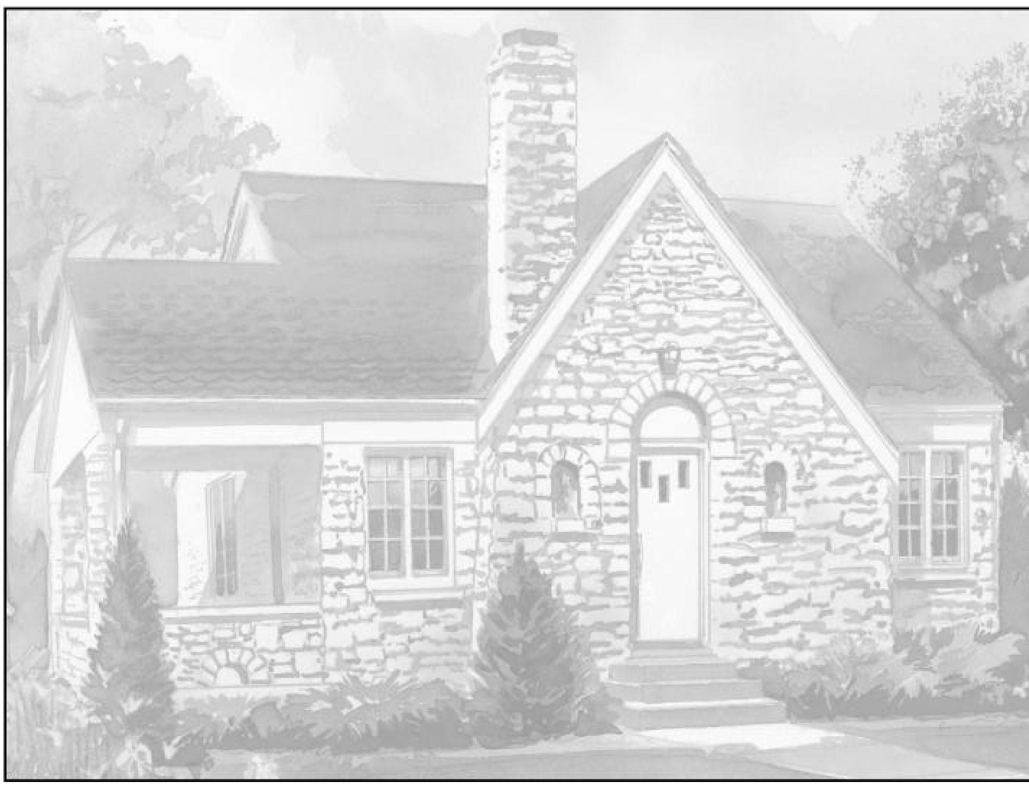
MGIC

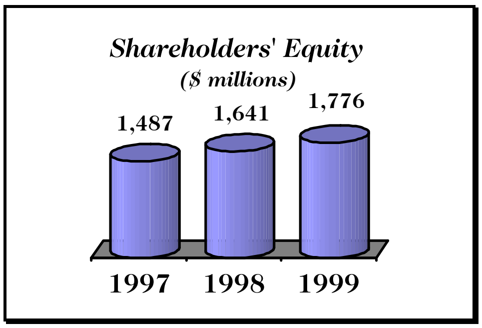


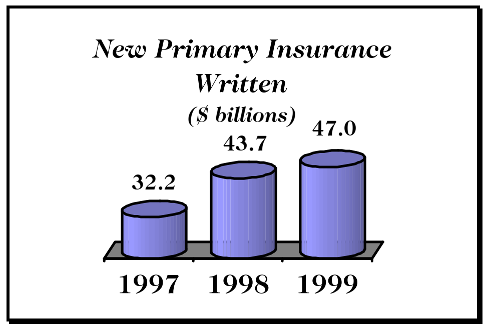
1999 Annual Report

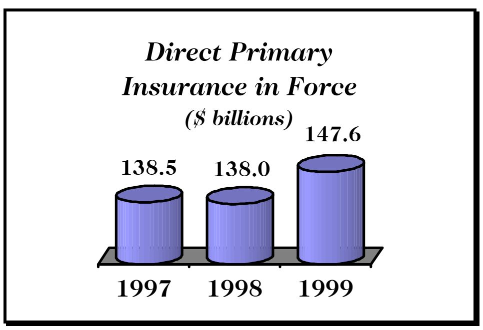
MGIC Investment Corporation

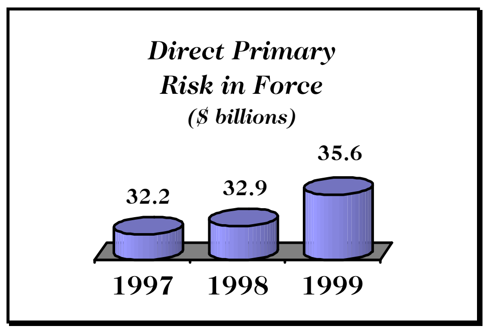
Financial Highlights

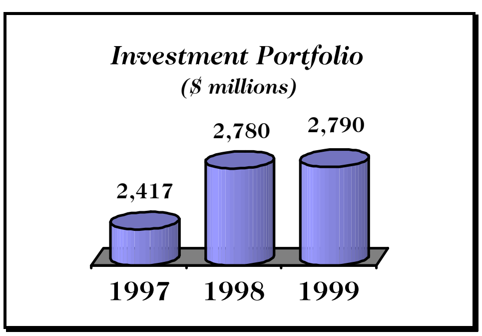
	1997	1998	1999
Net income ($ millions)	323.8	385.5	**470.2**
Diluted earnings per share ($)	2.75	3.39	**4.30**
Return on equity (%)	22.5	24.2	**26.8**

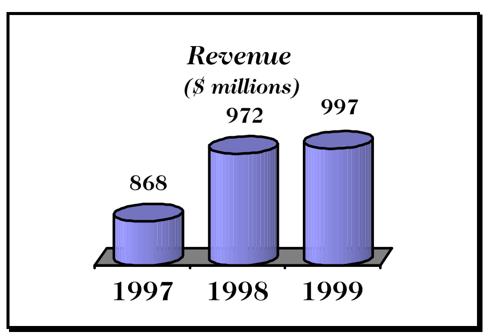












Fellow Shareholders

As MGIC Investment Corporation enters 2000 having achieved another year of record financial performance in 1999, I am excited about the opportunity ahead and, in particular, the growing role technology will play in our future success. But first, a review of 1999's results.

MGIC Investment earned a record $470 million in 1999, a 22 percent increase over 1998. Diluted earnings per share rose 27 percent to a record $4.30, including $0.02 for realized gains. On the way to achieving these record results our principal subsidiary, Mortgage Guaranty Insurance Corporation (MGIC), posted two records of its own -- new insurance writings of $47 billion and insurance in force of $148 billion.

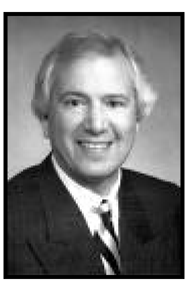
Conditions improved for MGIC throughout 1999 as slowing refinance activity reduced the level of policy cancellations, and claim losses declined. Aided by a strong economy and the second largest home mortgage origination market in history, the homeownership rate in America rose to an all-time record of 67%. As a result, with MGIC's help, more young, immigrant, minority and low-income families qualified to own homes.

In 2000, MGIC will continue to build on the strategies that helped increase our industry-leading market share in 1999. We again will focus on expanding and strengthening strategic relationships with our customers -- home mortgage lenders and investors -- by providing the most affordable, flexible and efficient mortgage insurance coverage available in addition to products and services which enhance their competitiveness and profitability. Our use of technology will continue to grow, not only to increase MGIC's productivity, but also to generate additional revenue for MGIC.

Technology is changing the mortgage finance landscape at an accelerating pace, creating tremendous opportunity for MGIC. Our investments in this area have positioned MGIC as an industry leader. Recently we announced the formation of eMagic.com, LLC, which we hope to develop into the Internet's premier business-to-business vertical portal for open access to all products and services necessary to assemble a home mortgage. eMagic offers a unique opportunity to leverage our strong relationships and strong brand to reduce mortgage origination costs for our customers and uncover new revenue opportunities for the company. In September 1999, we announced the formation of Customers Forever, LLC, a joint venture with Marshall & Ilsley Corporation and its highly regarded Data Services unit. Customers Forever is an Internet-focused transaction services company dedicated to helping the largest mortgage servicing companies retain and enhance their relationship with existing customers while lowering the cost of servicing. In so doing, Customers Forever helps to further strengthen our relationships with customers and provides us with another financial opportunity.

New technologies also have helped MGIC reduce the cost of doing business. MGIC's industry leadership in productivity and loss performance is due, in no small part, to the continuing application of technology in each of our major internal processing functions -- from the receipt of insurance applications and premiums to default reporting and claim payment. Some of these processes have already moved to the Internet, with more to follow.

Financial strength and flexibility remain priorities for the company. We continue to build a high quality investment portfolio which supports our loss reserves and growing capital base. Our strong capital base enables us to grow our core mortgage insurance business, and also to invest in new opportunities which promise attractive returns to our shareholders, such as our second mortgage insurance product and our insurance for borrowers with less-than-perfect credit. In addition, we continue to prudently deploy capital in related businesses where MGIC can leverage its core competencies.



Curt S. Culver
President and Chief Executive Officer

In closing, I would like to recognize the considerable contributions of Bill Lacy who retired as Chairman and Chief Executive Officer at the end of December. During his leadership tenure, revenues increased six-fold to $1 billion and earnings grew from a net loss of $32.1 million in 1987 to net income of $470 million in 1999. But perhaps even more important than past financial results is the legacy Bill Lacy leaves to all of us -- the strongest franchise in the mortgage insurance industry.

Sincerely,

Five-Year Summary of Financial Information

	1999	1998	1997	1996	1995
		(In thousands of dollars, except per share data)			
Summary of Operations					
Revenues:					
Net premiums written	**$ 792,345**	$ 749,161	$ 690,248	$ 588,927	$ 480,312
Net premiums earned	**$ 792,581**	$ 763,284	$ 708,744	$ 617,043	$ 506,500
Investment income, net	**153,071**	143,019	123,602	105,355	87,543
Realized investment gains, net	**3,406**	18,288	3,261	1,220	1,496
Other revenue	**47,697**	47,075	32,665	22,013	22,347
Total revenues	**996,755**	971,666	868,272	745,631	617,886
Losses and expenses:					
Losses incurred, net	**97,196**	211,354	242,362	234,350	189,982
Underwriting and other expenses	**200,779**	190,031	157,194	146,483	137,559
Interest expense	**20,402**	18,624	6,399	3,793	3,821
Ceding commission	**(2,632)**	(2,928)	(3,056)	(4,023)	(4,885)
Total losses and expenses	**315,745**	417,081	402,899	380,603	326,477
Income before tax	**681,010**	554,585	465,373	365,028	291,409
Provision for income tax	**210,809**	169,120	141,623	107,037	83,844
Net income	**$ 470,201**	$ 385,465	$ 323,750	$ 257,991	$ 207,565
Weighted average common shares outstanding (in thousands) (1)	**109,258**	113,582	117,924	119,046	118,567
Diluted earnings per share (1)	**$ 4.30**	$ 3.39	$ 2.75	$ 2.17	$ 1.75
Dividends per share (1)	**$ .10**	$ .10	$ .095	$ .08	$ .08
Balance sheet data					
Total investments	**$ 2,789,734**	$ 2,779,706	$ 2,416,740	$ 2,036,234	$ 1,687,221
Total assets	**3,104,393**	3,050,541	2,617,687	2,222,315	1,874,719
Loss reserves	**641,978**	681,274	598,683	514,042	371,032
Long-term notes payable	**425,000**	442,000	237,500	-	35,799
Shareholders' equity	**1,775,989**	1,640,591	1,486,782	1,366,115	1,121,392
Book value per share	**16.79**	15.05	13.07	11.59	9.56

(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

	1999	1998	1997	1996	1995
New primary insurance written ($ millions)	**$ 46,953**	$ 43,697	$ 32,250	$ 32,756	$ 30,277
New primary risk written ($ millions)	**11,422**	10,850	8,305	8,305	7,599
New pool risk written ($ millions)	**564**	618	394	2	1
Insurance in force (at year-end) ($ millions)					
Direct primary insurance	**147,607**	137,990	138,497	131,397	120,341
Direct primary risk	**35,623**	32,891	32,175	29,308	25,502
Direct pool risk	**1,557**	1,133	590	232	254
Primary loans in default ratios					
Policies in force	**1,370,020**	1,320,994	1,342,976	1,299,038	1,219,304
Loans in default	**29,761**	29,253	28,493	25,034	19,980
Percentage of loans in default	**2.17%**	2.21%	2.12%	1.93%	1.64%
Insurance operating ratios (GAAP)					
Loss ratio	**12.3%**	27.7%	34.2%	38.0%	37.5%
Expense ratio	**19.7%**	19.6%	18.4%	21.6%	24.6%
Combined ratio	**32.0%**	47.3%	52.6%	59.6%	62.1%
Risk-to-capital ratios (statutory)					
Combined insurance subsidiaries	**12.9:1**	13.6:1	16.4:1	18.8:1	19.9:1
MGIC	**11.9:1**	12.9:1	15.7:1	18.1:1	19.1:1

Results of Consolidated Operations

1999 Compared with 1998

Net income for 1999 was $470.2 million, compared with $385.5 million in 1998, an increase of 22%. Diluted earnings per share for 1999 was $4.30, compared with $3.39 in 1998, an increase of 27%. Included in the 1999 diluted earnings per share was $0.02 for realized gains compared with $0.10 for realized gains in 1998. The percentage increase in diluted earnings per share was favorably affected by the lower adjusted shares outstanding in 1999 as a result of common stock repurchased by the Company in the second half of 1998 and during the third quarter of 1999.

The amount of new primary insurance written by Mortgage Guaranty Insurance Corporation ("MGIC") during 1999 was $47.0 billion, compared with $43.7 billion in 1998. Refinancing activity decreased to 25% of new primary insurance written in 1999, compared to 31% in 1998 as a result of the increasing mortgage interest rate environment of the second half of 1999.

The $47.0 billion of new primary insurance written during 1999 was offset by the cancellation of $37.4 billion of insurance in force, and resulted in a net increase of $9.6 billion in primary insurance in force, compared to new primary insurance written of $43.7 billion, cancellation of $44.2 billion, and a net decrease of $0.5 billion in insurance in force during 1998. Direct primary insurance in force was $147.6 billion at December 31, 1999, compared to $138.0 billion at December 31, 1998.

In addition to providing direct primary insurance coverage, the Company also insures pools of mortgage loans. New pool risk written during 1999 and 1998, which was virtually all agency pool insurance, was $563.8 million and $618.1 million, respectively. The Company's direct pool risk in force at December 31, 1999 was $1.6 billion compared to $1.1 billion at December 31, 1998.

In December 1999, a complaint seeking class action status on behalf of a nationwide class of home mortgage borrowers was filed against MGIC in Federal District Court in Augusta, Georgia (the "RESPA Litigation"). The complaint in the RESPA Litigation alleges that MGIC violated the Real Estate Settlement Procedures Act ("RESPA") by providing agency pool insurance and entering into other transactions with lenders that were not properly priced, in return for the referral of mortgage insurance. The complaint seeks damages of three times the amount of the mortgage insurance premiums that have been paid and that will be paid for the mortgage insurance that is found to be involved in a violation of RESPA. In February 2000, MGIC answered the complaint and denied liability. There can be no assurance, however, that the ultimate outcome of the RESPA Litigation will not materially affect the Company.

Cancellation activity has historically been affected by the level of mortgage interest rates, with cancellations generally moving inversely to the change in the direction of interest rates. Cancellations decreased during 1999 due to increasing mortgage interest rates which resulted in an increase in the MGIC persistency rate (percentage of insurance remaining in force from one year prior) to 72.9% at December 31, 1999, from 68.1% at December 31, 1998. Future cancellation activity could be somewhat higher than it otherwise would have been as a result of legislation that went into effect in July 1999 regarding cancellation of mortgage insurance.

Net premiums written increased 6% to $792.3 million in 1999, from $749.2 million in 1998. Net premiums earned increased 4% to $792.6 million in 1999, from $763.3 million in 1998. 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 offset by an increase in ceded premiums to $26.2 million in 1999, compared to $14.8 million in 1998, primarily due to an increase in captive mortgage reinsurance.

Mortgages (newly insured during 1999 or 1998) equal to approximately 32% of MGIC's new insurance written during 1999 were subject to captive mortgage reinsurance and similar arrangements compared to 16% during 1998. Such arrangements entered into during a reporting period customarily include loans newly insured in a prior reporting period. As a result, the percentages cited above would be lower if only the current reporting period's newly insured mortgages subject to such arrangements were included. The percentage of new insurance written subject to captive mortgage reinsurance arrangements is expected to increase during 2000 as new transactions are consummated. At December 31, 1999 approximately 15% of MGIC's risk in force was subject to captive reinsurance and similar arrangements compared to 7% at December 31, 1998. 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. The complaint in the RESPA Litigation alleges that MGIC pays "inflated" captive mortgage reinsurance premiums in violation of RESPA.

During the first quarter of 1999, Fannie Mae and Freddie Mac ("GSEs") changed their mortgage insurance requirements for certain mortgages approved by their automated underwriting services. The changes permit lower coverage percentages on these loans than the deeper coverage percentages that went into effect in 1995. 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 results could also be affected to the extent the GSEs are compensated for assuming default risk that would otherwise be insured by the private mortgage insurance industry. The GSEs have programs under which a delivery fee is paid to them, with mortgage insurance coverage reduced below the coverage that would be required in the absence of the delivery fee.

In partnership with mortgage insurers, the GSEs are also beginning to offer programs under which, on delivery of an insured loan to a GSE, the primary coverage is restructured to an initial shallow tier of coverage followed by a second tier that is subject to an overall loss limit and, depending on the program, some compensation may be paid to the GSE for services. Because lenders receive guaranty fee relief from the GSEs on mortgages delivered with these restructured coverages, participation in these programs is competitively significant to mortgage insurers.

In March 1999, the Office of Federal Housing Enterprise Oversight ("OFHEO") released a proposed risk-based capital stress test for the GSEs. One of the elements of the proposed stress test is that future claim payments made by a private mortgage insurer on GSE loans are reduced below the amount provided by the mortgage insurance policy to reflect the risk that the insurer will fail to pay. Claim payments from an insurer whose claims-paying ability rating is 'AAA' are subject to a 10% reduction over the 10-year period of the stress test, while claim payments from a 'AA' rated insurer, such as MGIC, are subject to a 20% reduction. The effect of the differentiation among insurers is to require the GSEs to have additional capital for coverage on loans provided by a private mortgage insurer whose claims-paying rating is less than 'AAA.' As a result, if adopted as proposed, there is an incentive for the GSEs to use private mortgage insurance provided by a 'AAA' rated insurer. The Company does not believe there should be a reduction in claim payments from private mortgage insurance nor should there be a distinction between 'AAA' and 'AA' rated private mortgage insurers. The proposed stress test covers many topics in addition to capital credit for private mortgage insurance and is not expected to become final for some time. If the stress test ultimately gives the GSEs an incentive to use 'AAA' mortgage insurance, MGIC may need 'AAA' capacity, which in turn would entail using capital to support such a facility as well as additional expenses. The Company cannot predict whether the portion of the stress test discussed above will be adopted in its present form.

Investment income for 1999 was $153.1 million, an increase of 7% over the $143.0 million in 1998. This increase was primarily the result of an increase in the amortized cost of average investment assets to $2.7 billion for 1999, from $2.5 billion for 1998, an increase of 11%. The portfolio's average pre-tax investment yield was 5.6% in 1999 and 1998. The portfolio's average after-tax investment yield was 4.9% in 1999 and 1998. The Company realized gains of $3.4 million during 1999 compared to $18.3 million in 1998. The decrease is primarily the result of gains on the sale of equity securities in 1998 compared to no such gains in 1999.

Other revenue, which is composed of various components, was $47.7 million in 1999, compared with $47.1 million in 1998. The change is primarily the result of an increase 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. ("Enhance"), offset by equity losses from two joint ventures formed in 1999, Sherman Financial Group LLC, ("Sherman," another joint venture with Enhance) and Customers Forever LLC ("Customers Forever," a joint venture with Marshall & Ilsley Corporation) and a decrease in contract underwriting revenue.

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. C-BASS's results of operations are affected by the timing of these securitization transactions. Substantially all of C-BASS's mortgage-related assets do not have readily ascertainable market values and as a result their value for financial statement purposes is estimated by the management of C-BASS. Market value adjustments could impact the Company's share of C-BASS's results of operations.

At December 31, 1999 the Company had contributed approximately $54 million of capital to C-BASS. Total combined assets of C-BASS at December 31, 1999 and 1998 were approximately $934 million and $623 million, respectively, of which approximately $773 million and $550 million, respectively, were mortgage-related assets, including open trades. Total liabilities at December 31, 1999 and 1998 were approximately $744 million and $468 million, respectively, of which approximately $617 million and $459 million, respectively, were funding arrangements, including accrued interest. For the years ended December 31, 1999 and 1998, revenues of approximately $112 million and $70 million, respectively, and expenses of approximately $72 million and $44 million, respectively, resulted in income before tax of approximately $40 million and $26 million, respectively.

Sherman is engaged in the business of purchasing, servicing and securitizing delinquent unsecured consumer assets such as credit card loans and Chapter 13 bankruptcy debt. A substantial portion of Sherman's consolidated assets are investments in receivable portfolios that do not have readily ascertainable market values and as a result their value for financial statement purposes is estimated by the management of Sherman. Market value adjustments could impact the Company's share of Sherman's results of operations.

Customers Forever, established during the third quarter of 1999, is an Internet-focused transaction service company dedicated to helping large residential mortgage servicers retain and enhance relationships with their customers nationwide.

Net losses incurred decreased 54% to $97.2 million in 1999, from $211.4 million in 1998. Such decrease was primarily due to generally strong economic conditions, improvement in the California real estate market, and MGIC's claims mitigation efforts, which in the aggregate resulted in a decline in losses paid and led the Company to reduce its estimate of the claim rate and the severity (the "reserve factors") for loans in both the primary and pool notice inventory. Partially offsetting the reduction in reserve factors was an increase in the primary insurance notice inventory from 29,253 at December 31, 1998 to 29,761 at December 31, 1999 and an increase in pool insurance notice inventory from 6,524 at December 31, 1998 to 11,638 at December 31, 1999. The reasons for the decrease in net losses incurred discussed above contributed to an increase in the redundancy in prior year loss reserves. 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, 1998. For additional information, see Note 6 of the Notes to the Consolidated Financial Statements.

At December 31, 1999, 65% of the primary insurance in force was written during the last three years, compared to 60% at December 31, 1998. 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 6% in 1999 to $200.8 million from $190.0 million in 1998. This increase was primarily due to the increase in new primary insurance written and the related underwriting expenses.

Interest expense in 1999 increased to $20.4 million from $18.6 million in 1998 due to a higher weighted average outstanding notes payable balance in 1999 compared to 1998.

The Company utilized financial derivative transactions during 1999 consisting of interest rate swaps to reduce and manage interest rate risk on its notes payable. Earnings on such transactions aggregated approximately $3.8 million and were netted against interest expense. 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 12.3% for 1999 compared to 27.7% for 1998. The consolidated insurance operations expense and combined ratios were 19.7% and 32.0%, respectively, for 1999 compared to 19.6% and 47.3%, respectively, for 1998.

The effective tax rate was 31.0% in 1999, compared with 30.5% in 1998. 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 1999 resulted from a lower percentage of total income before tax being generated from tax-preferenced investments in 1999.

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 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.

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 to 68.1% at December 31, 1998, from 80.9% at December 31, 1997.

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.

For a discussion of captive mortgage reinsurance and similar arrangements, certain programs with the GSEs regarding mortgage insurance and proposed capital regulations for the GSEs, see the 1999 compared with 1998 discussion.

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 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. Substantially all of these mortgage-related assets do not have readily ascertainable market values and as a result their value for financial statement purposes is estimated by the management of C-BASS. 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.

Financial Condition

Consolidated total investments were $2.8 billion at December 31, 1999 and December 31, 1998. During 1999, positive net cash flow of approximately $220 million was offset by unrealized losses on securities marked to market of $208.2 million. The Company generated consolidated cash flows from operating activities of $455.0 million during 1999, compared to $411.8 million generated during 1998. The difference between the $220 million of positive net cash flow and the $455 million of positive cash flow from operating activities is primarily the result of cash used in financing activities. The increase in operating cash flows during 1999 compared to 1998 is due primarily to an increase in renewal premiums and investment income and a decrease in losses paid offset by an increase in underwriting expenses. As of December 31, 1999, the Company had $107.7 million of short-term investments with maturities of 90 days or less, and 75% of the portfolio was invested in tax-preferenced securities.

In addition, at December 31, 1999, 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, 1999 the Company had $15.4 million of investments in equity securities compared to $4.6 million at December 31, 1998.

At December 31, 1999, 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, 1999, the average duration of the Company's investment portfolio was 6.6 years. The effect of a 1% increase/decrease in market interest rates would result in a 6.6% decrease/increase in the value of the Company's fixed income portfolio.

The Company's investments in joint ventures increased $26.2 million from $75.3 million at December 31, 1998 to $101.5 million at December 31, 1999 as a result of additional investments of $13.6 million and equity earnings of $12.6 million.

Consolidated loss reserves decreased 6% to $642.0 million at December 31, 1999 from $681.3 million at December 31, 1998, reflecting a reduction in the primary and pool reserve factors partially offset by increases in the primary and pool insurance notice inventories all of which were discussed earlier. Consistent with industry practices, the Company does not establish loss reserves for future claims on insured loans which are not currently in default.

Consolidated unearned premiums decreased $2.3 million from $183.7 million at December 31, 1998, to $181.4 million at December 31, 1999, primarily reflecting the continued high level of monthly premium policies written (for which there is no unearned premium) offset by an increase in unearned premiums for agency pool insurance written.

Consolidated shareholders' equity increased to $1.8 billion at December 31, 1999, from $1.6 billion at December 31, 1998, an increase of 8%. This increase consisted of $470.2 million of net income during 1999 and $11.9 million from the reissuance of treasury stock, offset by the repurchase of $200.5 million of outstanding common shares, unrealized losses on investments, net of tax, of $135.3 million and dividends declared of $10.8 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 71% 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 8%, respectively, of total operating expenses. The Company generated positive cash flows of approximately $455.0 million, $411.8 million and $374.0 million in 1999, 1998 and 1997, 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 1999, 1998 and 1997, the Company repurchased approximately 3.6 million, 5.3 million and 4.7 million shares, respectively, of its outstanding common stock at a cost of approximately $201 million, $247 million and $248 million, respectively. Funds to repurchase the shares in 1997 and 1998 were primarily provided by borrowings under credit facilities evidenced by notes payable. The shares repurchased in 1999 were funded with a $150 million special dividend from MGIC and cash flow. The Company cannot predict whether it will repurchase additional shares in 2000.

The 1997 and 1998 credit facilities provide up to $200 million and $225 million, respectively, of availability at December 31, 1999. 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 will decrease by $25 million each year 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. In addition to the 1997 and 1998 credit facilities, the Company entered into a $100 million credit facility in November 1999. At December 31, 1999, there were no outstanding borrowings under this facility.

MGIC had guaranteed one half of a $50 million credit facility for C-BASS that was repaid in July 1999. MGIC is guaranteeing one half of a $50 million credit facility for Sherman that is scheduled to expire in June 2000. The Company expects it will provide additional funding to the joint ventures.

MGIC is the principal insurance subsidiary of the Company. MGIC's risk-to-capital ratio was 11.9:1 at December 31, 1999 compared to 12.9:1 at December 31, 1998. The decrease was due to MGIC's increased policyholders' reserves, partially offset by the net additional risk in force of $2.5 billion, net of reinsurance, during 1999.

The Company's combined insurance risk-to-capital ratio was 12.9:1 at December 31, 1999, compared to 13.6:1 at December 31, 1998. 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.

The Company is a holding company and the payment of dividends from its insurance subsidiaries is restricted by insurance regulation. For a discussion of these restrictions, see Note 11 of the Notes to the Consolidated Financial Statements.

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 GSEs' charters when PMI is used as the required credit enhancement on low down payment mortgages,
- whether the GSE influences the mortgage lender's selection of the mortgage insurer providing coverage and, if so, any transactions that are related to that selection,
- whether a GSE will give mortgage lenders an incentive to select a mortgage insurer which has a 'AAA' claims-paying ability rating to benefit from the lower capital required of the GSE under OFHEO's proposed stress test when a mortgage is insured by a 'AAA' company,
- 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. In particular, MGIC is a defendant in a lawsuit filed in December 1999 alleging violations of the Real Estate Settlement Procedures Act ("RESPA"). The lawsuit seeks damages of three times the amount of the mortgage insurance premiums that have been paid and that will be paid for the mortgage insurance that is found to be involved in a violation of RESPA. There can be no assurance that the lawsuit against MGIC will not have a material adverse effect on the Company.

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. Affiliates of lenders who are regulated depositary institutions gained expanded insurance powers under financial modernization and the capital markets may 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.

Consolidated Statement of Operations

	1999	1998	1997
REVENUES:	*(In thousands of dollars, except per share data)*		
Premiums written:			
Direct	**$ 816,351**	$ 755,620	$ 692,134
Assumed	**2,215**	8,352	11,597
Ceded (note 7)	**(26,221)**	(14,811)	(13,483)
Net premiums written	**792,345**	749,161	690,248
Decrease in unearned premiums	**236**	14,123	18,496
Net premiums earned (note 7)	**792,581**	763,284	708,744
Investment income, net of expenses (note 4)	**153,071**	143,019	123,602
Realized investment gains, net (note 4)	**3,406**	18,288	3,261
Other revenue	**47,697**	47,075	32,665
Total revenues	**996,755**	971,666	868,272
LOSSES AND EXPENSES:			
Losses incurred, net (notes 6 and 7)	**97,196**	211,354	242,362
Underwriting and other expenses	**200,779**	190,031	157,194
Interest expense	**20,402**	18,624	6,399
Ceding commission (note 7)	**(2,632)**	(2,928)	(3,056)
Total losses and expenses	**315,745**	417,081	402,899
Income before tax	**681,010**	554,585	465,373
Provision for income tax (note 10)	**210,809**	169,120	141,623
Net income	**$ 470,201**	$ 385,465	$ 323,750
Earnings per share (note 11):			
Basic	**$ 4.35**	$ 3.44	$ 2.78
Diluted	**$ 4.30**	$ 3.39	$ 2.75

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

	1999	1998
	(In thousands of dollars)	
ASSETS		
Investment portfolio (note 4):		
Securities, available-for-sale, at market value:		
Fixed maturities	**$ 2,666,562**	$ 2,602,870
Equity securities	**15,426**	4,627
Short-term investments	**107,746**	172,209
Total investment portfolio	**2,789,734**	2,779,706
Cash	**2,322**	4,650
Accrued investment income	**46,713**	41,477
Reinsurance recoverable on loss reserves (note 7)	**35,821**	45,527
Reinsurance recoverable on unearned premiums (note 7)	**6,630**	8,756
Home office and equipment, net	**32,880**	32,400
Deferred insurance policy acquisition costs	**22,350**	24,065
Investments in joint ventures (note 8)	**101,545**	75,246
Other assets	**66,398**	38,714
Total assets	**$ 3,104,393**	$ 3,050,541
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Loss reserves (notes 6 and 7)	**$ 641,978**	$ 681,274
Unearned premiums (note 7)	**181,378**	183,739
Notes payable (note 5)	**425,000**	442,000
Other liabilities	**80,048**	102,937
Total liabilities	**1,328,404**	1,409,950
Contingencies (note 13)		
Shareholders' equity (note 11):		
Common stock, $1 par value, shares authorized 300,000,000; shares issued 121,110,800; outstanding 1999 - 105,798,034; 1998 - 109,003,032	**121,111**	121,111
Paid-in surplus	**211,593**	217,022
Treasury stock (shares at cost 1999 - 15,312,766; 1998 - 12,107,768)	**(665,707)**	(482,465)
Accumulated other comprehensive income - unrealized (depreciation) appreciation in investments, net of tax (note 2)	**(40,735)**	94,572
Retained earnings (note 11)	**2,149,727**	1,690,351
Total shareholders' equity	**1,775,989**	1,640,591
Total liabilities and shareholders' equity	**$ 3,104,393**	$ 3,050,541

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, 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	-	-	(248,426)	-	(11,029)	
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	
Net income	**-**	**-**	**-**	**-**	**470,201**	**$ 470,201**
Unrealized investment losses, net	**-**	**-**	**-**	**(135,307)**	**-**	**(135,307)**
Comprehensive income	**-**	**-**	**-**	**-**	**-**	**$ 334,894**
Dividends declared	**-**	**-**	**-**	**-**	**(10,825)**	
Repurchase of outstanding common shares	**-**	**-**	**(200,533)**	**-**	**-**	
Reissuance of treasury stock	**-**	**(5,429)**	**17,291**	**-**	**-**	
Balance, December 31, 1999	**$ 121,111**	**$ 211,593**	**$ (665,707)**	**$ (40,735)**	**$ 2,149,727**	

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

	1999	1998	1997
		(In thousands of dollars)	
Cash flows from operating activities:			
Net income	**$ 470,201**	$ 385,465	$ 323,750
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred insurance policy acquisition costs	**16,822**	20,717	21,373
Increase in deferred insurance policy acquisition costs	**(15,107)**	(17,626)	(16,573)
Depreciation and other amortization	**11,746**	7,742	8,187
Increase in accrued investment income	**(5,236)**	(5,992)	(2,122)
Decrease (increase) in reinsurance recoverable on loss reserves	**9,706**	(19,112)	3,412
Decrease in reinsurance recoverable on unearned premiums	**2,126**	483	2,506
(Decrease) increase in loss reserves	**(39,296)**	82,591	84,641
Decrease in unearned premiums	**(2,361)**	(14,566)	(21,002)
Equity earnings in joint ventures	**(12,700)**	(12,420)	(7,100)
Other	**19,114**	(15,500)	(23,023)
Net cash provided by operating activities	**455,015**	411,782	374,049
Cash flows from investing activities:			
Purchase of equity securities	**(14,035)**	(3,886)	(112,780)
Purchase of fixed maturities	**(1,223,599)**	(916,129)	(685,217)
Investments in joint ventures	**(13,599)**	(33,426)	(7,350)
Proceeds from sale of equity securities	**4,150**	116,164	9,971
Proceeds from sale or maturity of fixed maturities	**949,723**	529,358	447,284
Net cash used in investing activities	**(297,360)**	(307,919)	(348,092)
Cash flows from financing activities:			
Dividends paid to shareholders	**(10,825)**	(11,243)	(11,029)
Net (decrease) increase in notes payable	**(17,000)**	204,500	202,076
Reissuance of treasury stock	**3,912**	6,953	7,073
Repurchase of common stock	**(200,533)**	(246,840)	(248,426)
Net cash used in financing activities	**(224,446)**	(46,630)	(50,306)
Net increase (decrease) in cash and cash equivalents	**(66,791)**	57,233	(24,349)
Cash and cash equivalents at beginning of year	**176,859**	119,626	143,975
Cash and cash equivalents at end of year	**$ 110,068**	$ 176,859	$ 119,626

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 and portfolio analysis.

At December 31, 1999, 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 $147.6 billion and $35.6 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, 1999 was approximately $1.6 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. WMAC's direct primary insurance in force, direct primary risk in force and direct pool risk in force was approximately $2.3 billion, $0.6 billion and $0.4 billion, respectively, at December 31, 1999. (See note 7.)

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") and 45.5% investment in Sherman Financial Group LLC, ("Sherman"), joint ventures with Enhance Financial Services Group Inc. and 47% investment in Customers Forever LLC, ("Customers Forever"), a joint venture with Marshall & Ilsley Corporation, are accounted for on the equity method and recorded on the balance sheet as investments in joint ventures. The Company's equity earnings from these joint ventures 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 1997, 1998 and 1999, 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 $31.5 million and $45.2 million at December 31, 1999 and 1998, 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,		
	1999	1998	1997
	(shares in thousands)		
Weighted-average shares - Basic EPS	108,061	112,135	116,332
Common stock equivalents	1,197	1,447	1,592
Weighted-average shares - Diluted EPS	109,258	113,582	117,924

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.

Comprehensive income

The Company adopted Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income. The Company's other comprehensive income consists of the change in unrealized appreciation (depreciation) on investments, net of tax. Realized investment gains of $3.4 million and $18.3 million in 1999 and 1998, respectively, include sales of securities which had unrealized appreciation of $27.9 million and $19.0 million at December 31, 1998 and 1997, respectively.

Recent accounting pronouncements

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, 2000. 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 note 4.)

Reclassifications

Certain reclassifications have been made in the accompanying financial statements to 1998 and 1997 amounts to allow for consistent financial reporting.

3. *Related party transactions*

The Northwestern Mutual Life Insurance Company ("NML") held approximately 11% of the common stock of the Company at December 31, 1999. The Company contracts with Northwestern Mutual Investment Services, LLC, a subsidiary of NML, for investment portfolio management. The Company incurred expense of $1.0 million, $1.0 million and $1.1 million for these services in 1999, 1998 and 1997, respectively.

The Company provided certain services to C-BASS during 1999, 1998 and 1997, and Customers Forever in 1999 in exchange for an immaterial amount of fees. In addition, C-BASS provided certain services to the Company during 1999 in exchange for an immaterial amount of fees.

4. *Investments*

The following table summarizes the Company's investments at December 31, 1999 and 1998:

	Amortized Cost	Market Value	Financial Statement Value
	(In thousands of dollars)		
At December 31, 1999:			
Securities, available-for-sale:			
Fixed maturities	$ 2,732,451	$ 2,666,562	$ 2,666,562
Equity securities	12,203	15,426	15,426
Short-term investments	107,746	107,746	107,746
Total investment portfolio	$ 2,852,400	$ 2,789,734	$ 2,789,734
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

The amortized cost and market value of investments at December 31, 1999 are as follows:

December 31, 1999:	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	$ 163,663	$ 305	$ (9,162)	$ 154,806
Obligations of states and political subdivisions	2,195,031	25,196	(71,323)	2,148,904
Corporate securities	466,204	469	(11,406)	455,267
Mortgage-backed securities	1,366	-	(8)	1,358
Debt securities issued by foreign sovereign governments	13,933	55	(15)	13,973
Total debt securities	2,840,197	26,025	(91,914)	2,774,308
Equity securities	12,203	3,223	-	15,426
Total investment portfolio	$ 2,852,400	$ 29,248	$ (91,914)	$ 2,789,734

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 values of debt securities at December 31, 1999, 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	$ 116,762	$ 116,852
Due after one year through five years	458,897	462,135
Due after five years through ten years	886,841	881,439
Due after ten years	1,376,331	1,312,524
	2,838,831	2,772,950
Mortgage-backed securities	1,366	1,358
Total at December 31, 1999	$ 2,840,197	$ 2,774,308

Net investment income is comprised of the following:

	1999	1998	1997
		(In thousands of dollars)	
Fixed maturities	$ 144,614	$ 133,307	$ 117,448
Equity securities	975	1,133	485
Short-term investments	8,865	9,603	6,813
Other	46	79	65
Investment income	154,500	144,122	124,811
Investment expenses	(1,429)	(1,103)	(1,209)
Net investment income	$ 153,071	$ 143,019	$ 123,602

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

	1999	1998	1997
		(In thousands of dollars)	
Net realized investment gains (losses), on sale of investments:			
Fixed maturities	$ 3,409	$ 8,349	$ 3,734
Equity securities	-	9,941	(472)
Short-term investments	(3)	(2)	(1)
	3,406	18,288	3,261
Change in net unrealized appreciation (depreciation):			
Fixed maturities	(208,338)	25,631	56,934
Equity securities	179	(9,339)	9,677
Short-term investments	-	-	-
	(208,159)	16,292	66,611
Net realized investment gains (losses) and change in net unrealized appreciation (depreciation)	$ (204,753)	$ 34,580	$ 69,872

The gross realized gains and the gross realized losses on sales of available-for-sale securities were $14.5 million and $11.1 million, respectively, in 1999, $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 ($72.9) million, $5.7 million and $23.3 million for 1999, 1998 and 1997, respectively.

5. *Notes payable*

During 1999, 1998 and 1997, the Company repurchased approximately 3.6 million, 5.3 million and 4.7 million shares, respectively, of its outstanding common stock at a cost of approximately $201, $247 and $248 million, respectively. Funds to repurchase the shares in 1997 and 1998 were primarily provided by borrowings under credit facilities evidenced by notes payable. The shares repurchased in 1999 were funded with a $150 million special dividend from MGIC and cash flow.

The 1997 and 1998 credit facilities provide up to $200 million and $225 million, respectively, of availability at December 31, 1999. 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 will decrease by $25 million each year 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, 1999, the Company's outstanding balance of the notes payable on the 1997 and 1998 credit facilities were $200 million and $225 million, respectively, which approximated market value. The interest rate on the notes payable varies based on LIBOR and at December 31, 1999 and December 31, 1998 the rate was 6.17% and 5.80%, respectively. The weighted average interest rate on the notes payable for borrowings under the 1997 and 1998 credit agreements was 5.57% and 5.86% per annum for the years ended December 31, 1999 and 1998, respectively. Interest payments on the notes payable were $22.0 million and $17.7 million for the years ended December 31, 1999 and 1998, respectively. In addition to the 1997 and 1998 credit facilities, the Company entered into a

$100 million credit facility in November 1999. At December 31, 1999, there were no outstanding borrowings under this facility.

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, 1999, the Company had shareholders' equity of $1,776 million and MGIC had a claims paying ability rating of 'AA+' from S&P.

During the twelve months ended December 1999, the Company utilized three interest rate swaps each with a notional amount of $100 million to reduce and manage interest rate risk on a portion of the variable rate debt under the credit facilities. With respect to all such transactions, the notional amount of $100 million represents the stated principal balance used as a basis for calculating payments. On the swaps, the Company receives and pays amounts based on rates that can be fixed or variable depending on the terms negotiated. Two of the swaps renew monthly and one expires in October 2000. Earnings during the twelve months ended December 1999 on the swaps of approximately $3.8 million are netted against interest expense in the Consolidated Statement of Operations.

During 1998, the Company earned approximately $0.2 million as a result of an interest rate swap with a $100 million notional amount entered into during the fourth quarter of 1998. 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. Premium income in 1998 on the put-swaptions of approximately $0.3 million and the $0.2 million of earnings on the swap were netted against interest expense in the 1998 Consolidated Statement of Operations.

6. *Loss reserves*

Loss reserve activity was as follows:

	1999	1998	1997
	(In thousands of dollars)		
Reserve at beginning of year	$ 681,274	$ 598,683	$ 514,042
Less reinsurance recoverable	45,527	26,415	29,827
Net reserve at beginning of year	635,747	572,268	484,215
Reserve transfer (1)	833	538	537
Adjusted reserve at beginning of year	636,580	572,806	484,752
Losses incurred:			
Losses and LAE incurred in respect of default notices received in:			
Current year	333,193	377,786	360,623
Prior years (2)	(235,997)	(166,432)	(118,261)
Subtotal	97,196	211,354	242,362
Losses paid:			
Losses and LAE paid in respect of default notices received in:			
Current year	7,601	8,752	15,257
Prior years	120,018	139,661	139,589
Subtotal	127,619	148,413	154,846
Net reserve at end of year	606,157	635,747	572,268
Plus reinsurance recoverables	35,821	45,527	26,415
Reserve at end of year	$ 641,978	$ 681,274	$ 598,683

(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 decreased from 1998 to 1999 primarily due to generally strong economic conditions, improvement in the California real estate market, and MGIC's claims mitigation efforts which resulted in a decline in losses paid and a reduction in both primary and pool reserve factors. Partially offsetting the reduction in factors was an increase in the primary insurance notice inventory from 29,253 at December 31, 1998 to 29,761 at December 31, 1999 and an increase in pool insurance notice inventory from 6,524 at December 31, 1998 to 11,638 at December 31, 1999. These events contributed to an increase in the redundancy in prior year loss reserves.

The favorable development of the reserves in 1999, 1998 and 1997 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, 1998, 1997 and 1996, 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. Beginning in 1997, the Company cedes business to captive reinsurance subsidiaries of certain mortgage lenders primarily under excess of loss reinsurance agreements.

During 1997, 1998 and 1999, MGIC signed agreements with WMAC and certain WMAC reinsurers to assume all of the reinsurers' interest in WMAC mortgage insurance writings, which had been previously ceded to those reinsurers. As a result, the portion of WMAC's insurance in force reinsured by MGIC increased from approximately 65 percent to approximately 68 percent. (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 $19 million and $26 million of reinsured loss reserves at December 31, 1999 and December 31, 1998, respectively.

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

	1999	1998	1997
	(In thousands of dollars)		
Premiums earned:			
Direct	$ 810,974	$ 770,775	$ 712,069
Assumed	7,008	9,670	12,665
Ceded	(25,401)	(17,161)	(15,990)
Net premiums earned	$ 792,581	$ 763,284	$ 708,744
Losses incurred:			
Direct	$ 94,920	$ 216,340	$ 247,137
Assumed	(1,332)	(3,234)	3,683
Ceded	3,608	(1,752)	(8,458)
Net losses incurred	$ 97,196	$ 211,354	$ 242,362

8. *Investments in joint ventures*

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. Substantially all of C-BASS's mortgage-related assets do not have readily ascertainable market values and as a result their value for financial statement purposes is estimated by the management of C-BASS. Market value adjustments could impact the Company's share of C-BASS's results of operations.

At December 31, 1999 the Company had contributed approximately $54 million of capital to C-BASS. Total combined assets of C-BASS at December 31, 1999 and 1998 were approximately $934 million and $623 million, respectively, of which approximately $773 million and $550 million, respectively, were mortgage-related assets, including open trades. Total liabilities at December 31, 1999 and 1998 were approximately $744 million and $468 million, respectively, of which approximately $617 million and $459 million, respectively, were funding arrangements, including accrued interest. For the years ended December 31, 1999 and 1998, revenues of approximately $112 million and $70 million, respectively, and expenses of approximately $72 million and $44 million, respectively, resulted in income before tax of approximately $40 million and $26 million, respectively. MGIC had guaranteed one half of a $50 million credit facility for C-BASS that was repaid in July 1999.

Sherman is engaged in the business of purchasing, servicing and securitizing delinquent unsecured consumer assets such as credit card loans and Chapter 13 bankruptcy debt. A substantial portion of Sherman's consolidated assets are investments in receivable portfolios that do not have readily ascertainable market values and as a result their value for financial statement purposes is estimated by the management of Sherman. Market value adjustments could impact the Company's share of Sherman's results of operations. At December 31, 1999 the Company had contributed approximately $9 million of capital to Sherman. MGIC is guaranteeing one half of a $50 million Sherman credit facility that is scheduled to expire in June 2000.

Customers Forever is an Internet-focused transaction service company dedicated to helping large residential mortgage servicers retain and enhance relationships with their customers nationwide. At December 31, 1999 the Company had contributed approximately $7 million of capital to Customers Forever.

The Company expects that it will provide additional funding to the joint ventures.

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	
	1999	1998	1999	1998
	(In thousands of dollars)			
Reconciliation of benefit obligation:				
Benefit obligation at beginning of year	$ 66,280	$ 51,190	$ 23,010	$ 19,364
Service cost	5,869	4,064	2,041	1,612
Interest cost	4,677	3,959	1,644	1,357
Actuarial (gain) loss	(5,917)	7,908	(2,044)	883
Benefits paid	(938)	(841)	(139)	(206)
Benefit obligation at end of year	$ 69,971	$ 66,280	$ 24,512	$ 23,010
Reconciliation of fair value of plan assets:				
Fair value of plan assets at beginning of year	$ 73,822	$ 57,578	$ 11,045	$ 8,632
Actual return on plan assets	6,390	9,895	422	1,141
Employer contributions	7,574	7,190	1,863	1,272
Benefits paid	(938)	(841)	-	-
Fair value of plan assets at end of year	$ 86,848	$ 73,822	$ 13,330	$ 11,045
Reconciliation of funded status:				
Benefit obligation at end of year	$ (69,971)	$ (66,280)	$ (24,512)	$ (23,010)
Fair value of plan assets at end of year	86,848	73,822	13,330	11,045
Funded status at end of year	16,877	7,542	(11,182)	(11,965)
Unrecognized net actuarial gain	(12,011)	(4,741)	(4,959)	(3,145)
Unrecognized net transition obligation	31	63	6,889	7,419
Unrecognized prior service cost	2,359	2,542	-	-
Prepaid (accrued) benefit cost	$ 7,256	$ 5,406	$ (9,252)	$ (7,691)

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

	Pension Benefits			Other Postretirement Benefits		
	1999	1998	1997	1999	1998	1997
	(In thousands of dollars)					
Service cost	$ 5,869	$ 4,064	$ 3,569	$ 2,041	$ 1,612	$ 1,379
Interest cost	4,677	3,959	3,169	1,644	1,357	1,267
Expected return on plan assets	(5,543)	(4,674)	(3,521)	(844)	(696)	(506)
Recognized net actuarial gain	-	-	-	(17)	(170)	(67)
Amortization of transition obligation	32	32	32	530	530	530
Amortization of prior service cost	183	183	(20)	-	-	-
Net periodic benefit cost	$ 5,218	$ 3,564	$ 3,229	$ 3,354	$ 2,633	$ 2,603

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		
	1999	1998	1997	1999	1998	1997
Weighted-average interest rate assumptions as of December 31:						
Discount rate	7.5%	7.0%	7.5%	7.5%	7.0%	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 other postretirement benefits over 20 years. The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation is 6.5% decreasing to 6% for 2000 and remaining level thereafter. A 1% change in the health care trend rate assumption would have the following effects on other postretirement benefits:

	1-Percentage Point Increase	1-Percentage Point Decrease
	(In thousands of dollars)	
Effect on total service and interest cost components	$ 843	$ (706)
Effect on postretirement benefit obligation	4,960	(4,138)

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 $5.3 million, $5.0 million and $3.8 million in 1999, 1998 and 1997, respectively.

10. Income taxes

The components of the net deferred tax (asset) liability as of December 31, 1999 and 1998 are recorded on the Consolidated Balance Sheet as part of other assets or other liabilities and are as follows:

	1999	1998
	(In thousands of dollars)	
Unearned premium reserves	$ (17,726)	$ (16,897)
Deferred policy acquisition costs	7,822	8,423
Loss reserves	(8,119)	(11,688)
Unrealized appreciation in investments	(21,933)	50,923
Contingency reserve	29,029	4,473
Other	(4,521)	(6,700)
Net deferred tax (asset) liability	$ (15,448)	$ 28,534

At December 31, 1999, gross deferred tax assets and liabilities amounted to $84.8 million and $69.4 million, respectively. Management believes that all gross deferred tax assets at December 31, 1999 are fully realizable and no valuation reserve has been established.

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

	1999	1998	1997
	(In thousands of dollars)		
Federal:			
Current	$ 179,423	$ 171,244	$ 147,983
Deferred	28,874	(4,198)	(7,833)
State	2,512	2,074	1,473
Provision for income tax	$ 210,809	$ 169,120	$ 141,623

The Company paid $173.1 million, $160.6 million and $151.1 million in federal income tax in 1999, 1998 and 1997, respectively. At December 31, 1999 and 1998, the Company owned $704.1 million and $600.8 million, respectively, of tax and loss bonds.

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

	1999	1998	1997
	(In thousands of dollars)		
Tax provision computed at federal tax rate	$ 238,354	$ 194,105	$ 162,881
(Decrease) increase in tax provision resulting from:			
Tax exempt municipal bond interest	(31,851)	(28,973)	(24,926)
Other, net	4,306	3,988	3,668
Provision for income tax	$ 210,809	$ 169,120	$ 141,623

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. As a result of the $150 million special dividend paid by MGIC in 1999, MGIC is required to obtain regulatory approval prior to the payment of dividends in 2000. The other insurance subsidiaries of the Company can pay $6.3 million of dividends in 2000 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 1999, 1998 and 1997, the Company paid dividends of $10.8 million, $11.2 million and $11.0 million, respectively or $.10 per share in 1999 and 1998 and $.095 per share in 1997.

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 Reserve
	(In thousands of dollars)		
1999	$ 296,287	$ 637,234	$ 2,253,418
1998	187,535	585,280	1,939,626
1997	144,963	394,274	1,625,810

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 1997, 1998 and 1999 is as follows:

	Average Exercise Price	Shares Subject to Option
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
Granted......................................	42.29	791,750
Exercised....................................	8.74	(413,930)
Canceled	45.94	(17,200)
Outstanding, December 31, 1999....	$ 30.52	3,556,144

The exercise price of the options granted in 1997, 1998 and 1999 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, 1999, 2,895,028 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,		
	1999	1998	1997
Net income	$ 464,793	$ 381,689	$ 320,416
Earnings per share:			
Basic	$ 4.30	$ 3.40	$ 2.75
Diluted	$ 4.25	$ 3.36	$ 2.72

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,		
	1999	1998	1997
Risk free interest rate.....	6.00%	6.37%	6.44%
Expected life	6.38 years	6.82 years	6.88 years
Expected volatility..........	29.72%	27.98%	28.07%
Expected dividend yield..	0.17%	0.17%	0.16%

The following is a summary of stock options outstanding at December 31, 1999:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Shares	Remaining Average Life (yrs.)	Average Exercise Price	Shares	Average Exercise Price
$2.50-$3.45	356,000	1.0	$ 3.44	356,000	$ 3.44
$9.63-$20.88	815,260	3.9	15.36	810,060	15.35
$26.69-$46.06	2,264,984	8.0	38.40	528,254	36.11
$60.25-$68.63	119,900	8.7	65.21	26,890	65.01
Total	3,556,144	6.4	$ 30.52	1,721,204	$ 20.03

At December 31, 1998 and 1997, option shares of 1,751,725 and 1,540,076 were exercisable at an average exercise price of $14.01 and $8.56, respectively. The

Company also granted an immaterial amount of equity instruments other than options during 1998 and 1999.

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.

The Company adopted a Shareholder Rights Plan on July 22, 1999. Under terms of the plan, on August 9, 1999, Common Share Purchase Rights were distributed as a dividend at the rate of one Common Share Purchase Right for each outstanding share of the Company's Common Stock. The "Distribution Date" occurs ten days after an announcement that a person has acquired 15 percent or more of the Company's Common Stock (the date on which such an acquisition occurs is the "Shares Acquisition Date" and a person who makes such an acquisition is an "Acquiring Person"), or ten business days after a person announces or begins a tender offer in which consummation of such offer would result in ownership by a person of 15 percent or more of the Common Stock. The Rights are not exercisable until the Distribution Date. Each Right will initially entitle shareholders to buy one-half of one share of the Company's Common Stock at a Purchase Price of $225 per full share (equivalent to $112.50 for each one-half share), subject to adjustment. If there is an Acquiring Person, then each Right (subject to certain limitations) will entitle its holder to purchase, at the Rights' then-current Purchase Price, a number of shares of Common Stock of the Company (or if after the Shares Acquisition Date, the Company is acquired in a business combination, common shares of the acquiror) having a market value at the time equal to twice the Purchase Price. The Rights will expire on July 22, 2009, subject to extension. The Rights are redeemable at a price of $.001 per Right at any time prior to the time a person becomes an Acquiring Person. Other than certain amendments, the Board of Directors may amend the Rights in any respect without the consent of the holders of the Rights.

12. Leases

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

Total rental expense under operating leases was $5.5 million, $5.4 million and $5.3 million in 1999, 1998 and 1997, respectively.

At December 31, 1999, minimum future operating lease payments are as follows (in thousands of dollars):

2000	$ 4,072
2001	3,324
2002	2,158
2003	1,056
2004	403
2005 and thereafter	387
Total	$ 11,400

13. Contingencies

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

In addition, on December 17, 1999, a class action complaint was filed against MGIC in Federal District Court for the Southern District of Georgia, Augusta division, alleging that MGIC violated the Real Estate Settlement Procedures Act by entering into various transactions with lenders (including GSE pool insurance, captive mortgage reinsurance and contract underwriting) that were not properly priced, in return for the referral of mortgage insurance. On December 24, 1999, the Company issued a press release saying that it will aggressively defend against this lawsuit and in due course will answer the complaint and deny liability.

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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. 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 auditing standards generally accepted in the United States, 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 12, 2000

Unaudited quarterly financial data

1999	Quarter First	Second	Third	Fourth	1999 Year
	(In thousands of dollars, except per share data)				
Net premiums written	$ 184,011	$ 196,374	$ 207,582	$ 204,378	$ 792,345
Net premiums earned	193,981	194,766	200,042	203,792	792,581
Investment income, net of expenses	36,915	38,627	39,303	38,226	153,071
Losses incurred, net	44,232	30,941	19,533	2,490	97,196
Underwriting and other expenses	53,233	51,949	48,289	47,308	200,779
Net income	100,418	112,934	122,909	133,940	470,201
Earnings per share (a):					
Basic	.92	1.04	1.13	1.27	4.35
Diluted	.91	1.02	1.11	1.25	4.30

1998	Quarter First	Second	Third	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

(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.

Directors

James A. Abbott
Chairman and Principal
American Security Mortgage Corp.
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
MGIC Investment Corporation
Milwaukee, WI

David S. Engelman
Private Investor
Rancho Santa Fe, CA

James D. Ericson
Chairman 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
Chairman and Chief Executive Officer
Temple-Inland Inc.
Austin, TX
A Holding Company with Interests in Paper, Forest Products and Financial Services

Daniel P. Kearney
Business Consultant and Private Investor
Marblehead, MA

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

William A. McIntosh
Adjunct Faculty Member
Howard University
Washington, D.C.

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

Edward J. Zore
President
The Northwestern Mutual Life Insurance Company
Milwaukee, WI
A Life Insurance Company

Officers

MGIC Investment Corporation

President and Chief Executive Officer
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

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
Risk Management

Bernhard W. Verhoeven
Corporate Planning

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

Shareholder Information

The Annual Meeting
The Annual Meeting of Shareholders of MGIC Investment Corporation will convene at 9 a.m. (CDT) on May 4, 2000 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, 2000, 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, 1999, 105,798,034 shares were outstanding. The following table sets forth for 1998 and 1999 by quarter the high and low sales prices of the Common Stock on the New York Stock Exchange Composite Tape.

	1998		1999	
Quarters	High	Low	High	Low
1st	$ 74.5000	$ 62.0000	$ 45.625	$ 30.125
2nd	69.0000	55.3750	51.625	34.750
3rd	65.4375	36.8750	56.750	40.250
4th	48.2500	24.2500	62.750	46.500

In 1998 and 1999 the Company declared and paid the following cash dividends:

Quarters	1998	1999
1st	$ .025	$ .025
2nd	.025	.025
3rd	.025	.025
4th	.025	.025
	$ .100	$ .100

As of February 14, 2000, the number of shareholders of record was 313. In addition, there were approximately 24,900 beneficial owners of shares held by brokers and fiduciaries.

MGIC Investment Corporation

MGIC Plaza, Milwaukee, Wisconsin 53202