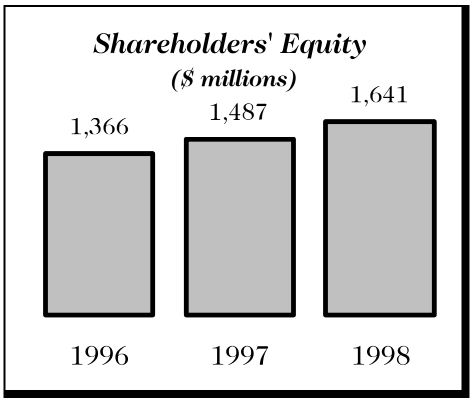
MGIC

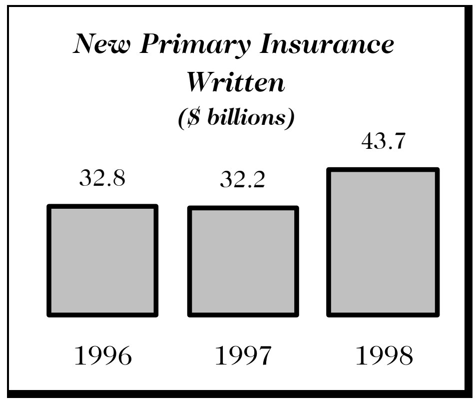
Annual Report

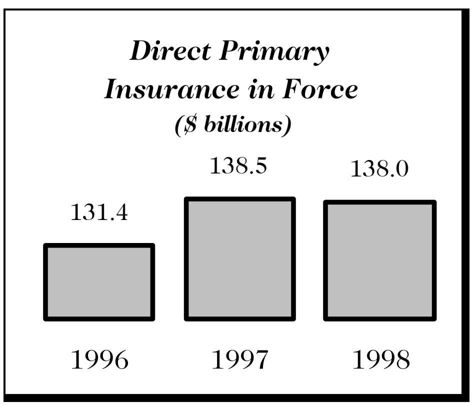
MGIC Investment Corporation 1998

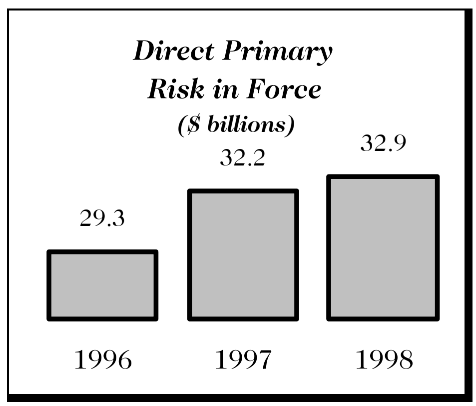
Financial Highlights

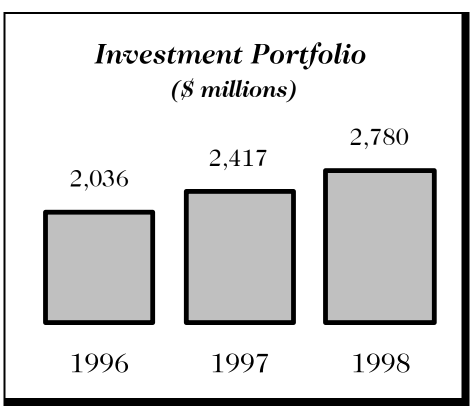
	1996	1997	1998
Net income ($ millions)	258.0	323.8	**385.5**
Diluted earnings per share ($)	2.17	2.75	**3.39**
Return on equity (%)	20.7	22.5	**24.2**

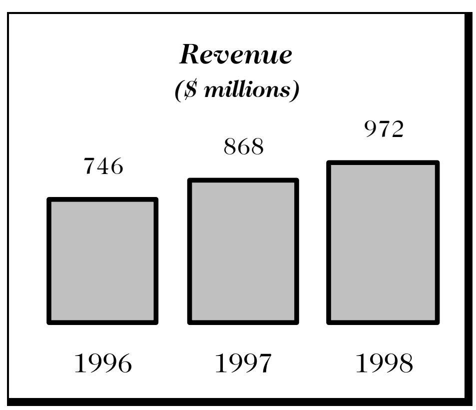












Fellow Shareholders

We could tell you 1998 was another year of record financial performance for MGIC Investment Corporation, show you some charts and graphs, and leave it at that. But that is only half the story.

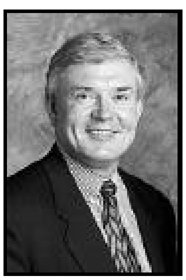
In 1998, MGIC Investment earned a record $385 million, a 19 percent increase over 1997. Diluted earnings per share rose 23 percent to a record $3.39, including $0.10 for realized gains. Our principal subsidiary, Mortgage Guaranty Insurance Corporation (MGIC), wrote a record $44 billion in new primary insurance and once again led the private mortgage insurance industry in productivity and loss performance.

The other half of the story is that MGIC achieved these record results in the face of the most challenging mortgage insurance environment in more than a decade. Challenges came from Capitol Hill and from Fannie Mae and Freddie Mac; they came in the form of increased competition within our industry; and they came as a result of record low home mortgage interest rates. The same low interest rates which increased housing affordability and helped us write $44 billion in new insurance triggered a year-long refinancing boom that was largely responsible for the cancellation of a record $44 billion in existing policies.

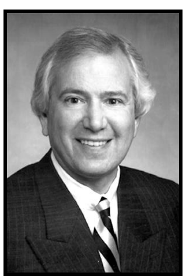
The challenges we confronted in 1998 will be with us again in 1999. Nevertheless, we remain confident about the Company's future. Our principal product helps consumers achieve the dream of home ownership sooner and in a way that we believe is more flexible and efficient than any alternative. We expect demand for private mortgage insurance in 1999 will again be favorably impacted as minority, lower-income, immigrant, and younger households continue to turn to low down payment financing as a path to home ownership. This demand should support another strong year of new insurance writings for MGIC.

MGIC is committed to capturing an increased share of the private mortgage insurance market in 1999. Our recent introduction of more affordable premium plans for borrowers, our leadership in providing contract underwriting services, our offering of leading-edge business technology solutions, and the capital markets support we provide our customers — home mortgage lenders — along with captive mortgage reinsurance and other products will help MGIC maximize its competitiveness in 1999 and reinforce our strategic partnerships with home mortgage lenders.

Further, our $138 billion of insurance in force at year-end 1998 should contribute cash flow in 1999 that will enable us to further build the Company's $2.8 billion investment portfolio. Even though our book did not grow in 1998, its value was enhanced due to the high quality refinance business that we wrote in 1998.



William H. Lacy
Chairman and Chief Executive Officer MGIC Investment Corporation



Curt S. Culver
President and Chief Executive Officer Mortgage Guaranty Insurance Corporation

On the expense side of the ledger, we look to MGIC to increase its productivity in 1999. New technologies being implemented in early 1999 should further streamline operations and allow us to tap into the lower data communications costs achievable through the Internet. As for losses, with the continuation of a healthy economy and strong real estate markets, and the excellent credit quality on the loans we have insured in recent years, they should remain low in 1999.

We are continuing to focus on expanding the market for the type of default loss protection that is important to lenders and investors. 1998 saw MGIC introduce mortgage insurance for borrowers who are "A-minus" credit risks. 1998 was also the Company's first full year of insuring second mortgages. In addition, the Company continues to diversify and provide capital to other businesses whose success depends on sophisticated analysis of delinquent single-family mortgages and consumer credit risk. Our C-BASS/Litton joint venture with Enhance Financial Services Group Inc. contributed $0.07 per share in 1998. C-BASS is in the business of purchasing, servicing, and selling nonperforming mortgages and other residential mortgage assets. We worked so well with Enhance in this joint venture that MGIC and Enhance formed a second joint venture, Sherman Financial Group. Sherman will focus on the growing market for purchasing, servicing, and securitizing charged-off credit card receivables.

These are some of the reasons why we are confident about the Company's future despite the challenges that face us. But the core of our confidence is our people. It is their intelligence, energy and commitment to innovation and excellence that will enable MGIC to remain the nation's premier mortgage insurer in 1999 and the years to come.

Sincerely,

Bill Lacy   Curt S Culver

Five-Year Summary of Financial Information

	1998	1997	1996	1995	1994
	(In thousands of dollars, except per share data)				
Summary of Operations					
Revenues:					
Net premiums written	**$ 749,161**	$ 690,248	$ 588,927	$ 480,312	$ 410,296
Net premiums earned	**763,284**	708,744	617,043	506,500	403,990
Investment income, net	**143,019**	123,602	105,355	87,543	75,233
Realized investment gains, net	**18,288**	3,261	1,220	1,496	336
Other revenue	**47,075**	32,665	22,013	22,347	22,667
Total revenues	**971,666**	868,272	745,631	617,886	502,226
Losses and expenses:					
Losses incurred, net	**211,354**	242,362	234,350	189,982	153,081
Underwriting and other expenses	**190,031**	157,194	146,483	137,559	136,027
Interest expense	**18,624**	6,399	3,793	3,821	3,856
Ceding commission	**(2,928)**	(3,056)	(4,023)	(4,885)	(7,821)
Total losses and expenses	**417,081**	402,899	380,603	326,477	285,143
Income before tax	**554,585**	465,373	365,028	291,409	217,083
Provision for income tax	**169,120**	141,623	107,037	83,844	57,565
Net income	**$ 385,465**	$ 323,750	$ 257,991	$ 207,565	$ 159,518
Weighted average common shares outstanding (in thousands) (1)	**113,582**	117,924	119,046	118,567	117,955
Diluted earnings per share (1)	**$ 3.39**	$ 2.75	$ 2.17	$ 1.75	$ 1.35
Dividends per share (1)	**$ .10**	$ .095	$ .08	$ .08	$ .08
Balance sheet data					
Total investments	**$ 2,779,706**	$ 2,416,740	$ 2,036,234	$ 1,687,221	$ 1,292,960
Total assets	**3,050,541**	2,617,687	2,222,315	1,874,719	1,476,266
Loss reserves	**681,274**	598,683	514,042	371,032	274,469
Long-term notes payable	**442,000**	237,500	–	35,799	36,147
Shareholders' equity	**1,640,591**	1,486,782	1,366,115	1,121,392	838,074
Book value per share	**15.05**	13.07	11.59	9.56	7.18

(1) In May 1997, the Company declared a two-for-one stock split of the common stock in the form of a 100% stock dividend. The additional shares were issued on June 2, 1997. Prior year shares, dividends per share and earnings per share have been restated to reflect the split.

A brief description of the Company's business is contained in Note 1 to the Consolidated Financial Statements of the Company, page eighteen.

Five-Year Summary of Financial Information

	1998*	1997	1996	1995	1994
New primary insurance written ($ millions)	**$ 43,697**	$ 32,250	$ 32,756	$ 30,277	$ 34,419
New primary risk written ($ millions)	**10,850**	8,305	8,305	7,599	7,042
New pool risk written ($ millions)	**618**	394	2	1	27
Insurance in force (at year-end) ($ millions)					
Direct primary insurance	**137,990**	138,497	131,397	120,341	104,416
Direct primary risk	**32,891**	32,175	29,308	25,502	20,756
Direct pool risk	**1,133**	590	232	254	295
Primary loans in default ratios					
Policies in force	**1,320,994**	1,342,976	1,299,038	1,219,304	1,080,882
Loans in default	**29,253**	28,493	25,034	19,980	15,439
Percentage of loans in default	**2.21%**	2.12%	1.93%	1.64%	1.43%
Insurance operating ratios (GAAP)					
Loss ratio	**27.7%**	34.2%	38.0%	37.5%	37.9%
Expense ratio	**19.6%**	18.4%	21.6%	24.6%	28.1%
Combined ratio	**47.3%**	52.6%	59.6%	62.1%	66.0%
Risk-to-capital ratios (statutory)					
Combined insurance subsidiaries	**13.6:1**	16.4:1	18.8:1	19.9:1	20.6:1
MGIC	**12.9:1**	15.7:1	18.1:1	19.1:1	19.6:1

** The above information for 1998 and the 1998 information under "Financial Highlights" excludes the activity of Wisconsin Mortgage Assurance Corporation ("WMAC") acquired on December 31, 1998. For further description of WMAC, see Note 1 to the Consolidated Financial Statements of the Company, page eighteen.*

Results of Consolidated Operations

1998 Compared with 1997

Net income for 1998 was $385.5 million, compared with $323.8 million in 1997, an increase of 19%. Diluted earnings per share for 1998 was $3.39, compared with $2.75 in 1997, an increase of 23%. The percentage increase in diluted earnings per share was favorably affected by the lower adjusted shares outstanding in 1998 as a result of common stock repurchased by the Company in the second half of 1997 and during 1998.

The amount of new primary insurance written by Mortgage Guaranty Insurance Corporation ("MGIC") during 1998 was $43.7 billion, compared with $32.2 billion in 1997. Reflecting the favorable mortgage interest rate environment that prevailed throughout 1998, refinancing activity accounted for 31% of new primary insurance written in 1998, compared to 15% in 1997.

The $43.7 billion of new primary insurance written during 1998 was offset by the cancellation of $44.2 billion of insurance in force, and resulted in a net decrease of $0.5 billion in primary insurance in force, compared to new primary insurance written of $32.2 billion, cancellation of $25.1 billion, and a net increase of $7.1 billion in insurance in force during 1997. Direct primary insurance in force was $138.0 billion at December 31, 1998, compared to $138.5 billion at December 31, 1997. In addition to providing direct primary insurance coverage, the Company also insures pools of mortgage loans. New pool risk written during 1998 and 1997, which was virtually all agency pool insurance, was $618.1 million and $394.4 million, respectively. The Company's direct pool risk in force at December 31, 1998 was $1.1 billion compared to $590.3 million at December 31, 1997 and is expected to increase in 1999 as a result of outstanding commitments to write additional agency pool insurance.

Cancellation activity has historically been affected by the level of mortgage interest rates and increased during 1998 due to favorable mortgage interest rates which resulted in a decrease in the MGIC persistency rate (percentage of insurance remaining in force from one year prior) to 68.1% at December 31, 1998, from 80.9% at December 31, 1997. Future cancellation activity could also be affected as a result of legislation that will go into effect in July 1999 regarding cancellation of mortgage insurance.

Net premiums written increased 9% to $749.2 million in 1998, from $690.2 million in 1997. Net premiums earned increased 8% to $763.3 million in 1998, from $708.7 million in 1997. The increases were primarily a result of a higher percentage of renewal premiums on mortgage loans with deeper coverages.

Effective March 1, 1999, Fannie Mae changed its mortgage insurance requirements for certain fixed-rate mortgages approved by Fannie Mae's automated underwriting service. The changes permit lower coverage percentages on these loans than the deeper coverage percentages that went into effect in 1995. In March 1999, Freddie Mac announced that it was implementing similar changes. MGIC's premium rates vary with the depth of coverage. While lower coverage percentages result in lower premium revenue, lower coverage percentages should also result in lower incurred losses at the same level of claim incidence. MGIC's premium revenues could also be affected to the extent Fannie Mae and Freddie Mac are compensated for assuming default risk that would otherwise be insured by the private mortgage insurance industry. These Government Sponsored Enterprises (GSEs) introduced programs in 1998 and 1999 under which a delivery fee could be paid to them, with mortgage insurance coverage reduced below the coverage that would be required in the absence of the delivery fee.

Approximately 16% of MGIC's new insurance written in 1998 was subject to captive mortgage reinsurance and similar arrangements. The percentage of new insurance written subject to captive mortgage reinsurance arrangements is expected to increase in 1999 as new transactions are consummated. In a February 1999 circular letter, the New York Department of Insurance said it was in the process of developing guidelines that would articulate the parameters under which captive mortgage reinsurance is permissible under New York insurance law.

Investment income for 1998 was $143.0 million, an increase of 16% over the $123.6 million in 1997. This increase was primarily the result of an increase in the amortized cost of average investment assets to $2.5 billion for 1998, from $2.1 billion for 1997, an increase of 16%. The increase was partially offset by a decrease in the portfolio's average pre-tax investment yield to 5.6% in 1998 from 5.8% in 1997. The portfolio's average after-tax investment yield was 4.9% for 1998 compared to 5.0% for 1997. The Company realized gains of $18.3 million during 1998 compared to $3.3 million in 1997. The increase is primarily the result of the sale of equity securities in 1998.

Other revenue was $47.1 million in 1998, compared with $32.7 million in 1997. The increase is primarily the result of an increase in contract underwriting revenue of $11.8 million and an increase of $5.3 million in equity earnings from Credit-Based Asset Servicing and Securitization LLC and Litton Loan Servicing LP (collectively, "C-BASS"), a joint venture with Enhance Financial Services Group Inc., offset by a $2.7 million reduction in fee-based services under government contracts. In accordance with generally accepted accounting principles, C-BASS is required to mark to market its mortgage-related assets which, including open trades, were $550 million at December 31, 1998 and are expected to increase in the future. Market valuation adjustments could impact the Company's share of C-BASS's results of operations.

Net losses incurred decreased 13% to $211.4 million in 1998, from $242.4 million in 1997. Such decrease was primarily attributable to an increase in the redundancy in prior year loss reserves, generally favorable economic conditions throughout the country and only a moderate increase in the primary notice inventory from 28,493 at December 31, 1997 to 29,253 at December 31, 1998. The redundancy results from actual claim rates and actual claim amounts being lower than those estimated by the Company when originally establishing the reserve at December 31, 1997. The pool notice inventory increased from 2,098 at December 31, 1997 to 6,524 at December 31, 1998, attributable to defaults on new agency pool insurance written during 1997 and 1998. At December 31, 1998, 60% of the primary insurance in force was written during the last three years, compared to 57% at December 31, 1997. The highest claim frequency years have typically been the third through fifth years after the year of loan origination. However, the pattern of claims frequency for refinance loans may be different from the historical pattern of other loans.

Underwriting and other expenses increased 21% in 1998 to $190.0 million from $157.2 million in 1997.

This increase was primarily due to increases associated with contract and field office underwriting expenses and an increase in premium tax due to higher premiums written.

Interest expense in 1998 increased to $18.6 million from $6.4 million in 1997 due to higher outstanding notes payable, the proceeds of which were used to repurchase common stock.

The Company entered into financial derivative transactions in 1998, consisting of interest rate swaps and put-swaptions to reduce and manage interest rate risk on its notes payable. In 1998, earnings on an interest rate swap and premium income on three put-swaptions aggregating approximately $0.5 million for all such transactions were netted against interest expense.

The consolidated insurance operations loss ratio was 27.7% for 1998 compared to 34.2% for 1997. The consolidated insurance operations expense and combined ratios were 19.6% and 47.3%, respectively, for 1998 compared to 18.4% and 52.6%, respectively, for 1997.

The effective tax rate was 30.5% in 1998, compared with 30.4% in 1997. During both years, the effective tax rate was below the statutory rate of 35%, reflecting the benefits of tax-preferenced investment income. The higher effective tax rate in 1998 resulted from a lower percentage of total income before tax being generated from tax-preferenced investments in 1998.

1997 Compared with 1996

Net income for 1997 was $323.8 million, compared with $258.0 million in 1996, an increase of 25%. After giving effect to the Company's two-for-one stock split, effective June 2, 1997, diluted earnings per share for 1997 was $2.75, compared with $2.17 in 1996, an increase of 27%.

The amount of new primary insurance written by MGIC during 1997 was $32.2 billion compared with $32.8 billion in 1996. Refinancing activity accounted for 15% of new primary insurance written in 1997 compared to 17% in 1996.

The $32.2 billion of new primary insurance written during 1997 was offset by the cancellation of $25.1 billion of insurance in force and resulted in a net increase of $7.1 billion in primary insurance in force, compared to new primary insurance written of $32.8 billion, cancellation of $21.7 billion, and a net increase of $11.1 billion in insurance in force during 1996. Direct primary insurance in force was $138.5 billion at December 31, 1997, compared to $131.4 billion at December 31, 1996. In addition to providing direct primary insurance coverage, the Company also insures pools of mortgage loans. New pool risk written during 1997, which was virtually all agency pool insurance, and 1996 was $394.4 million and $1.5 million, respectively. The Company's direct pool risk in force at December 31, 1997 was $590.3 million compared to $232.3 million at December 31, 1996.

Cancellation activity increased during 1997 due to favorable mortgage interest rates which resulted in a decrease in the MGIC persistency rate to 80.9% at December 31, 1997, from 82.0% at December 31, 1996.

Net premiums written increased 17% to $690.2 million in 1997, from $588.9 million in 1996. Net premiums earned increased 15% to $708.7 million in 1997, from $617.0 million in 1996. The increases were primarily a result of a higher percentage of renewal premiums on mortgage loans with deeper coverages and the growth in insurance in force.

Investment income for 1997 was $123.6 million, an increase of 17% over the $105.4 million in 1996. This increase was primarily the result of an increase in the amortized cost of average investment assets to $2.1 billion for 1997, from $1.8 billion for 1996, an increase of 19%. The increase was partially offset by a decrease in the portfolio's average pre-tax investment yield to 5.8% in 1997 from 5.9% in 1996. The portfolio's average after-tax investment yield was 5.0% for 1997 compared to 5.1% for 1996.

Other revenue was $32.7 million in 1997, compared with $22.0 million in 1996. The increase is primarily the result of $7.1 million of equity earnings from C-BASS and an increase in contract underwriting revenue.

Ceding commission for 1997 was $3.1 million, compared to $4.0 million in 1996, a decrease of 23%. The decrease was primarily attributable to reductions in premiums ceded under quota share reinsurance agreements.

Net losses incurred increased 3% to $242.4 million in 1997, from $234.4 million in 1996. Such increase was primarily due to an increase in the primary insurance notice inventory from 25,034 at December 31, 1996 to 28,493 at December 31, 1997, resulting from higher delinquency levels on insurance written in 1994 through 1996, the continued higher level of loss activity in certain high-cost geographic regions, a higher level of defaults which resulted from a higher percentage of the Company's insurance in force reaching its peak claim paying years and an increase in the number of defaults with deeper coverages. Offsetting this increase were favorable developments in prior-year loss reserves resulting from actual claim rates and actual claim amounts being lower than those estimated by the Company when originally establishing the reserve at December 31, 1996. At December 31, 1997, 57% of the primary insurance in force was written during the last three years, compared to 61% at December 31, 1996. The highest claim frequency years have typically been the third through fifth years after the year of loan origination. However, the pattern of claims frequency for refinance loans may be different from the historical pattern of other loans. A substantial portion of the insurance written in 1992 and 1993 represented insurance on the refinance of mortgage loans originated in earlier years.

Underwriting and other expenses increased 7% in 1997 to $157.2 million from $146.5 million in 1996. This increase in expenses was primarily due to an increase in expenses associated with the fee-based services for underwriting and an increase in premium tax due to higher premiums written.

The consolidated insurance operations loss ratio was 34.2% for 1997 compared to 38.0% for 1996. The consolidated insurance operations expense and combined ratios were 18.4% and 52.6%, respectively, for 1997 compared to 21.6% and 59.6%, respectively, for 1996.

The effective tax rate was 30.4% in 1997, compared with 29.3% in 1996. During both years, the effective tax rate was below the statutory rate of 35%, reflecting the benefits of tax-preferenced investment income. The higher effective tax rate in 1997 resulted from a lower percentage of total income before tax being generated from tax-preferenced investments in 1997.

Financial Condition

Consolidated total investments were $2.8 billion at December 31, 1998, compared with $2.4 billion at December 31, 1997, an increase of 15%. The increase includes an increase of $16.3 million in unrealized gains on securities marked to market. The Company generated consolidated cash flows from operating activities of $420.9 million during 1998, compared to $371.9 million generated during 1997. The increase in operating cash flows during 1998 is due primarily to an increase in renewal premiums and investment income offset by an increase in underwriting expenses. As of December 31, 1998, the Company had $172.2 million of short-term investments with maturities of 90 days or less, and 76% of the portfolio was invested in tax-preferenced securities. In addition, at December 31, 1998, based on book value, the Company's fixed income securities were approximately 99% invested in "A" rated and above, readily marketable securities, concentrated in maturities of less than 15 years. At December 31, 1998 the Company had $4.6 million of investments in equity securities compared to $116.1 million at December 31, 1997.

At December 31, 1998, the Company had no derivative financial instruments in its investment portfolio. The Company places its investments in instruments that meet high credit quality standards, as specified in the Company's investment policy guidelines; the policy also limits the amount of credit exposure to any one issue, issuer and type of instrument. At December 31, 1998, the average duration of the Company's investment portfolio was 5.8 years. The effect of a 1% increase/decrease in market interest rates would result in a 5.8% decrease/increase in the value of the Company's fixed income portfolio.

The Company's investments in joint ventures increased $45.9 million from $29.4 million at December 31, 1997 to $75.3 million at December 31, 1998 as a result of additional investments of $33.5 million and equity earnings of $12.4 million.

Consolidated loss reserves increased 14% to $681.3 million at December 31, 1998 from $598.7 million at December 31, 1997, reflecting an increase in the number of both primary and pool loans in default. The Company's loss reserves at December 31, 1998 reflect credit quality concerns on defaults from insurance written in 1994 through 1996, an increase in the number of defaults with deeper coverages and the growth in pool insurance. Consistent with industry practices, the Company does not establish loss reserves for future claims on insured loans which are not currently in default. Reinsurance recoverable on loss reserves increased to $45.5 million at December 31, 1998 from $26.4 million at December 31, 1997 as a result of third-party reinsurance on the insurance in force written by Wisconsin Mortgage Assurance Corporation, which was acquired by the Company on December 31, 1998.

Consolidated unearned premiums decreased $14.6 million from $198.3 million at December 31, 1997, to $183.7 million at December 31, 1998, reflecting the high level of monthly premium policies written in 1998, for which there is no unearned premium.

Consolidated shareholders' equity increased to $1.6 billion at December 31, 1998, from $1.5 billion at December 31, 1997, an increase of 10%. This increase consisted of $385.5 million of net income during 1998, $15.8 million from the reissuance of treasury stock, and an increase in net unrealized gains on investments, net of tax, of $10.6 million, offset by the repurchase of $246.8 million of outstanding common shares and dividends declared of $11.2 million.

Liquidity and Capital Resources

The Company's consolidated sources of funds consist primarily of premiums written and investment income. Funds are applied primarily to the payment of claims and expenses. Approximately 74% of underwriting expenses are personnel-related costs, most of which are considered by the Company to be fixed costs over the short term. Approximately 6% of operating expenses relate to occupancy costs, which are fixed costs. Substantially all of the remaining operating expenses are considered by the Company to be variable in nature, with data processing costs and taxes, licenses and fees representing approximately 3% and 9%, respectively, of total operating expenses. The Company generated positive cash flows of approximately $420.9 million, $371.9 million and $386.1 million in 1998, 1997 and 1996, respectively, as shown on the Consolidated Statement of Cash Flows. Positive cash flows are invested pending future payments of claims and other expenses. Cash-flow shortfalls, if any, could be funded through sales of short-term investments and other investment portfolio securities.

During 1997 and 1998, the Company repurchased approximately 4.7 million and 5.3 million shares, respectively, of its outstanding common stock at a cost of approximately $248 and $247 million, respectively. Funds to repurchase the shares were primarily provided by borrowings under credit facilities evidenced by notes payable.

The 1997 and 1998 credit facilities provide up to $225 million and $250 million, respectively, of availability at December 31, 1998. The 1997 credit facility will decrease by $25 million each year through June 20, 2001. Any outstanding borrowings under this facility mature on June 20, 2002. The 1998 credit facility decreases by $25 million each year beginning June 9, 1999 through June 9, 2002. Any outstanding borrowings under this facility mature on June 9, 2003. The Company has the option, on notice to lenders, to prepay any borrowings under the facilities subject to certain provisions.

In January 1997, the Company repaid mortgages payable of $35.4 million, which were secured by the home office and substantially all of the furniture and fixtures of the Company.

The Company has a 48% investment in C-BASS and is guaranteeing one-half of a $50 million credit facility as part of C-BASS's funding arrangements. The facility matures in July 1999.

MGIC is the principal insurance subsidiary of the Company. MGIC's risk-to-capital ratio was 12.9:1 at December 31, 1998 compared to 15.7:1 at December 31, 1997. The decrease was due to MGIC's increased policyholders' reserves, partially offset by the net additional risk in force of $349.2 million, net of reinsurance, during 1998.

The Company's combined insurance risk-to-capital ratio was 13.6:1 at December 31, 1998, compared to 16.4:1 at December 31, 1997. The decrease was due to the same reasons as described above.

The risk-to-capital ratios set forth above have been computed on a statutory basis. However, the methodology used by the rating agencies to assign claims-paying ability ratings permits less leverage than under statutory requirements. As a result, the amount of capital required under statutory regulations may be lower than the capital required for rating agency purposes. In addition to capital adequacy, the rating agencies consider other factors in determining a mortgage insurer's claims-paying rating, including its competitive position, business outlook, management, corporate strategy, and historical and projected operating performance.

For certain material risks of the Company's business, see "Risk Factors" below.

Risk Factors

The Company and its business may be materially affected by the factors discussed below. These factors may also cause actual results to differ materially from the results contemplated by forward looking statements that the Company may make.

Reductions in the volume of low down payment home mortgage originations may adversely affect the amount of private mortgage insurance (PMI) written by the PMI industry. The factors that affect the volume of low down payment mortgage originations include:

- the level of home mortgage interest rates,
- the health of the domestic economy as well as conditions in regional and local economies,
- housing affordability,
- population trends, including the rate of household formation,
- the rate of home price appreciation, which in times of heavy refinancing affects whether refinance loans have loan-to-value ratios that require PMI, and
- government housing policy encouraging loans to first-time homebuyers.

By selecting alternatives to PMI, lenders and investors may adversely affect the amount of PMI written by the PMI industry. These alternatives include:

- government mortgage insurance programs, including those of the Federal Housing Administration and the Veterans Administration,
- holding mortgages in portfolio and self-insuring,
- use of credit enhancements by investors, including Fannie Mae and Freddie Mac, other than PMI or using other credit enhancements in conjunction with reduced levels of PMI coverage, and
- mortgage originations structured to avoid PMI, such as a first mortgage with an 80% loan-to-value ratio and a second mortgage with a 10% loan-to-value ratio (referred to as an 80-10-10 loan) rather than a first mortgage with a 90% loan-to-value ratio.

Fannie Mae and Freddie Mac have a material impact on the PMI industry. Because Fannie Mae and Freddie Mac are the largest purchasers of low down payment conventional mortgages, the business practices of these GSEs have a direct effect on private mortgage insurers. These practices affect the entire relationship between the GSEs and mortgage insurers and include:

- the level of PMI coverage, subject to the limitations of the GSE's charters when PMI is used as the required credit enhancement on low down payment mortgages,
- whether the mortgage lender or the GSE chooses the mortgage insurer providing coverage,
- the underwriting standards that determine what loans are eligible for purchase by the GSEs, which thereby affect the quality of the risk insured by the mortgage insurer, as well as the availability of mortgage loans,
- the terms on which mortgage insurance coverage can be canceled before reaching the cancellation thresholds established by law, and

- the circumstances in which mortgage servicers must perform activities intended to avoid or mitigate loss on insured mortgages that are delinquent.

The Company expects the level of competition within the PMI industry to remain intense. Competition for PMI premiums occurs not only among private mortgage insurers but increasingly with mortgage lenders through captive mortgage reinsurance transactions in which a lender's affiliate reinsures a portion of the insurance written by a private mortgage insurer on mortgages originated by the lender. The level of competition within the PMI industry has also increased as many large mortgage lenders have reduced the number of private mortgage insurers with whom they do business at the same time as consolidation among mortgage lenders has increased the share of the mortgage lending market held by large lenders.

Changes in interest rates, house prices and cancellation policies may materially affect persistency. In each year, most of MGIC's premiums are from insurance that has been written in prior years. As a result, the length of time insurance remains in force is an important determinant of revenues. The factors affecting persistency of the insurance in force include:

- the level of current mortgage interest rates compared to the mortgage coupon rates on the insurance in force, which affects the vulnerability of the insurance in force to refinancings, and

- mortgage insurance cancellation policies of mortgage investors along with the rate of home price appreciation experienced by the homes underlying the mortgages in the insurance in force.

The strong economic climate that has existed throughout the United States for some time has favorably impacted losses and encouraged competition to assume default risk. Losses result from events that adversely affect a borrower's ability to continue to make mortgage payments, such as unemployment, and whether the home of a borrower who defaults on his mortgage can be sold for an amount that will cover unpaid principal and interest and the expenses of the sale. Favorable economic conditions generally reduce the likelihood that borrowers will lack sufficient income to pay their mortgages and also favorably affect the value of homes, thereby reducing and in some cases even eliminating a loss from a mortgage default. A significant deterioration in economic conditions would adversely affect MGIC's losses. The low level of losses that has recently prevailed in the private mortgage insurance industry has encouraged competition to assume default risk through captive reinsurance arrangements, self-insurance, 80-10-10 loans and other means.

Litigation against mortgage lenders and settlement service providers has been increasing. In recent years, consumers have brought a growing number of lawsuits against home mortgage lenders and settlement service providers seeking monetary damages. The Real Estate Settlement Procedures Act gives home mortgage borrowers the right to bring lawsuits seeking damages of three times the amount of the charge paid for a settlement service involved in a violation of this law. Under rules adopted by the United States Department of Housing and Urban Development, "settlement services" are services provided in connection with settlement of a mortgage loan, including services involving mortgage insurance.

The pace of change in the home mortgage lending and mortgage insurance industries will likely accelerate. The Company expects the processes involved in home mortgage lending will continue to evolve through greater use of technology. This evolution could effect fundamental changes in the way home mortgages are distributed. Lenders who are regulated depositary institutions could gain expanded insurance powers if financial modernization proposals become law. The capital markets are beginning to emerge as providers of insurance in competition with traditional insurance companies. These trends and others increase the level of uncertainty attendant to the PMI business, demand rapid response to change and place a premium on innovation.

Year 2000 Compliance

Almost all of the Company's information technology systems ("IT Systems"), including all of its "business critical" IT Systems, either have been originally developed to be Year 2000 compliant or have been reprogrammed. The Company plans to reprogram the remaining IT Systems (the "Remaining Systems") and to complete internal testing of all IT Systems for Year 2000 compliance by the end of the second quarter of 1999. In general, the Remaining Systems have either been developed and maintained by the Company's Information Technology Department or use off-the-shelf software from national software vendors such as Microsoft and IBM who have publicly announced that their software is Year 2000 compliant. All of the IT Systems developed and maintained by the Information Technology Department have already been internally tested for Year 2000 compliance and all IT Systems using off-the-shelf software have been assessed. If the Company is unable to complete any required reprogramming of the Remaining Systems on a timely basis, the efficiency of certain of the Company's business processes will likely decline but this consequence is not expected to be material to the Company.

Some of the Company's "business critical" IT Systems interface with computer systems of third parties. The Company, Fannie Mae, Freddie Mac and many of these third parties are participating in the Mortgage Bankers Association Year 2000 Inter-Industry Work Group (the "MBA Work Group"). The MBA Work Group has scheduled compliance testing among participants for the first and second quarters of 1999 and is continuing efforts to attract additional participants for compliance testing. The Company and one national service bureau have already conducted certain successful Year 2000 compliance testing and it is possible the Company will conduct additional Year 2000 compliance testing with individual companies in advance of the MBA Work Group testing. However, the Company understands it is the position of a number of larger companies in the MBA Work Group not to engage in any testing with third parties in advance of the testing sponsored by the MBA Work Group. Not all companies with which the Company's IT Systems interface will be participating in the MBA Work Group testing. The Company is contacting the larger companies not participating in the MBA Work Group testing to determine interest in one-on-one testing.

All costs incurred through December 1998 for IT Systems for Year 2000 compliance have been expensed and were immaterial. The costs of the remaining reprogramming and testing are expected to be immaterial.

Telecommunications services and electricity are essential to the Company's ability to conduct business. The Company's long-distance voice and data telecommunications suppliers and the local telephone company serving the Company's owned headquarters and warehouse facilities have written to the Company to the effect that their respective systems will be Year 2000 compliant. The electric company serving these facilities has given the

Company oral assurance that it will also be Year 2000 compliant. In addition, the Company is planning to acquire back-up power for its headquarters. The Company has received written assurance regarding Year 2000 compliance from landlords of the Company's underwriting service centers and local telephone companies.

The Company has long practiced contingency planning to address business disruption risks and has procedures for planning and executing contingency measures to provide for business continuity in the event of any circumstance that results in disruption to the Company's headquarters, warehouse facilities and leased workplace environments, including lack of utility services, transportation disruptions, and service provider failures. The Company is developing additional plans for the "special case" of business disruption due to Year 2000 compliance issues. These plans, which are scheduled to be ready by the end of the first quarter of 1999, will address continuity measures in five areas: physical building environment, including conducting operations at off-site facilities; business operations units, as discussed below; external factors over which the Company does not have control but can implement measures to minimize adverse impact on the Company's business; application system restoration priorities for the Company's computer systems; and contingencies specifically targeted towards monitoring Company facilities and systems at year-end 1999.

The business unit recovery plans address resumption of business in the worst case scenario of a total loss to a Company facility, including the inability to utilize computerized systems.

In view of the timing and scope of the MBA Work Group and other testing, the Company's contingency planning does not currently include developing special procedures with individual third parties if they are not themselves Year 2000 compliant. If the Company is unable to do business with such third parties electronically, it would seek to do business with them on a paper basis. Without knowing the identity of non-compliant third parties and the amount of transactions occurring between the Company and them, the Company cannot evaluate the effects on its business if it were necessary to substitute paper business processes for electronic business processes with such third parties. Among other effects, Year 2000 non-compliance by such third parties could delay receipt of renewal premiums by the Company or the reporting to the Company of mortgage loan delinquencies and could also affect the amount of the Company's new insurance written.

Consolidated Statement of Operations

	1998	1997	1996
	(In thousands of dollars, except per share data)		
REVENUES:			
Premiums written:			
Direct	**$ 755,620**	$ 692,134	$ 587,626
Assumed	**8,352**	11,597	16,912
Ceded (note 7)	**(14,811)**	(13,483)	(15,611)
Net premiums written	**749,161**	690,248	588,927
Decrease in unearned premiums	**14,123**	18,496	28,116
Net premiums earned (note 7)	**763,284**	708,744	617,043
Investment income, net of expenses (note 4)	**143,019**	123,602	105,355
Realized investment gains, net (note 4)	**18,288**	3,261	1,220
Other revenue	**47,075**	32,665	22,013
Total revenues	**971,666**	868,272	745,631
LOSSES AND EXPENSES:			
Losses incurred, net (notes 6 and 7)	**211,354**	242,362	234,350
Underwriting and other expenses	**190,031**	157,194	146,483
Interest expense	**18,624**	6,399	3,793
Ceding commission (note 7)	**(2,928)**	(3,056)	(4,023)
Total losses and expenses	**417,081**	402,899	380,603
Income before tax	**554,585**	465,373	365,028
Provision for income tax (note 10)	**169,120**	141,623	107,037
Net income	**$ 385,465**	$ 323,750	$ 257,991
Earnings per share (note 11):			
Basic	**$ 3.44**	$ 2.78	$ 2.19
Diluted	**$ 3.39**	$ 2.75	$ 2.17

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

	1998	1997
	(In thousands of dollars)	
ASSETS		
Investment portfolio (note 4):		
Securities, available-for-sale, at market value:		
Fixed maturities	**$ 2,602,870**	$ 2,185,954
Equity securities	**4,627**	116,053
Short-term investments	**172,209**	114,733
Total investment portfolio	**2,779,706**	2,416,740
Cash	**4,650**	4,893
Accrued investment income	**41,477**	35,485
Reinsurance recoverable on loss reserves (note 7)	**45,527**	26,415
Reinsurance recoverable on unearned premiums (note 7)	**8,756**	9,239
Home office and equipment, net	**32,400**	33,784
Deferred insurance policy acquisition costs	**24,065**	27,156
Investments in joint ventures (note 8)	**75,246**	29,400
Other assets	**38,714**	34,575
Total assets	**$ 3,050,541**	$ 2,617,687
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Loss reserves (notes 6 and 7)	**$ 681,274**	$ 598,683
Unearned premiums (note 7)	**183,739**	198,305
Notes payable (note 5)	**442,000**	237,500
Income taxes payable (note 10)	**31,032**	27,717
Other liabilities	**71,905**	68,700
Total liabilities	**1,409,950**	1,130,905
Contingencies (note 13)		
Shareholders' equity (note 11):		
Common stock, $1 par value, shares authorized 300,000,000; shares issued 121,110,800; outstanding 1998 – 109,003,032; 1997 – 113,791,593	**121,111**	121,111
Paid-in surplus	**217,022**	218,499
Treasury stock (shares at cost 1998 – 12,107,768; 1997 – 7,319,207)	**(482,465)**	(252,942)
Accumulated other comprehensive income – unrealized appreciation in investments, net of tax (note 2)	**94,572**	83,985
Retained earnings (note 11)	**1,690,351**	1,316,129
Total shareholders' equity	**1,640,591**	1,486,782
Total liabilities and shareholders' equity	**$ 3,050,541**	$ 2,617,687

See accompanying notes to consolidated financial statements.

Consolidated Statement of Shareholders' Equity

	Common stock	Paid-in surplus	Treasury stock	Accumulated other comprehensive income (note 2)	Retained earnings	Comprehensive income
			(In thousands of dollars)			
Balance, December 31, 1995	$ 121,111	$ 198,874	$ (8,172)	$ 54,737	$ 754,842	
Net income	–	–	–	–	257,991	$ 257,991
Unrealized investment losses, net	–	–	–	(14,052)	–	(14,052)
Comprehensive income	–	–	–	–	–	$ 243,939
Dividends declared	–	–	–	–	(9,425)	
Reissuance of treasury stock	–	9,110	1,099	–	–	
Balance, December 31, 1996	121,111	207,984	(7,073)	40,685	1,003,408	
Net income	–	–	–	–	323,750	$ 323,750
Unrealized investment gains, net	–	–	–	43,300	–	43,300
Comprehensive income	–	–	–	–	–	$ 367,050
Dividends declared	–	–	–	–	(11,029)	
Repurchase of outstanding common shares	–	–	(248,426)	–	–	
Reissuance of treasury stock	–	10,515	2,557	–	–	
Balance, December 31, 1997	121,111	218,499	(252,942)	83,985	1,316,129	
Net income	**–**	**–**	**–**	**–**	**385,465**	**$ 385,465**
Unrealized investment gains, net	**–**	**–**	**–**	**10,587**	**–**	**10,587**
Comprehensive income	**–**	**–**	**–**	**–**	**–**	**$ 396,052**
Dividends declared	**–**	**–**	**–**	**–**	**(11,243)**	
Repurchase of outstanding common shares	**–**	**–**	**(246,840)**	**–**	**–**	
Reissuance of treasury stock	**–**	**(1,477)**	**17,317**	**–**	**–**	
Balance, December 31, 1998	**$ 121,111**	**$ 217,022**	**$ (482,465)**	**$ 94,572**	**$ 1,690,351**	

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

	1998	1997	1996
	(In thousands of dollars)		
Cash flows from operating activities:			
Net income	$ **385,465**	$ 323,750	$ 257,991
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred insurance policy acquisition costs	**20,717**	21,373	26,772
Increase in deferred insurance policy acquisition costs	**(17,626)**	(16,573)	(20,772)
Depreciation and other amortization	**7,742**	8,187	8,969
Increase in accrued investment income	**(5,992)**	(2,122)	(4,150)
(Increase) decrease in reinsurance recoverable on loss reserves	**(19,112)**	3,412	4,029
Decrease in reinsurance recoverable on unearned premiums	**483**	2,506	3,740
Increase in loss reserves	**82,591**	84,641	143,010
Decrease in unearned premiums	**(14,566)**	(21,002)	(31,856)
Equity (earnings) loss in joint ventures	**(12,420)**	(7,100)	800
Other	**(6,336)**	(25,186)	(2,478)
Net cash provided by operating activities	**420,946**	371,886	386,055
Cash flows from investing activities:			
Purchase of equity securities	**(3,886)**	(112,780)	–
Purchase of fixed maturities	**(916,129)**	(685,217)	(1,095,559)
Investments in joint ventures	**(33,426)**	(7,350)	(15,750)
Proceeds from sale of equity securities	**116,164**	9,971	–
Proceeds from sale or maturity of fixed maturities	**529,358**	447,284	782,349
Net cash used in investing activities	**(307,919)**	(348,092)	(328,960)
Cash flows from financing activities:			
Dividends paid to shareholders	**(11,243)**	(11,029)	(9,425)
Net increase in notes payable	**204,500**	202,076	(375)
Interest payments on notes payable	**(17,665)**	(3,836)	(3,793)
Reissuance of treasury stock	**15,454**	13,072	10,209
Repurchase of common stock	**(246,840)**	(248,426)	–
Net cash used in financing activities	**(55,794)**	(48,143)	(3,384)
Net increase (decrease) in cash and cash equivalents	**57,233**	(24,349)	53,711
Cash and cash equivalents at beginning of year	**119,626**	143,975	90,264
Cash and cash equivalents at end of year	$ **176,859**	$ 119,626	$ 143,975

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Nature of business

MGIC Investment Corporation ("Company") is a holding company which, through Mortgage Guaranty Insurance Corporation ("MGIC") and several other subsidiaries, is principally engaged in the mortgage insurance business. The Company provides mortgage insurance to lenders throughout the United States to protect against loss from defaults on low down payment residential mortgage loans. Through certain other non-insurance subsidiaries, the Company also provides various services for the mortgage finance industry, such as contract underwriting, premium reconciliation and portfolio analysis.

At December 31, 1998, the Company's direct primary insurance in force (representing the current principal balance of all mortgage loans that are currently insured) and direct primary risk in force, excluding Wisconsin Mortgage Assurance Corporation ("WMAC"), was approximately $138.0 billion and $32.9 billion, respectively. In addition to providing direct primary insurance coverage, the Company also insures pools of mortgage loans. The Company's direct pool risk in force at December 31, 1998 was approximately $1.1 billion.

On December 31, 1998, the Company purchased WMAC from a third party for $2 million. MGIC contributed an additional $13 million of capital to WMAC to comply with minimum regulatory capital requirements. WMAC wrote mortgage insurance on first mortgages collateralized by one-to-four-family residences until February 28, 1985 at which time it ceased writing new business. The acquisition had no impact on the Company's earnings during 1998. WMAC's direct primary insurance in force, direct primary risk in force and direct pool risk in force was approximately $3.5 billion, $.9 billion and $.4 billion, respectively, at December 31, 1998. (See note 7.)

The Company's largest shareholder, The Northwestern Mutual Life Insurance Company ("NML"), held approximately 11% of the common stock of the Company at December 31, 1998.

2. Basis of presentation and summary of significant accounting policies

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

Principles of consolidation

The consolidated financial statements include the accounts of MGIC Investment Corporation and its wholly-owned subsidiaries. All intercompany transactions have been eliminated. The Company's 48% investments in Credit-Based Asset Servicing and Securitization LLC and Litton Loan Servicing LP (collectively, "C-BASS"), joint ventures with Enhance Financial Services Group Inc., are accounted for on the equity method and recorded on the balance sheet as investment in joint ventures. The Company's equity earnings from C-BASS are included in other revenue. (See note 8.)

Investments

The Company categorizes its investment portfolio according to its ability and intent to hold the investments to maturity. Investments which the Company does not have the ability and intent to hold to maturity are considered to be available-for-sale and must be recorded at market and the unrealized gains or losses recognized as an increase or decrease to shareholders' equity. During 1996, 1997 and 1998, the Company's entire investment portfolio was classified as available-for-sale. Realized investment gains and losses are reported in income based upon specific identification of securities sold. (See note 4.)

Home office and equipment

Home office and equipment is carried at cost net of depreciation. For financial statement reporting purposes, depreciation is determined on a straight-line basis for the home office, equipment and data processing hardware over estimated lives of 45, 5 and 3 years, respectively. For income tax purposes, the Company uses accelerated depreciation methods.

Home office and equipment is shown net of accumulated depreciation of $45.2 million and $40.9 million at December 31, 1998 and 1997, respectively.

Deferred insurance policy acquisition costs

The cost of acquiring insurance policies, including compensation, premium taxes and other underwriting expenses, is deferred, to the extent recoverable, and amortized as the related premiums are earned. No expenses are deferred on monthly premium policies.

Loss reserves

Reserves are established for reported insurance losses and loss adjustment expenses based on when notices of default on insured mortgage loans are received. Reserves are also established for estimated losses incurred on notices of default not yet reported by the lender. Consistent with industry practices, the Company does not establish loss reserves for future claims on insured loans which are not currently in default. Reserves are established by management using estimated claims rates and claims amounts in estimating the ultimate loss. Amounts for salvage recoverable are considered in the determination of the reserve estimates. Adjustments to reserve estimates are reflected in the financial statements in the years in which the adjustments are made. The liability for reinsurance assumed is based on information provided by the ceding companies. (See note 6.)

Income recognition

The insurance subsidiaries write policies which are guaranteed renewable contracts at the insured's option on a single, annual or monthly premium basis. The insurance subsidiaries have no ability to reunderwrite 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 term. Premiums written on policies covering more than one year are amortized over the policy life in accordance with the expiration of risk. Premiums written on annual policies are earned on a monthly pro rata basis. Premiums written on monthly policies are earned as the premiums are due.

Fee income of the non-insurance subsidiaries is earned as the services are provided.

Income taxes

The Company and its subsidiaries file a consolidated federal income tax return. A formal tax sharing agreement exists between the Company and its subsidiaries. Each subsidiary determines income taxes based upon the utilization of all tax deferral elections available. This assumes Tax and Loss Bonds are purchased and held to the extent they would have been purchased and held on a separate company basis since the tax sharing agreement provides that the redemption or non-purchase of such bonds shall not increase such member's separate taxable income and tax liability on a separate company basis.

Federal tax law permits mortgage guaranty insurance companies to deduct from taxable income, subject to certain limitations, the amounts added to contingency loss reserves. Generally, the amounts so deducted must be included in taxable income in the tenth subsequent year. The deduction is allowed only to the extent that U.S. government non-interest bearing Tax and Loss Bonds are purchased and held in an amount equal to the tax benefit attributable to such deduction. The Company accounts for these purchases as a payment of current federal income taxes.

Deferred income taxes are provided under the liability method which recognizes the future tax effects of temporary differences between amounts reported in the financial statements and the tax bases of these items. The expected tax effects are computed at the current federal tax rate. (See note 10.)

Benefit plans

The Company has a non-contributory defined benefit pension plan covering substantially all employees. Retirement benefits are based on compensation and years of service. The Company's policy is to fund pension cost as required under the Employee Retirement Income Security Act of 1974. (See note 9.)

The Company accrues the estimated costs of retiree medical and life benefits over the period during which employees render the service that qualifies them for benefits. The Company offers both medical and dental benefits for retired employees and their spouses. Benefits are generally funded on a pay-as-you-go basis. (See note 9.)

Reinsurance

Loss reserves and unearned premiums are reported before taking credit for amounts ceded under reinsurance treaties. Ceded loss reserves are reflected as "Reinsurance recoverable on loss reserves". Ceded unearned premiums are reflected as "Reinsurance recoverable on unearned premiums". The Company remains contingently liable for all reinsurance ceded. (See note 7.)

Earnings per share

The Company's basic and diluted earnings per share ("EPS") have been calculated in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share ("SFAS 128"). The Company's net income is the same for both basic and diluted EPS. Basic EPS is based on the weighted-average number of common shares outstanding. Diluted EPS is based on the weighted-average number of common shares outstanding and common stock equivalents which would arise from the exercise of stock options. The following is a reconciliation of the weighted-average number of shares used for basic EPS and diluted EPS. (See note 11.)

	Years Ended December 31,		
	1998	1997	1996
	(shares in thousands)		
Weighted-average shares – Basic EPS	112,135	116,332	117,787
Common stock equivalents	1,447	1,592	1,259
Weighted-average shares – Diluted EPS	113,582	117,924	119,046

Earnings per share for 1996 has been restated to reflect the provisions of SFAS 128. Previously reported EPS for 1996, after adjustment for the stock split (see note 11), equaled diluted EPS under SFAS 128.

Statement of cash flows

For purposes of the consolidated statement of cash flows, the Company considers short-term investments to be cash equivalents, as short-term investments have original maturities of three months or less.

Recent accounting pronouncements

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income ("SFAS 130"). The statement establishes standards for the reporting and display of comprehensive income and its components in annual financial statements. The Company's other comprehensive income consists of the change in unrealized appreciation on investments, net of tax, and as permitted under the provisions of SFAS 130, is presented in the Consolidated Statement of Shareholders' Equity. The adoption of SFAS 130 had no impact on total shareholders' equity. Realized investment gains of $18.3 million in 1998 include sales of securities which had unrealized appreciation of $19.0 million at December 31, 1997.

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits ("SFAS 132"). The statement provides new employer disclosure requirements regarding pension plans and other postretirement plans and does not address the measurement or recognition of such benefits. (See note 9.)

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"), which will be effective for all fiscal quarters of all fiscal years beginning after June 15, 1999. The statement establishes accounting and reporting standards for derivative instruments and for hedging activities. Management does not anticipate adoption of SFAS 133 will have a significant effect on the Company's results of operations or its financial position due to its limited use of derivative instruments. (See notes 4 and 5.)

Reclassifications

Certain reclassifications have been made in the accompanying financial statements to 1997 and 1996 amounts to allow for consistent financial reporting.

3. *Related party transactions*

The Company contracts with Northwestern Mutual Investment Services, Inc., a subsidiary of NML, for investment portfolio management and accounting services. The Company incurred expense of $1.0 million, $1.1 million and $.9 million for these services in 1998, 1997 and 1996, respectively.

The Company provided certain services to C-BASS in exchange for an immaterial amount of fees during 1998, 1997 and 1996.

4. *Investments*

The following table summarizes the Company's investments at December 31, 1998 and 1997:

	Amortized Cost	Market Value	Financial Statement Value
		(In thousands of dollars)	
At December 31, 1998:			
Securities, available-for-sale:			
Fixed maturities	$ 2,460,418	$ 2,602,870	$ 2,602,870
Equity securities	1,583	4,627	4,627
Short-term investments	172,209	172,209	172,209
Total investment portfolio	$ 2,634,210	$ 2,779,706	$ 2,779,706
At December 31, 1997:			
Securities, available-for-sale:			
Fixed maturities	$ 2,069,133	$ 2,185,954	$ 2,185,954
Equity securities	103,670	116,053	116,053
Short-term investments	114,733	114,733	114,733
Total investment portfolio	$ 2,287,536	$ 2,416,740	$ 2,416,740

The amortized cost and market value of investments at December 31, 1998 are as follows:

December 31, 1998:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
		(In thousands of dollars)		
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 65,811	$ 5,746	$ (141)	$ 71,416
Obligations of states and political subdivisions	2,030,847	120,033	(1,290)	2,149,590
Corporate securities	518,965	16,819	(100)	535,684
Mortgage-backed securities	1,120	16	(3)	1,133
Debt securities issued by foreign sovereign governments	15,884	1,372	–	17,256
Total debt securities	2,632,627	143,986	(1,534)	2,775,079
Equity securities	1,583	3,044	–	4,627
Total investment portfolio	$ 2,634,210	$ 147,030	$ (1,534)	$ 2,779,706

The amortized cost and market value of investments at December 31, 1997 are as follows:

December 31, 1997:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
		(In thousands of dollars)		
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 60,972	$ 3,573	$ (2)	$ 64,543
Obligations of states and political subdivisions	1,620,660	102,915	(555)	1,723,020
Corporate securities	487,711	9,984	(42)	497,653
Mortgage-backed securities	437	32	–	469
Debt securities issued by foreign sovereign governments	14,086	916	–	15,002
Total debt securities	2,183,866	117,420	(599)	2,300,687
Equity securities	103,670	14,582	(2,199)	116,053
Total investment portfolio	$ 2,287,536	$ 132,002	$ (2,798)	$ 2,416,740

The amortized cost and market values of debt securities at December 31, 1998, by contractual maturity, are shown below. Debt securities consist of fixed maturities and short-term investments. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Market Value
	(In thousands of dollars)	
Due in one year or less	$ 175,430	$ 175,572
Due after one year through five years	298,734	311,433
Due after five years through ten years	1,000,720	1,066,596
Due after ten years	1,156,623	1,220,345
	2,631,507	2,773,946
Mortgage-backed securities	1,120	1,133
Total at December 31, 1998	$ 2,632,627	$ 2,775,079

Net investment income is comprised of the following:

	1998	1997	1996
	(In thousands of dollars)		
Fixed maturities	$ 133,307	$ 117,448	$ 99,832
Equity securities	1,133	485	240
Short-term investments	9,603	6,813	6,223
Other	79	65	82
Investment income	144,122	124,811	106,377
Investment expenses	(1,103)	(1,209)	(1,022)
Net investment income	$ 143,019	$ 123,602	$ 105,355

The net realized investment gains (losses) and change in net unrealized appreciation (depreciation) of investments are as follows:

	1998	1997	1996
	(In thousands of dollars)		
Net realized investment gains (losses) on sale of investments:			
Fixed maturities	$ 8,349	$ 3,734	$ 1,252
Equity securities	9,941	(472)	(30)
Short-term investments	(2)	(1)	(2)
	18,288	3,261	1,220
Change in net unrealized appreciation (depreciation):			
Fixed maturities	25,631	56,934	(22,064)
Equity securities	(9,339)	9,677	233
Short-term investments	–	–	–
	16,292	66,611	(21,831)
Net realized investment gains (losses) and change in net unrealized appreciation (depreciation)	$ 34,580	$ 69,872	$ (20,611)

The gross realized gains and the gross realized losses on sales of available-for-sale securities were $22.7 million and $4.4 million, respectively in 1998 and $5.7 million and $2.4 million, respectively in 1997.

The tax expense (benefit) of the changes in net unrealized appreciation (depreciation) was $5.7 million, $23.3 million and ($7.6) million for 1998, 1997 and 1996, respectively.

5. *Notes payable*

During 1997 and 1998, the Company repurchased approximately 4.7 million and 5.3 million shares, respectively, of its outstanding common stock at a cost of approximately $248 and $247 million, respectively. Funds to repurchase the shares were primarily provided by borrowings under credit facilities evidenced by notes payable.

The 1997 and 1998 credit facilities provide up to $225 million and $250 million, respectively, of availability at December 31, 1998. The 1997 credit facility will decrease by $25 million each year through June 20, 2001. Any outstanding borrowings under this facility mature on June 20, 2002. The 1998 credit facility decreases by $25 million each year beginning June 9, 1999 through June 9, 2002. Any outstanding borrowings under this facility mature on June 9, 2003. The Company has the option on notice to lenders, to prepay any borrowings under the agreements subject to certain provisions.

At December 31, 1998, the Company's outstanding balance of the notes payable on the 1997 and 1998 credit facilities were $210 million and $232 million, respectively, which approximated market value. The interest rate on the notes payable varies based on LIBOR and at December 31, 1998 and December 31, 1997 the rate was 5.80% and 6.01%, respectively. The weighted average interest rate on the notes payable for borrowings under the 1997 and 1998 credit agreements was 5.86% per annum for the year ended December 31, 1998.

Under the terms of the credit facilities, the Company must maintain shareholders' equity of at least $1 billion and MGIC must maintain a claims paying ability rating of AA- or better with Standard & Poor's Corporation ("S&P"). At December 31, 1998, the Company had shareholders' equity of $1,641 million and MGIC had a claims paying ability rating of AA+ from S&P.

In January 1997, the Company repaid mortgages payable of $35.4 million, which were secured by the home office and substantially all of the furniture and fixtures of the Company.

The Company entered into financial derivative transactions, consisting of interest rate swaps and put-swaptions to reduce and manage interest rate risk. With respect to all such transactions, a notional amount of $100 million represents the stated principal balance used as a basis for calculating payments.

During the fourth quarter of 1998, the Company entered into a $100 million interest rate swap to convert a portion of the variable rate debt under the credit facilities to fixed rate. On the swap, the Company receives a floating rate based on LIBOR and pays a fixed rate of 4.67%. The swap expires October 6, 2001. In addition, during the fourth quarter of 1998, the Company sold three successive $100 million put-swaptions for investment purposes. All three put-swaptions expired unexercised, the last expiring on January 6, 1999. Earnings in 1998 on the swap of approximately $.2 million and premium income on the put-swaptions of approximately $.3 million are netted against interest expense in the Consolidated Statement of Operations.

6. *Loss reserves*

Loss reserve activity was as follows:

	1998	1997	1996
	(In thousands of dollars)		
Reserve at beginning of year	$ 598,683	$ 514,042	$ 371,032
Less reinsurance recoverable	26,415	29,827	33,856
Net reserve at beginning of year	572,268	484,215	337,176
Reserve transfer (1)	538	537	35,657
Adjusted reserve at beginning of year	572,806	484,752	372,833
Losses incurred:			
Losses and LAE incurred in respect of default notices received in:			
Current year	377,786	360,623	312,630
Prior years (2)	(166,432)	(118,261)	(78,280)
Subtotal	211,354	242,362	234,350
Losses paid:			
Losses and LAE paid in respect of default notices received in:			
Current year	8,752	15,257	16,872
Prior years	139,661	139,589	106,096
Subtotal	148,413	154,846	122,968
Net reserve at end of year	635,747	572,268	484,215
Plus reinsurance recoverables	45,527	26,415	29,827
Reserve at end of year	$ 681,274	$ 598,683	$ 514,042

(1) Received in conjunction with the cancellation of certain reinsurance treaties. (See note 7.)
(2) A negative number for a prior year indicates a redundancy of loss reserves, and a positive number for a prior year indicates a deficiency of loss reserves.

The top portion of the table above shows losses incurred on default notices received in the current year and in prior years, respectively. The amount of losses incurred relating to default notices received in the current year represents the estimated amount to be ultimately paid on such default notices. The amount of losses incurred relating to default notices received in prior years represents an adjustment made in the current year for defaults which were included in the loss reserve at the end of the prior year.

Current year losses incurred increased from 1997 to 1998 due to an increase in the primary insurance notice inventory from 28,493 at December 31, 1997 to 29,253 at December 31, 1998 and an increase in the pool insurance notice inventory from 2,098 at December 31, 1997 to 6,524 at December 31, 1998. The Company's loss reserves at December 31, 1998 reflect credit quality concerns on defaults from insurance written in 1994 through 1996, an increase in the number of defaults with deeper coverages and the growth in pool insurance. Offsetting this increase were favorable developments in prior years' loss reserves, with the net effect of total losses incurred decreasing from $242.4 million in 1997 to $211.4 million in 1998.

The favorable development of the reserves in 1998, 1997 and 1996 is reflected in the prior year line, and results from the actual claim rates and actual claim amounts being lower than those estimated by the Company when originally establishing the reserve at December 31, 1997, 1996 and 1995, respectively.

The lower portion of the table above shows the breakdown between claims paid on default notices received in the current year and default notices received in prior years. Since it takes, on average, about twelve months for a default which is not cured to develop into a paid claim, most losses paid relate to default notices received in prior years.

7. *Reinsurance*

The Company cedes a portion of its business to reinsurers and records assets for reinsurance recoverable on estimated reserves for unpaid losses and unearned premiums. Business written between 1985 and 1993 is ceded under various quota share reinsurance agreements with several reinsurers. The Company receives a ceding commission in connection with this reinsurance. There is no quota share reinsurance on business written subsequent to December 31, 1993.

In September 1996, the Company signed an agreement with WMAC and a WMAC reinsurer to assume all of the reinsurer's interest in WMAC mortgage insurance writings, which had been previously ceded to that reinsurer. As a result, the portion of WMAC's insurance in force reinsured by the Company increased from approximately 21 percent to approximately 65 percent. The Company received approximately $40 million as payment for its assumption of existing loss and unearned premium reserves related to the insurance in force being assumed from WMAC. In 1997 and 1998, the Company signed similar agreements with WMAC and other WMAC reinsurers resulting in an increase in the portion of WMAC's insurance in force reinsured by the Company to approximately 66 percent and 67 percent, respectively. (See note 1.)

As a result of the purchase of WMAC on December 31, 1998, reinsurance recoverable on loss reserves as shown in the Consolidated Balance Sheet includes approximately $26 million of reinsured loss reserves.

The effect of reinsurance on premiums earned and losses incurred is as follows:

	1998	1997	1996
	(In thousands of dollars)		
Premiums earned:			
Direct	$ 770,775	$ 712,069	$ 623,148
Assumed	9,670	12,665	13,245
Ceded	(17,161)	(15,990)	(19,350)
Net premiums earned	$ 763,284	$ 708,744	$ 617,043
Losses incurred:			
Direct	$ 216,340	$ 247,137	$ 226,702
Assumed	(3,234)	3,683	17,073
Ceded	(1,752)	(8,458)	(9,425)
Net losses incurred	$ 211,354	$ 242,362	$ 234,350

8. *Investment in C-BASS*

C-BASS engages in the acquisition and resolution of delinquent single-family residential mortgage loans ("mortgage loans"). C-BASS also purchases and sells mortgage-backed securities ("mortgage securities"), interests in real estate mortgage investment conduit residuals and performs mortgage loan servicing. In addition, C-BASS issues mortgage-backed debt securities collateralized by mortgage loans and mortgage securities. All such mortgage-related assets are recorded at fair value and as a result are exposed to market valuation adjustments which could impact the Company's share of C-BASS's results of operations.

At December 31, 1998 the Company had contributed approximately $56 million of capital to C-BASS. Total combined assets of C-BASS at December 31, 1998 were approximately $623 million, of which approximately $550 million were mortgage-related assets, including open trades. Total liabilities were approximately $468 million, of which approximately $459 million were funding arrangements, including accrued interest. For the year ended December 31, 1998, revenues of approximately $70 million and expenses of approximately $44 million resulted in income before tax of approximately $26 million.

The Company is guaranteeing one half of a $50 million credit facility as part of C-BASS's funding arrangements. The facility matures in July 1999.

9. *Benefit plans*

The following tables provide reconciliations of the changes in the benefit obligation, fair value of plan assets and funded status of the pension and other postretirement benefit plans:

	Pension Benefits		Other Postretirement Benefits	
	1998	1997	1998	1997
	(In thousands of dollars)			
Reconciliation of benefit obligation:				
Benefit obligation at beginning of year	$ 51,190	$ 42,844	$ 19,364	$ 17,815
Service cost	4,064	3,569	1,612	1,379
Interest cost	3,959	3,169	1,357	1,267
Amendments	–	3,447	–	–
Actuarial loss (gain)	7,908	(1,181)	883	(872)
Benefits paid	(841)	(658)	(206)	(225)
Benefit obligation at end of year	$ 66,280	$ 51,190	$ 23,010	$ 19,364
Reconciliation of fair value of plan assets:				
Fair value of plan assets at beginning of year	$ 57,578	$ 46,256	$ 8,632	$ 6,248
Actual return on plan assets	9,895	8,864	1,141	1,270
Employer contributions	7,190	3,116	1,272	1,114
Benefits paid	(841)	(658)	–	–
Fair value of plan assets at end of year	$ 73,822	$ 57,578	$ 11,045	$ 8,632
Reconciliation of funded status:				
Benefit obligation at end of year	$ (66,280)	$ (51,190)	$ (23,010)	$ (19,364)
Fair value of plan assets at end of year	73,822	57,578	11,045	8,632
Funded status at end of year	7,542	6,388	(11,965)	(10,732)
Unrecognized net actuarial gain	(4,741)	(7,485)	(3,145)	(3,753)
Unrecognized net transition obligation	63	95	7,419	7,949
Unrecognized prior service cost	2,542	2,725	–	–
Prepaid (accrued) benefit cost	$ 5,406	$ 1,723	$ (7,691)	$ (6,536)

The following table provides the components of net periodic benefit cost for the pension and other postretirement benefit plans:

	Pension Benefits			Other Postretirement Benefits		
	1998	1997	1996	1998	1997	1996
	(In thousands of dollars)					
Service cost	$ 4,064	$ 3,569	$ 3,378	$ 1,612	$ 1,379	$ 1,208
Interest cost	3,959	3,169	2,777	1,357	1,267	1,171
Expected return on plan assets	(4,674)	(3,521)	(3,026)	(696)	(506)	(388)
Recognized net actuarial gain	–	–	–	(170)	(67)	–
Amortization of transition obligation	32	32	32	530	530	530
Amortization of prior service cost	183	(20)	(62)	–	–	–
Net periodic benefit cost	$ 3,564	$ 3,229	$ 3,099	$ 2,633	$ 2,603	$ 2,521

The assumptions used in the measurement of the Company's pension and other postretirement benefit obligations are shown in the following table:

	Pension Benefits			Other Postretirement Benefits		
	1998	1997	1996	1998	1997	1996
Weighted-average interest rate assumptions as of December 31:						
Discount rate	7.0%	7.5%	7.5%	7.0%	7.5%	7.5%
Expected return on plan assets	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Rate of compensation increase	6.0%	6.0%	6.0%	N/A	N/A	N/A

Plan assets consist of fixed maturities and equity securities. The Company is amortizing the unrecognized transition obligation for postretirement benefits over 20 years. The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation is 7.5% decreasing to 6% for 2000 and remaining level thereafter. A 1% change in the health care trend rate assumption would have the following effects:

	1-Percentage Point Increase	1-Percentage Point Decrease
	(In thousands of dollars)	
Effect on total service and interest cost components	$ 678	$ (562)
Effect on postretirement benefit obligation	4,912	(4,082)

The Company has a profit sharing and 401(k) savings plan for employees. At the discretion of the Board of Directors, the Company may make a profit sharing contribution of up to 5% of each participant's compensation. The Company provides a matching 401(k) savings contribution on employees' before-tax contributions at a rate of 80% of the first $1,000 contributed and 40% of the next $2,000 contributed. Profit sharing costs and the Company's matching contributions to the 401(k) savings plan were $5.0 million, $3.8 million and $3.6 million in 1998, 1997 and 1996, respectively.

10. Income taxes

The components of the net deferred tax liability as of December 31, 1998 and 1997 are as follows:

	1998	1997
	(In thousands of dollars)	
Unearned premium reserves	$ (16,897)	$ (18,337)
Deferred policy acquisition costs	8,423	9,504
Loss reserves	(11,688)	(6,622)
Unrealized appreciation in investments	50,923	45,221
Other	(2,227)	(3,957)
Net deferred tax liability	$ 28,534	$ 25,809

At December 31, 1998, gross deferred tax assets and liabilities amounted to $60.4 million and $88.9 million, respectively. Management believes that all gross deferred tax assets at December 31, 1998 are fully realizable and no valuation reserve has been established.

The following summarizes the components of the provision for income tax:

	1998	1997	1996
	(In thousands of dollars)		
Federal:			
Current	$ 171,244	$ 147,983	$ 116,160
Deferred	(4,198)	(7,833)	(10,325)
State	2,074	1,473	1,202
Provision for income tax	$ 169,120	$ 141,623	$ 107,037

The Company paid $160.6 million, $151.1 million and $103.9 million in federal income tax in 1998, 1997 and 1996, respectively.

The reconciliation of the tax provision computed at the federal tax rate of 35% to the reported provision for income tax is as follows:

	1998	1997	1996
	(In thousands of dollars)		
Tax provision computed at federal tax rate	$ 194,105	$ 162,881	$ 127,760
(Decrease) increase in tax provision resulting from:			
Tax exempt municipal bond interest	(28,973)	(24,926)	(22,114)
Other, net	3,988	3,668	1,391
Provision for income tax	$ 169,120	$ 141,623	$ 107,037

The Internal Revenue Service has completed examining the Company's income tax returns through 1994. The results of these examinations had no material effect on the financial statements.

11. *Shareholders' equity and dividend restrictions*

The Company's 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 Office of the Commissioner of Insurance of the State of 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. In 1999, MGIC can pay $49.4 million of dividends and the other insurance subsidiaries of the Company can pay $4.5 million of dividends without such regulatory approval.

Certain of the Company's non-insurance subsidiaries also have requirements as to maintenance of net worth. These restrictions could also affect the Company's ability to pay dividends.

In 1998, 1997 and 1996, the Company paid dividends of $11.2 million, $11.0 million and $9.4 million, respectively or $.10 per share in 1998, $.095 per share in 1997 and $.08 per share in 1996.

The principles used in determining statutory financial amounts differ from generally accepted accounting principles ("GAAP"), primarily for the following reasons:

Under statutory accounting practices, mortgage guaranty insurance companies are required to maintain contingency loss reserves equal to 50% of premiums earned. Such amounts cannot be withdrawn for a period of ten years except as permitted by insurance regulations. Contingency loss reserves are not reflected as liabilities under GAAP.

Under statutory accounting practices, insurance policy acquisition costs are charged against operations in the year incurred. Under GAAP, these costs are deferred and amortized as the related premiums are earned commensurate with the expiration of risk.

Statutory financial statements only include a provision for current income taxes due, and purchases of Tax and Loss Bonds are accounted for as investments. GAAP financial statements provide for deferred income taxes, and purchases of Tax and Loss Bonds are recorded as payments of current income taxes.

Under statutory accounting practices, fixed maturity investments are valued at amortized cost. Under GAAP, those investments which the Company does not have the ability and intent to hold to maturity are considered to be available for sale and are recorded at market, with the unrealized gain or loss recognized, net of tax, as an increase or decrease to shareholders' equity.

The statutory net income, equity and the contingency reserve liability of the insurance subsidiaries (excluding the non-insurance companies) are as follows:

Year Ended December 31	Net Income	Equity	Contingency Reserves
	(In thousands of dollars)		
1998	$ 187,535	$ 585,280	$ 1,939,626
1997	144,963	394,274	1,625,810
1996	67,094	274,118	1,317,438

The differences between the statutory net income and equity presented above for the insurance subsidiaries and the consolidated net income and equity presented on a GAAP basis primarily represent the differences between GAAP and statutory accounting practices, and the effect of the treasury shares on consolidated equity.

The Company has two stock option plans which permit certain officers and employees to purchase common stock at specified prices. A summary of activity in the stock option plans during 1996, 1997 and 1998 is as follows:

	Average Exercise Price	Shares Subject to Option
Outstanding, December 31, 1995	$ 9.15	3,312,566
Granted	30.57	61,334
Exercised	4.80	(636,654)
Canceled	15.41	(132,620)
Outstanding, December 31, 1996	10.40	2,604,626
Granted	37.04	1,592,000
Exercised	9.08	(532,332)
Canceled	31.19	(29,420)
Outstanding, December 31, 1997	22.09	3,634,874
Granted	62.28	109,500
Exercised	10.99	(478,848)
Canceled	33.99	(70,002)
Outstanding, December 31, 1998	$ 24.87	3,195,524

The exercise price of the options granted in 1996, 1997 and 1998 was equal to the market value of the stock on the date of grant. The options are exercisable between one and ten years after the date of grant. At December 31, 1998, 3,678,915 shares were available for future grant under the stock option plans.

The Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS 123"). Had compensation cost for the Company's stock option plans been determined based on the fair value method described by SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share data):

	Year Ended December 31, 1998	1997	1996
Net income	$ 381,689	$ 320,416	$ 257,807
Earnings per share:			
Basic	$ 3.40	$ 2.75	$ 2.19
Diluted	$ 3.36	$ 2.72	$ 2.17

The fair value of these options was estimated at grant date using the Black-Scholes option pricing model with the following weighted average assumptions for each year:

	Year Ended December 31, 1998	1997	1996
Risk free interest rate	6.37%	6.44%	6.73%
Expected life	6.82 years	6.88 years	5.63 years
Expected volatility	27.98%	28.07%	28.60%
Expected dividend yield	0.17%	0.16%	0.21%

The following is a summary of stock options outstanding at December 31, 1998:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Shares	Remaining Average Life (yrs.)	Average Exercise Price	Shares	Average Exercise Price
$2.50–$3.45	621,200	1.8	$ 3.27	621,200	$ 3.27
$9.63–$20.88	936,714	4.9	15.33	876,876	15.28
$26.69–$41.00	1,512,110	8.0	36.29	253,649	35.92
$60.25–$68.63	125,500	9.7	65.36	–	–
Total	3,195,524	6.0	$ 24.87	1,751,725	$ 14.01

At December 31, 1997 and 1996, option shares of 1,540,076 and 1,683,700 were exercisable at an average exercise price of $8.56 and $7.12, respectively. The Company also granted an immaterial amount of equity instruments other than options during 1997 and 1998.

On June 2, 1997 the Company effected a two-for-one stock split of the Company's common stock in the form of a 100% stock dividend. Per share and certain equity amounts set forth in the accompanying financial statements and notes have been adjusted to take into account the stock split.

12. Leases

The Company leases certain office space as well as data processing equipment and autos under operating leases that expire during the next eight years. Generally, all rental payments are fixed.

Total rental expense under operating leases was $5.4 million, $5.3 million and $5.1 million in 1998, 1997 and 1996, respectively.

At December 31, 1998, minimum future operating lease payments are as follows (in thousands of dollars):

1999	$	4,312
2000		2,897
2001		1,818
2002		1,180
2003		579
2004 and thereafter		418
Total	$	11,204

13. Contingencies

The Company is involved in litigation in the ordinary course of business. In the opinion of management, the ultimate disposition of the pending litigation will not have a material adverse effect on the financial position of the Company.

Report of Independent Accountants

To the Board of Directors & Shareholders of
MGIC Investment Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of MGIC Investment Corporation and Subsidiaries (the "Company") at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
January 6, 1999

Unaudited quarterly financial data

1998	Quarter First	Quarter Second	Quarter Third	Quarter Fourth	1998 Year
	(In thousands of dollars, except per share data)				
Net premiums written	$ 176,487	$ 186,663	$ 190,567	$ 195,444	$ 749,161
Net premiums earned	189,821	189,248	191,066	193,149	763,284
Investment income, net of expenses	34,389	35,325	36,461	36,844	143,019
Losses incurred, net	59,438	52,514	51,487	47,915	211,354
Underwriting and other expenses	45,158	45,532	46,498	52,843	190,031
Net income	94,047	95,212	96,492	99,714	385,465
Earnings per share (a):					
Basic	.83	.83	.87	.91	3.44
Diluted	.81	.82	.86	.91	3.39

1997	Quarter First	Quarter Second	Quarter Third	Quarter Fourth	1997 Year
	(In thousands of dollars, except per share data)				
Net premiums written	$ 155,606	$ 170,916	$ 184,003	$ 179,723	$ 690,248
Net premiums earned	170,292	173,479	180,542	184,431	708,744
Investment income, net of expenses	29,508	30,372	31,548	32,174	123,602
Losses incurred, net	63,194	58,251	60,785	60,132	242,362
Underwriting and other expenses	38,213	37,920	39,907	41,154	157,194
Net income	72,436	80,615	84,175	86,524	323,750
Earnings per share (a), (b):					
Basic	.61	.68	.73	.76	2.78
Diluted	.61	.67	.72	.75	2.75

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

(b) Amounts have been restated to reflect the provisions of SFAS 128.

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Directors

James A. Abbott
Retired, formerly President and Chief Executive Officer
First Union Mortgage Corporation
Charlotte, NC
A Mortgage Banking Company

Mary K. Bush
President
Bush & Company
Washington, D.C.
An International Financial Advisory Firm

Karl E. Case
Professor of Economics
Wellesley College
Wellesley, MA
A Private Women's College

Curt S. Culver
President and Chief Executive Officer
Mortgage Guaranty Insurance Corporation
Milwaukee, WI

David S. Engelman
Private Investor
Rancho Santa Fe, CA

James D. Ericson
President and Chief Executive Officer
The Northwestern Mutual Life Insurance Company
Milwaukee, WI
A Life Insurance Company

Daniel Gross
President and Chief Executive Officer
Enhance Financial Services Group Inc.
New York, NY
A Provider of Financial Guaranty Insurance, Reinsurance and Other Analytical Products and Services

Kenneth M. Jastrow, II
President and Chief Operating Officer
Temple-Inland Inc.
Austin, TX
A Holding Company with Interests in Paper, Forest Products and Financial Services

William H. Lacy
Chairman and Chief Executive Officer
MGIC Investment Corporation
Milwaukee, WI

Sheldon B. Lubar
Chairman
Lubar & Co. Incorporated
Milwaukee, WI
A Private Investment and Management Firm

William A. McIntosh
Adjunct Professor of Finance
Howard University
Washington, D.C.

Leslie M. Muma
Vice Chairman, President and Chief Operating Officer
Fiserv, Inc.
Brookfield, WI
A Financial Industry Automation Products and Services Company

Peter J. Wallison
Resident Fellow
The American Enterprise Institute for Public Policy Research
Washington, D.C.
A Policy Research Organization

Edward J. Zore
Executive Vice President (Life and DI Insurance)
The Northwestern Mutual Life Insurance Company
Milwaukee, WI
A Life Insurance Company

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MGIC Investment Corporation

Chairman and Chief Executive Officer
William H. Lacy

President
Curt S. Culver

Executive Vice President and Chief Financial Officer
J. Michael Lauer

Senior Vice Presidents
Jeffrey H. Lane
General Counsel and Secretary

Joseph J. Ziino, Jr.
Regulatory Relations, Associate General Counsel and Assistant Secretary

Vice Presidents
James A. Karpowicz
Treasurer

Patrick Sinks
Controller and Chief Accounting Officer

Mortgage Guaranty Insurance Corporation

Chairman of the Board
William H. Lacy

President and Chief Executive Officer
Curt S. Culver

Executive Vice Presidents
J. Michael Lauer
Chief Financial Officer

James S. MacLeod
Field Operations

Lawrence J. Pierzchalski
Risk Management

Gordon H. Steinbach
Credit Policy

Lou T. Zellner
Corporate Development

Senior Vice Presidents
Jeffrey H. Lane
General Counsel and Secretary

Michael G. Meade
Information Services

Steven T. Snodgrass
Capital Markets

Joseph J. Ziino, Jr.
Regulatory Relations, Associate General Counsel and Assistant Secretary

Vice Presidents
Joseph L. Birbaum
Credit Policy and Affordable Housing

Stephen L. Blose
Corporate Development

Norman E. Christman
National Accounts

Larry M. Dew, Jr.
Managing Director

Thomas A. Drew
Claims

Sandra K. Dunst
Capital Markets Operations

Henry W. Duvall, Jr.
Managing Director

Carla A. Gallas
Managing Director

David A. Greco
Marketing

Frank E. Hilliard
Contract Services

Steven F. Himebauch
National Accounts

James J. Hlavacek
National Accounts

W. Thomas Hughes
Managing Director

James A. Karpowicz
Treasurer

Joseph J. Komanecki
Tax

John D. Ludwick
Human Resources

Robin D. Mallory
Managing Director

Mark E. Marple
Mortgage Banking Strategies

James A. McGinnis
Investor Relations

Charlotte L. Reed
Information Services

John R. Schroeder
Risk Management

Patrick Sinks
Controller and Chief Accounting Officer

Dan D. Stilwell
Assistant General Counsel and Assistant Secretary

Thomas B. Theobald
Managing Director

Susan F. Tobin
Corporate Development

Bernhard W. Verhoeven
Corporate Development

Cheryl L. Webb
Managing Director

E. Stephen White
Managing Director

John S. Wiseman
Managing Director

Terrance R. Wright
Regulatory Relations

Michael J. Zimmerman
Mortgage Banking Strategies

*As of 3/1/99

Shareholder Information

The Annual Meeting

The Annual Meeting of Shareholders of MGIC Investment Corporation will convene at 9 a.m. (CDT) on May 6, 1999 in Vogel Hall, Marcus Center for the Performing Arts, 123 E. State Street, Milwaukee, Wisconsin.

10-K Report

Copies of the Annual Report on Form 10-K, filed with the Securities and Exchange Commission, will be available without charge after March 31, 1999, to shareholders on request from:

Secretary
MGIC Investment Corporation
P.O. Box 488
Milwaukee, WI 53201

Transfer Agent and Registrar

Firstar Bank Milwaukee, N.A.
Corporate Trust Services
1555 North RiverCenter Drive
Suite 301
Milwaukee, Wisconsin 53212
(414) 276-3737
(800) 637-7549

Corporate Headquarters

MGIC Plaza
250 East Kilbourn Avenue
Milwaukee, Wisconsin 53202

Mailing Address

P.O. Box 488
Milwaukee, Wisconsin 53201

Shareholders' Services

(414) 347-6596

MGIC Stock

MGIC Investment Corporation Common Stock is listed on the New York Stock Exchange under the symbol MTG. At December 31, 1998, 109,003,032 shares were outstanding. The following table sets forth for 1997 and 1998 by quarter the high and low sales prices of the Company's common stock on the New York Stock Exchange Composite Tape.

	1997		1998	
Quarters	High	Low	High	Low
1st	$ 40.7500	$ 35.3750	$ 74.5000	$ 62.0000
2nd	50.2500	35.2500	69.0000	55.3750
3rd	59.7500	46.1250	65.4375	36.8750
4th	66.9375	55.6250	48.2500	24.2500

In 1997 and 1998 the Company declared and paid the following cash dividends:

Quarters	1997	1998
1st	$ .020	$ .025
2nd	.025	.025
3rd	.025	.025
4th	.025	.025
	$ .095	$ .100

Dividend and stock price per data have been restated where applicable to reflect the June 1997 two-for-one stock split.

See Note 11 to the Consolidated Financial Statements for information relating to restrictions on the payment of cash dividends.

As of January 31, 1999, the number of shareholders of record was 364. In addition, there were approximately 29,000 beneficial owners of shares held by brokers and fiduciaries.

MGIC Investment Corporation

MGIC Plaza, Milwaukee, Wisconsin 53202