/s/ James H. Ozanne James H. Ozanne	Director	February 17, 2017

INDEX TO FINANCIAL STATEMENT SCHEDULES

All other schedules are omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedules, or because the information required is included in our Consolidated Financial Statements and notes thereto.

NMI HOLDINGS, INC.
SCHEDULE I
SUMMARY OF INVESTMENTS - OTHER THAN INVESTMENTS IN RELATED PARTIES
PARENT COMPANY ONLY

December 31, 2016	Amortized Cost	Fair Value	Amount Reflected on Balance Sheet
	(In Thousands)		
Fixed maturities			
U.S. Treasury securities and obligations of U.S. government agencies	$64,135	$63,179	$63,179
Municipal debt securities	40,801	40,269	40,269
Corporate debt securities	349,712	349,078	349,078
Asset-backed securities	114,456	114,661	114,661
Total bonds	569,104	567,187	567,187
Short-term investments	61,584	61,782	61,782
Total investments other than investments in related parties	$630,688	$628,969	$628,969

NMI HOLDINGS, INC.
SCHEDULE II - FINANCIAL INFORMATION OF REGISTRANT
BALANCE SHEETS
PARENT COMPANY ONLY

	December 31, 2016	December 31, 2015
	(In Thousands, except for share data)	
Assets		
Fixed maturities, available-for-sale, at fair value	$58,209	$87,010
Cash and cash equivalents	15,858	13,183
Investment in subsidiaries, at equity in net assets	503,731	442,077
Accrued investment income	151	148
Prepaid expenses	1,991	1,428
Due from affiliates, net	9,211	8,383
Software and equipment, net	20,401	15,201
Deferred tax asset, net	38,374	—
Other assets	182	56
Total assets	$648,108	$567,486
Liabilities		
Term loan	$144,353	$143,939
Accounts payable and accrued expenses	23,039	19,349
Warrant liability, at fair value	3,367	1,467
Total liabilities	170,759	164,755
Shareholders' equity		
Common stock - class A shares, $0.01 par value; 59,145,161 and 58,807,825 shares issued and outstanding as of December 31, 2016 and December 31, 2015, respectively (250,000,000 shares authorized)	591	588
Additional paid-in capital	576,927	570,340
Accumulated other comprehensive loss, net of tax	(5,287)	(7,474)
Accumulated deficit	(94,882)	(160,723)
Total shareholders' equity	477,349	402,731
Total liabilities and shareholders' equity	$648,108	$567,486

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NMI HOLDINGS, INC.
SCHEDULE II - FINANCIAL INFORMATION OF REGISTRANT
STATEMENT OF OPERATIONS
PARENT COMPANY ONLY

	For the year ended December 31,		
	2016	2015	2014
	(In Thousands)		
Revenues			
Net investment income	$773	$2,535	$2,937
Net realized investment gains	53	379	67
Total revenues	826	2,914	3,004
Expenses			
Other operating expenses	17,600	17,157	18,817
Total expenses	17,600	17,157	18,817
Other income (loss)			
(Loss) gain from change in fair value of warrant liability	(1,900)	1,905	2,949
Gain from settlement of warrants	—	—	37
Interest expense	(14,848)	(2,057)	—
Total other (expenses) income	(16,748)	(152)	2,986
Equity in net income (loss) of subsidiaries	58,819	(14,430)	(38,710)
Income (loss) before income taxes	25,297	(28,825)	(51,537)
Income tax benefit	(40,544)	(1,032)	(2,631)
Net income (loss)	$65,841	$(27,793)	$(48,906)
Other comprehensive income (loss), net of tax:			
Net unrealized gains in accumulated other comprehensive loss, net of tax (benefit) expense of $82, $0, and $2,390 for each of the years in the three-year period ended December 31, 2016, respectively	100	141	1,092
Reclassification adjustment for losses (gains) included in net loss, net of tax expense of $0 for each of the years in the three-year period ended December 31, 2016	53	186	—
Equity in other comprehensive income (loss) of subsidiaries	2,034	(4,194)	2,348
Other comprehensive income (loss), net of tax	2,187	(3,867)	3,440
Comprehensive income (loss)	$68,028	$(31,660)	$(45,466)

NMI HOLDINGS, INC.
SCHEDULE II - FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF CASH FLOWS
PARENT COMPANY ONLY

	For the year ended December 31,		
	2016	2015	2014
Cash flows from operating activities	(In Thousands)		
Net income (loss)	$65,841	$(27,793)	$(48,906)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Share-based compensation expense	6,854	8,174	9,180
Loss (gain) from change in fair value of warrant liability	1,900	(1,905)	(2,949)
Net realized investment losses	(53)	(379)	(67)
Depreciation and amortization	5,779	3,885	5,618
Amortization of debt discount and debt issuance costs	1,914	251	—
Current tax payable	—	—	(2,390)
Changes in operating assets and liabilities:			
Equity in net (income) loss of subsidiaries	(58,819)	14,430	38,710
Accrued investment income	(2)	481	409
Receivable from affiliates	(828)	1,566	616
Prepaid expenses	(563)	626	(535)
Other assets	(126)	453	(445)
Deferred income taxes	(38,456)	—	—
Accounts payable and accrued expenses	2,711	8,025	233
Net cash (used in) provided by operating activities	(13,848)	7,814	(526)
Cash flows from investing activities			
Capitalization of subsidiaries	(800)	(153,500)	(95,000)
Purchase of short-term investments	(127,329)	(21,160)	—
Purchase of fixed-maturity investments, available-for-sale	(172)	(66,411)	(23,552)
Proceeds from maturity of short-term investments	115,049	—	—
Proceeds from redemptions, maturities and sale of fixed-maturity investments, available-for-sale	41,750	79,652	120,813
Purchase of software and equipment	(10,251)	(6,135)	(8,220)
Net cash provided by (used in) investing activities	18,247	(167,554)	(5,959)
Cash flows from financing activities			
Taxes paid related to net share settlement of equity awards	(756)	(1,105)	(1,083)
Proceeds from issuance of common stock	532	415	1,097
Gain from settlement of warrants	—	—	(37)
Proceeds from term loan, net of discount	—	148,500	—
Repayments of term loan	(1,500)	(375)	—
Payments of debt issuance costs	—	(4,437)	—
Net cash (used in) provided by financing activities	(1,724)	142,998	(23)
Net increase (decrease) in cash and cash equivalents	2,675	(16,742)	(6,508)
Cash and cash equivalents, beginning of period	13,183	29,925	36,433
Cash and cash equivalents, end of period	$15,858	$13,183	$29,925

NMI HOLDINGS, INC.
SCHEDULE II - FINANCIAL INFORMATION OF REGISTRANT
SUPPLEMENTAL NOTES
PARENT COMPANY ONLY

Note A

The NMI Holdings, Inc. (Parent Company) financial statements represent the stand-alone financial statements of the Parent Company. These financial statements have been prepared on the same basis and using the same accounting policies as described in the consolidated financial statements included herein. Refer to the Parent Company's consolidated financial statements for additional information.

Revisions to Prior Periods

Certain other prior balances have been reclassified to conform to the current period presentation.

Note B

Our insurance subsidiaries are subject to statutory regulations as to maintenance of policyholders' surplus and payment of dividends. The maximum amount of dividends that the insurance subsidiaries may pay in any twelve-month period without regulatory approval by the Wisconsin OCI is the lesser of adjusted statutory net income or 10% of statutory policyholders' surplus as of the preceding calendar year end. Adjusted statutory net income is defined for this purpose to be the greater of statutory net income, net of realized investment gains, for the calendar year preceding the date of the dividend or statutory net income, net of realized investment gains, for the three calendar years preceding the date of the dividend less dividends paid within the first two of the preceding three calendar years.

Note C

The Parent Company provides certain services to its subsidiaries. The Parent Company allocates to its subsidiaries corporate expense it incurs in the capacity of supporting those subsidiaries, based on either an allocated percentage of time spent or internally allocated capital. Total operating expenses allocated to subsidiaries for each of the years in the three year period ended December 31, 2016 were $80.5 million, $76.0 million and $55.7 million, respectively. Amounts charged to the subsidiaries for operating expenses are based on actual cost, without any mark-up. The Parent Company considers these charges fair and reasonable. The subsidiaries reimburse the Parent Company for these costs in a timely manner, which has the impact of improving the cash flows of the Parent Company.

NMI HOLDINGS, INC.
SCHEDULE IV - FINANCIAL INFORMATION OF REGISTRANT
REINSURANCE
PARENT COMPANY ONLY

In September 2016, in order to continue to grow our business and manage insurance risk and our minimum required assets under PMIERs financial requirements, NMIC entered into a quota-share reinsurance transaction with a panel of third-party reinsurers.
The Parent Company has no reinsurance agreements. The insurance subsidiaries are both mono-line mortgage insurance companies and the assets of each are dedicated only to the support of our mortgage insurance operations. NMIC only writes direct mortgage insurance business and assumes no business from any other entity. Re One only assumes business from NMIC to allow NMIC to comply with statutory risk requirements. Neither NMIC nor Re One count any subsidiary of any kind in their admitted statutory assets.

	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
For the years ended December 31,	(In thousands)				
2016	$115,830	$ 5,349	$ —	$110,481	—%
2015	—	—	—	—	—%
2014	—	—	—	—	—%

EXHIBIT INDEX

Exhibit Number	Description
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
10.9 ~	Form of NMI Holdings, Inc. 2012 Stock Incentive Plan Nonqualified Stock Option Award Agreement for Employees
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)

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Exhibit Number	Description
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
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)
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)
23.1	Consent of BDO USA, LLP
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

Exhibit Number	Description
101 *	The following financial information from NMI Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016 formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2016 and 2015 (ii) Consolidated Statements of Comprehensive Income (Loss) for each of the three years in the period ended December 31, 2016, (iii) Consolidated Statements of Changes in Shareholders' Equity for each of the three years in the period ended December 31, 2016 (iv) Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 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.