MGIC

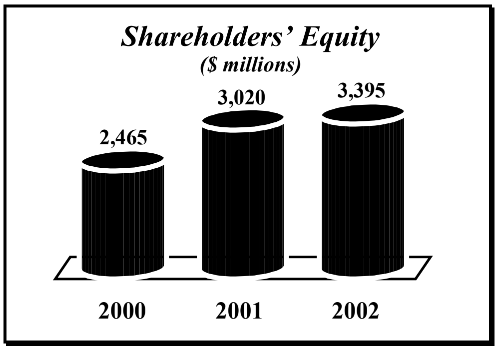
MGIC Investment Corporation

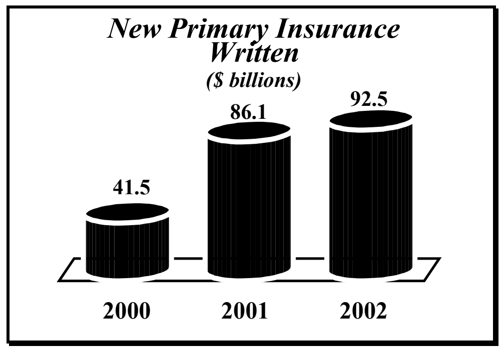
ANNUAL REPORT

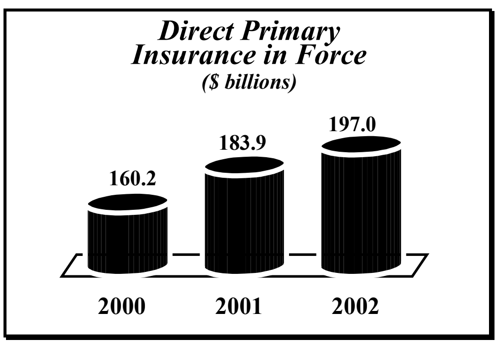
2002

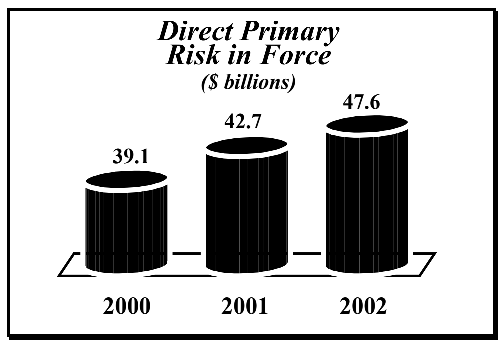
Financial Highlights

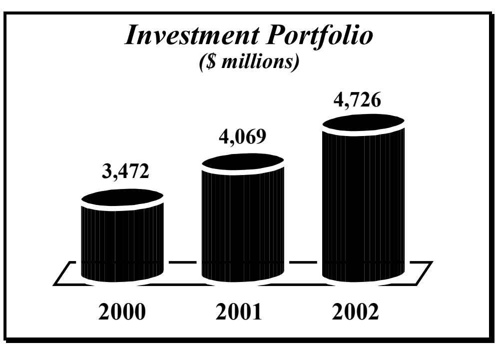
	2000	2001	2002
Net income ($ millions)	542.0	639.1	**629.2**
Diluted earnings per share ($)	5.05	5.93	**6.04**
Return on equity (%)	25.7	22.7	**19.3**

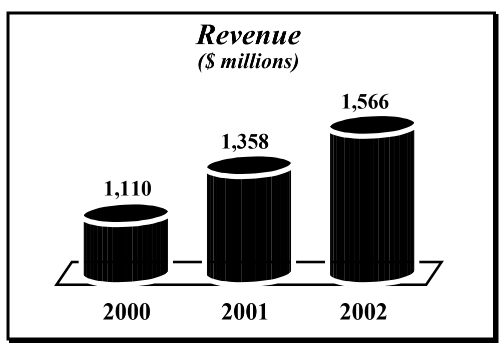




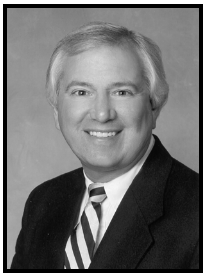








Fellow Shareholders



MGIC achieved strong results in 2002, posting net income of $629 million, despite the convergence of several trends which created the most challenging operating environment in recent memory.

Although record low interest rates in 2002 enabled MGIC to write an all-time high $92.5 billion of new insurance, they also produced record policy cancellations of $79.4 billion. The net result was solid insurance in-force growth of 7.1%. The record volume of new business also drove underwriting expenses higher, while the aging and composition of our insurance in force, together with a soft economy, produced higher delinquencies and claim losses.

MGIC successfully met last year's challenges, and ended the year with excellent operating ratios. At 45.7% (30.9% loss ratio, 14.8% expense ratio), MGIC's 2002 combined ratio was exceptional by any insurance industry standard. In particular, our ability to reduce the expense ratio to 14.8% while processing record volumes of business was a tremendous accomplishment and is a testament to the hard work and dedication of MGIC co-workers as well as to our continued investments in technology.

MGIC also continued to improve its already strong financial position during 2002. Our high-quality investment portfolio grew 16% to $4.7 billion and loss reserves increased $119 million to $733 million. Shareholders' equity increased 12% to $3.4 billion and return on equity was 19.3%, reflecting our continued focus on maximizing shareholder value.

The market MGIC serves, home mortgage finance, continued its rapid growth in 2002. Mortgage originations were an estimated $2.6 trillion, an all-time record, and mortgage debt outstanding grew an estimated 12% to $6.4 trillion. Our core product, private mortgage insurance, supported the market's growth by enabling 672,000 families to realize the dream of homeownership or lower their mortgage cost through refinancing, thereby helping to boost our nation's homeownership rate to a record 68.3%.

Looking ahead, we expect a strong level of mortgage originations in 2003, perhaps approaching last year's $2.6 trillion record. Any decline in 2003 originations will be in refinance activity, with purchase transactions topping the $1 trillion mark for the first time. Given the likelihood of a somewhat smaller market in 2003, we expect new insurance written to decline and revenue growth to slow in response to a lower insurance in-force growth rate and the increasing penetration of risk-sharing arrangements, although we have taken steps to try to limit the future impact of captive reinsurance structures. Stable to rising interest rates should lead to higher persistency and lower underwriting expenses in the second half of the year as refinance activity declines. The delinquency inventory should continue to increase, reflecting the aging of our insurance in force as well as the weak economy. Consequently, paid claims and incurred losses are likely to increase throughout the year, although continued strength across residential real estate markets nationally coupled with MGIC's loss mitigation efforts should limit the impact.

Overall, we see 2003 as a year in which MGIC transitions to higher persistency, lower underwriting expenses and, as the economy gets back on track, improving loss trends going into 2004.

Longer term, MGIC has excellent opportunity for growth. Strong demographics and an increasing homeownership rate will result in 15 million new homeowners this decade, compared with 11.4 million in the 1990s. Given these positive trends, annual mortgage originations should average $1.6 trillion this decade, compared with $935 billion last decade. And, because a disproportionately large segment of the growth will be minority and immigrant homeowners needing high-ratio loans requiring mortgage insurance, we expect that our industry's current 13% share of the overall market should increase by about a third.

MGIC is well positioned to capitalize on the future growth opportunity. We continue to lead the industry in the four key metrics in our business: risk management, as demonstrated by our loss ratio, which is low by historic industry standards; productivity, which is evidenced by our low 14.8% expense ratio; our financial strength and flexibility, described earlier; and market share.

MGIC's market share is now more than one-third higher than its next closest competitor, a position that we expect will be negatively impacted by our decision not to participate in certain risk-sharing arrangements. However, any share loss should be mitigated by the wide range of products and services MGIC offers that enhance our customers' profitability, including contract underwriting, eMagic.com® and Defender®. Using MGIC's proprietary technology and leveraging the web, our contract underwriters perform the underwriting function for our customers at a much lower cost than they can do it themselves. In 2002, we underwrote 831,000 loans for our customers.

eMagic.com is MGIC's neutral website that helps lenders automate their business operations by offering them web storefronts, private-label websites and access to all of the mortgage services needed to close a mortgage loan. As of year-end 2002, annualized transaction volume through eMagic totaled 955,000, up 316% from a year earlier, and more than 27,000 originators had used the system.

Defender is an interactive voice response system coupled with MGIC's neural-net prepayment model that answers the phone for our customers. Servicers who use Defender benefit by retaining more of their mortgage customers, reducing exposure to impairment charges and lowering servicing expenses. Defender, which answered the phone for our customers 4.3 million times last year, is utilized on servicing portfolios totaling $1.4 trillion, which is nearly one-fourth of the U.S. servicing market.

In summary, we expect that 2003 will represent a transition from the challenging operating environment of 2002 to the return of more favorable business fundamentals in 2004 and excellent growth opportunities longer term.

Sincerely,

Curt S. Culver

Curt S. Culver
President and Chief Executive Officer

The factors discussed under "Risk Factors" in "Management's Discussion and Analysis" elsewhere is this Annual Report may cause actual results to differ materially from the results contemplated by forward looking statements made in the foregoing letter. Forward looking statements are statements which relate to matters other than historical fact. Statements in the letter that include words such as "anticipates," "expects" or "will be," or words of similar import, are forward looking statements.

Five-Year Summary of Financial Information

	2002	2001	2000	1999	1998
	(In thousands of dollars, except per share data)				
Summary of Operations					
Revenues:					
Net premiums written	**$ 1,177,955**	$ 1,036,353	$ 887,388	$ 792,345	$ 749,161
Net premiums earned	**$ 1,182,098**	$ 1,042,267	$ 890,091	$ 792,581	$ 763,284
Investment income, net	**207,516**	204,393	178,535	153,071	143,019
Realized investment gains, net	**29,113**	37,352	1,432	3,406	18,288
Other revenue	**147,076**	73,829	40,283	47,697	47,075
Total revenues	**1,565,803**	1,357,841	1,110,341	996,755	971,666
Losses and expenses:					
Losses incurred, net	**365,752**	160,814	91,723	97,196	211,354
Underwriting and other expenses	**265,633**	234,494	177,837	198,147	187,103
Interest expense	**36,776**	30,623	28,759	20,402	18,624
Litigation settlement	**–**	–	23,221	–	–
Total losses and expenses	**668,161**	425,931	321,540	315,745	417,081
Income before tax	**897,642**	931,910	788,801	681,010	554,585
Provision for income tax	**268,451**	292,773	246,802	210,809	169,120
Net income	**$ 629,191**	$ 639,137	$ 541,999	$ 470,201	$ 385,465
Weighted average common shares outstanding (in thousands)	**104,214**	107,795	107,260	109,258	113,582
Diluted earnings per share	**$ 6.04**	$ 5.93	$ 5.05	$ 4.30	$ 3.39
Dividends per share	**$ .10**	$ .10	$ .10	$ .10	$ .10
Balance sheet data					
Total investments	**$ 4,726,472**	$ 4,069,447	$ 3,472,195	$ 2,789,734	$ 2,779,706
Total assets	**5,300,303**	4,567,012	3,857,781	3,104,393	3,050,541
Loss reserves	**733,181**	613,664	609,546	641,978	681,274
Short- and long-term debt	**677,246**	472,102	397,364	425,000	442,000
Shareholders' equity	**3,395,192**	3,020,187	2,464,882	1,775,989	1,640,591
Book value per share	**33.87**	28.47	23.07	16.79	15.05

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

Five-Year Summary of Financial Information

	2002	2001	2000	1999	1998
New primary insurance written ($ millions)	**$ 92,532**	$ 86,122	$ 41,546	$ 46,953	$ 43,697
New primary risk written ($ millions)	**23,403**	21,038	10,353	11,422	10,850
New pool risk written ($ millions) (1)	**674**	412	345	564	618
Insurance in force (at year-end) ($ millions)					
Direct primary insurance	**196,988**	183,904	160,192	147,607	137,990
Direct primary risk	**47,623**	42,678	39,090	35,623	32,891
Direct pool risk (1)	**2,568**	1,950	1,676	1,557	1,133
Primary loans in default ratios					
Policies in force	**1,655,887**	1,580,283	1,448,348	1,370,020	1,320,994
Loans in default	**73,648**	54,653	37,422	29,761	29,253
Percentage of loans in default	**4.45%**	3.46%	2.58%	2.17%	2.21%
Percentage of loans in default — bulk (2)	**10.09%**	8.59%	9.02%	8.04%	–
Insurance operating ratios (GAAP)					
Loss ratio	**30.9%**	15.4%	10.3%	12.3%	27.7%
Expense ratio	**14.8%**	16.5%	16.4%	19.7%	19.6%
Combined ratio	**45.7%**	31.9%	26.7%	32.0%	47.3%
Risk-to-capital ratio (statutory)					
MGIC	**8.7:1**	9.1:1	10.6:1	11.9:1	12.9:1

(1) Represents contractual aggregate loss limits and, for the year ended December 31, 2002, for $3.0 billion of risk without such limits, risk is calculated at $276 million for new risk written and $274 million for risk in force, the estimated amount that would credit enhance these loans to a 'AA' level.

(2) Information relating to bulk defaults in 1998 is not separately presented and is not material.

Results of Consolidated Operations

2002 Compared with 2001

Net income for 2002 was $629.2 million, compared to $639.1 million in 2001, a decrease of 2%. Diluted earnings per share for 2002 was $6.04 compared with $5.93 in 2001. Adjusted weighted average diluted shares outstanding for the years ended December 31, 2002 and 2001 were 104.2 million and 107.8 million, respectively. As used in this report, the term "Company" means the Company and its consolidated subsidiaries, which do not include less than majority owned joint ventures in which the Company has an equity interest.

Total revenues for 2002 were $1,565.8 million, an increase of 15% from the $1,357.8 million for 2001. This increase was primarily attributed to increases in net premiums earned and other revenue. See below for a further discussion of premiums and other revenue.

Losses and expenses for 2002 were $668.2 million, an increase of 57% from $425.9 million for 2001. The increase from last year can be attributed to a 127% increase in losses incurred, which primarily related to increases in delinquent loans and paid losses, and an aggregate increase in underwriting and interest expenses of 14%, which related to increases in insured volume and debt outstanding. See below for a further discussion of losses incurred and expenses.

The amount of new primary insurance written by MGIC during 2002 was $92.5 billion, compared to $86.1 billion in 2001, an increase of $6.4 billion. New insurance written in the bulk channel declined $3.2 billion during 2002 compared to 2001, as further discussed below. New insurance written on a flow basis increased $9.6 billion during 2002 compared to 2001, with refinance volume approximately equal in both years (41.6% of new insurance written in 2001 and 42.6% in 2002).

The $92.5 billion of new primary insurance written during 2002 was offset by the cancellation of $79.4 billion of insurance in force, and resulted in a net increase of $13.1 billion in primary insurance in force, compared to new primary insurance written of $86.1 billion, the cancellation of $62.4 billion of insurance in force and a net increase of $23.7 billion in primary insurance in force during 2001. Direct primary insurance in force was $197.0 billion at December 31, 2002 compared to $183.9 billion at December 31, 2001. Direct primary risk in force, net of aggregate loss limits, was $47.6 billion at December 31, 2002 compared to $42.7 billion at December 31, 2001.

In addition to providing primary insurance coverage, the Company also insures pools of mortgage loans. New pool risk written during 2002 and 2001 was $674 million and $412 million, respectively. The Company's direct pool risk in force was $2.6 billion at December 31, 2002 and $2.0 billion at December 31, 2001. Of the pool risk written in 2002 and the risk in force, $398 million and $2.3 billion, respectively, represent contractual aggregate loss limits. For $3.0 billion of risk without such limits, risk is calculated at $276 million for new pool risk written and $274 million for pool risk in force, the estimated amount that would credit enhance these loans to a 'AA' level.

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. The home mortgage interest rate environment continued to decline in 2002. As a result, cancellations increased during 2002 compared to the cancellation levels during 2001, which resulted in a decrease in the MGIC persistency rate (percentage of insurance remaining in force from one year prior) to 56.8% at December 31, 2002 from 61.0% at December 31, 2001. In view of continued strong refinance activity in 2003, the persistency rate could decline further during the first quarter of 2003.

New insurance written during 2002 for bulk transactions was $22.5 billion ($6.6 billion, $5.7 billion, $4.4 billion and $5.8 billion for the first through fourth quarters, respectively) compared to $25.7 billion during 2001. The Company's writings of bulk insurance are in part sensitive to the volume of securitization transactions involving non-conforming loans. A securitization involves the sale of whole loans held by the securitizer. The Company believes that the relatively high historical spread between the cost of funding mortgages and mortgage coupon rates during portions of the second half of 2002 resulted in increased prices for whole loans which had the effect of reducing the supply of mortgages available for current securitization. The Company's writings of bulk insurance are also sensitive to competition from other methods of providing credit enhancement in a securitization, including the willingness of investors to purchase tranches of the securitization with a higher degree of credit risk. The Company expects bulk volume for the first quarter of 2003 will exceed bulk volume for the fourth quarter of 2002.

The Company expects that the loans included in bulk transactions will have delinquency and claim rates in excess of those on the Company's flow business and will have lower persistency than the Company's flow business. While the Company believes it has priced its bulk business to generate acceptable returns, there can be no assurance that the assumptions underlying the premium rates adequately address the risk of this business. In the first quarter of 2002, the Company entered into a preliminary agreement providing that new insurance written in 2002 through the bulk channel on Alt A, subprime and certain other loans would be subject to quota share reinsurance of approximately 15% provided by a third party reinsurer. The agreement was terminated on a cutoff basis effective October 1, 2002, relieving both parties of any further obligations.

Net premiums written increased 14% to $1,178.0 million during 2002, from $1,036.4 million during 2001. Net premiums earned increased 13% to $1,182.1 million for 2002 from $1,042.3 million for 2001. The increases were primarily a result of the growth in insurance in force and a higher percentage of premiums on products with higher premium rates, principally on insurance written through the bulk channel, offset in part by an increase in ceded premiums.

Premiums ceded in captive mortgage reinsurance arrangements and in risk sharing arrangements with the GSEs were $100.0 million in 2002, compared to $61.0 million in 2001. Through September 30, 2002, approximately 53% of the Company's new insurance written on a flow basis was subject to such arrangements compared to 50% for the year ended December 31, 2001. (New insurance written through the bulk channel is not subject to such arrangements.) The percentage of new insurance written during a period covered by such arrangements normally increases after the end of the period because, among other reasons, the transfer of a loan in the secondary market can result in a mortgage insured during a period becoming part of such an arrangement in a subsequent period. Therefore, for 2002, the percentage of new insurance written covered by such arrangements is shown as of the end of the prior quarter. Premiums ceded in such arrangements are reported as ceded in the period in which they are ceded regardless of when the mortgage was insured.

A substantial portion of the Company's captive mortgage reinsurance arrangements are structured on an excess of loss basis. The Company has decided that, effective March 31, 2003, it will not participate in excess of loss risk sharing arrangements with net premium cessions in excess of 25% on terms which are generally present in the market. The captive mortgage reinsurance programs of larger lenders generally are not consistent with the Company's position. Hence, the Company expects its position with respect to such risk sharing arrangements will result in a reduction in business from such lenders.

Investment income for 2002 was $207.5 million, compared to $204.4 million for 2001. This increase was the result of increases in the amortized cost of average invested assets to $4.2 billion for 2002 from $3.7 billion for 2001, an increase of 15%, offset by a decrease in the investment yield. The portfolio's average pre-tax investment yield was 4.7% for 2002 and 5.4% for 2001. The portfolio's average after-tax investment yield was 4.2% for 2002 and 4.6% for the same period in 2001. The Company's net realized gains were $29.1 million for 2002 compared to net realized gains of $37.4 million during 2001, resulting primarily from the sale of fixed maturities.

Other revenue, which is composed of various components, was $147.1 million for 2002, compared with $73.8 million for 2001. The increase is primarily the result of increased equity earnings from Credit-Based Asset Servicing and Securitization LLC and its subsidiaries (collectively, "C-BASS") and Sherman Financial Group LLC and its subsidiaries (collectively, "Sherman"), joint ventures with Radian Group Inc. ("Radian"), and from contract underwriting.

C-BASS, in which the Company and Radian each have an interest of approximately 45.9%, is a mortgage investment and servicing firm specializing in credit-sensitive single-family residential mortgage assets and residential mortgage-backed securities. C-BASS principally invests in whole loans (including subprime loans) and mezzanine and subordinated residential mortgage-backed securities backed by non-conforming residential mortgage loans. C-BASS's principal sources of revenues during the last three years were gain on securitization and liquidation of mortgage-related assets, servicing fees and net interest income (including accretion on mortgage securities), which revenue items were offset by unrealized losses. C-BASS's results of operations are affected by the timing of its securitization transactions. Virtually all of C-BASS's 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. These estimates reflect the net present value of the future cash flows from the assets, which in turn depend on, among other things, estimates of the level of losses on the underlying mortgages and prepayment activity by the mortgage borrowers. Market value adjustments could impact C-BASS's results of operations and the Company's share of those results.

Total consolidated assets of C-BASS at December 31, 2002 and 2001 were approximately $1.754 billion and $1.288 billion, respectively. Total liabilities at December 31, 2002 and 2001 were approximately $1.385 billion and $1.006 billion, respectively, of which approximately $1.110 billion and $0.934 billion, respectively, were funding arrangements, including accrued interest, virtually all of which mature within one year or less. The remaining liabilities at those dates were related to interest rate hedging activities or were accrued expenses and other liabilities. For the years ended December 31, 2002 and 2001, revenues of approximately $311 million and $224 million, respectively, and expenses of approximately $173 million and $138 million, respectively, resulted in income before tax of approximately $138 million and $86 million, respectively. The Company does not anticipate that C-BASS's income before tax in 2003 will exceed its income before tax in 2002. The Company is not undertaking any obligation to provide an update of this expectation should it subsequently change.

Sherman is engaged in the business of purchasing and servicing delinquent consumer assets such as credit card loans and Chapter 13 bankruptcy debt. A substantial portion of Sherman's consolidated assets are investments in consumer receivable portfolios that do not have readily ascertainable market values. Sherman's results of operations are sensitive to estimates by Sherman's management of ultimate collections on these portfolios. Effective January 1, 2003, the Company and Radian each sold 4 percentage points of their respective interest in Sherman to Sherman's management for cash, reducing each company's interest in Sherman to 41.5%.

Because C-BASS and Sherman are accounted for by the equity method, they are not consolidated with the Company and their assets and liabilities do not appear in the Company's balance sheet. The "investments in joint ventures" item in the Company's balance sheet reflects the amount of capital contributed by the Company to the joint ventures plus the Company's share of their net income (or minus its share of their net loss) and minus capital distributed to the Company by the joint ventures. The Company's investment in C-BASS on an equity basis at December 31, 2002 was $168.7 million. The Company's investment in Sherman on an equity basis at December 31, 2002 was $54.4 million.

As discussed in "Note 2 – Loss Reserves" to the Company's consolidated financial statements, consistent with industry practice, loss reserves for future claims are established only for loans that are currently delinquent. (The terms "delinquent" and "default" are used interchangeably by the Company.) Loss reserves are established by management's estimating the number of loans in the Company's inventory of delinquent loans that will not cure their delinquency (historically, a substantial majority of delinquent loans have cured), which is referred to as the claim rate, and further estimating the amount that the Company will pay in claims on the loans that do not cure, which is referred to as claim severity. Estimation of losses that the Company will pay in the future is inherently judgmental. The conditions that affect the claim rate and claim severity include the current and future state of the domestic economy and the current and future strength of local housing markets.

Net losses incurred increased 127% to $365.8 million in 2002, from $160.8 million in 2001. On a quarterly basis, net losses incurred were $59.7 million, $64.4 million, $101.1 million and $140.5 million for the first through the fourth quarters, respectively. The increase in 2002 was due to an increase in the primary notice inventory related to bulk default activity and defaults arising from the early development of the 2000 and 2001 flow books of business as well as an increase in losses paid. The average primary claim paid for 2002 was $20,115 compared to $18,607 for 2001. In 2002, the primary determinant of incurred losses was the level and composition of the notice inventory, rather than claim severity. The Company expects that incurred losses in 2003 will increase over the level of 2002. The Company is not undertaking any obligation to provide an update of this expectation should it subsequently change.

Information about the composition of the primary insurance default inventory at December 2002 and 2001 appears in the table below.

	December 31, 2002	December 31, 2001
Total loans delinquent	73,648	54,653
Percentage of loans delinquent (default rate)	4.45%	3.46%
Flow loans delinquent	43,196	36,193
Percentage of flow loans delinquent (default rate)	3.19%	2.65%
Bulk loans delinquent	30,452	18,460
Percentage of bulk loans delinquent (default rate)	10.09%	8.59%
A-minus and subprime credit loans delinquent*	25,504	15,649
Percentage of A-minus and subprime credit loans delinquent (default rate)	12.68%	11.60%

* A portion of A-minus and subprime credit loans is included in flow loans delinquent and the remainder is included in bulk loans delinquent. Most A-minus and subprime credit loans are written through the bulk channel.

The pool notice inventory increased from 23,623 at December 31, 2001 to 26,676 at December 31, 2002.

Information about losses paid in 2002 and 2001 appears in the table below.

Net paid claims ($ millions)	Twelve months ended December 31,	
	2002	2001
Flow	$117	$ 93
Bulk	65	14
Second mortgage	24	16
Pool and other	35	27
	$241	$150

The Company stopped writing new second mortgage risk for loans closing after 2001.

At December 31, 2002, 82% of MGIC's insurance in force was written subsequent to December 31, 1998. Based on the Company's flow business, the highest claim frequency years have typically been the third through fifth year after the year of loan origination. However, the pattern of claims frequency for refinance loans may be different from this historical pattern and the Company expects the period of highest claims frequency on bulk loans will occur earlier than in this historical pattern.

For additional information about loss reserves, see Note 6 of the Notes to the Company's consolidated financial statements.

Underwriting and other expenses increased to $265.6 million in 2002 from $234.5 million in 2001, an increase of 13%. The increase can be attributed to increases in expenses related to increased volume. In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 148, Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment to SFAS No. 123, Accounting for Stock-Based Compensation. The Company intends to adopt SFAS No. 148 in the first quarter of 2003. The adoption requires expensing of stock-based employee compensation costs.

Interest expense increased to $36.8 million in 2002 from $30.6 million during the same period in 2001 primarily due to an increase in debt outstanding offset by lower weighted-average interest rates during 2002 compared to 2001.

The consolidated insurance operations loss ratio was 30.9% for 2002 compared to 15.4% for 2001. The consolidated insurance operations expense and combined ratios were 14.8% and 45.7%, respectively, for 2002 compared to 16.5% and 31.9% for 2001.

The effective tax rate was 29.9% in 2002, compared to 31.4% in 2001. During both periods, the effective tax rate was below the statutory rate of 35%, reflecting the benefits of tax-preferenced investments. The lower effective tax rate in 2002 resulted from a higher percentage of total income before tax being generated from the tax-preferenced investments.

2001 Compared with 2000

Net income for 2001 was $639.1 million, compared to $542.0 million in 2000, an increase of 18%. Net income for 2000 includes a pre-tax charge of $23.2 million for settlement of the RESPA settlement described in "Other Matters" below. Diluted earnings per share was $5.93 for 2001 compared with $5.05 in 2000.

Total revenues for 2001 were $1,357.8 million, an increase of 22% from the $1,110.3 million for 2000. This increase was primarily attributable to an increase in new business writings, which included $25.7 billion of bulk transactions. Also contributing to the increase in revenues was an increase in investment income resulting from strong cash flows and increases in realized gains and other revenue. See below for a further discussion of premiums, investment income and other revenue.

Losses and expenses for 2001 were $425.9 million, an increase of 32% from $321.5 million for the same period of 2000. The increase in 2001 can be attributed to an increase in losses related to an increase in notice inventories and an increase in expenses related to increases in insured volume and in contract underwriting. See below for a further discussion of losses incurred and underwriting expenses.

The amount of new primary insurance written by MGIC during 2001 was $86.1 billion, compared with $41.5 billion in 2000. Refinancing activity increased to 42% of new primary insurance written in 2001 on a flow basis (or $25.1 billion), compared to 13% in 2000 (or $4.6 billion) as a result of the decreasing mortgage interest rate environment in 2001. New primary insurance written in the bulk channel increased to 30% of new primary insurance written in 2001 compared to 17% in 2000, reflecting the increasing use of mortgage insurance in certain mortgage securitizations and MGIC's share of this market. A portion of the loans insured in bulk transactions are refinanced loans. New insurance written on a flow basis increased $25.9 billion from 2000 to 2001.

The $86.1 billion of new primary insurance written during 2001 was offset by the cancellation of $62.4 billion of insurance in force, and resulted in a net increase of $23.7 billion in primary insurance in force, compared to new primary insurance written of $41.5 billion, the cancellation of $28.9 billion of insurance in force and a net increase of $12.6 billion in primary insurance in force during 2000.

New pool risk written during 2001 and 2000 was $411.7 million and $345.5 million, respectively. The Company's direct pool risk in force was $2.0 billion at December 31, 2001 compared to $1.7 billion at December 31, 2000.

Cancellations increased during 2001 compared to the cancellation levels of 2000 principally due to the lower mortgage interest rate environment which resulted in a decrease in the MGIC persistency rate to 61.0% at December 31, 2001 from 80.4% at December 31, 2000.

Net premiums written increased 17% to $1,036.4 million in 2001, from $887.4 million in 2000. Net premiums earned increased 17% to $1,042.3 million in 2001 from $890.1 million in 2000. The increases were primarily a result of the growth in insurance in force and a higher percentage of renewal premiums on products with higher premium rates, principally on insurance written though the bulk channel, offset in part by an increase in ceded premiums to $65.3 million in 2001, compared to $52.9 million in 2000. Premiums ceded in captive mortgage reinsurance arrangements and in risk sharing arrangements with the GSEs were $61.0 million in 2001 compared to $43.2 million in 2000.

Investment income for 2001 was $204.4 million, an increase of 14% over the $178.5 million in 2000. This increase was primarily the result of an increase in the amortized cost of average invested assets to $3.7 billion for 2001 from $3.1 billion for 2000, an increase of 18%. The portfolio's average pre-tax investment yield was 5.4% and 6.0% at December 31, 2001 and 2000, respectively. The portfolio's average after-tax investment yield was 4.6% and 4.9% at December 31, 2001 and 2000, respectively. The Company's net realized gains of $37.4 million during 2001 compared to $1.4 million in 2000, resulted primarily from the sale of fixed maturities.

Other revenue was $73.8 million in 2001, compared with $40.3 million in 2000. The increase is primarily the result of an increase in contract underwriting revenue and increases in equity earnings from C-BASS and Sherman.

For the years ended December 31, 2001 and 2000, C-BASS had revenues of approximately $224 million and $154 million, respectively, and expenses of approximately $138 million and $98 million, respectively, which resulted in income before tax of approximately $86 million and $56 million, respectively.

Net losses incurred increased 75% to $160.8 million in 2001, from $91.7 million in 2000. The increase was due to an increase in the primary notice inventory related to bulk default activity, which in turn was the result of the higher volume of bulk business; the maturation of the relatively large 1998 and 1999 books of business, which had entered their peak delinquency periods; and defaults arising from the early development of the 2000 book of business. The average claim paid for 2001 was $18,607 compared to $18,977 in 2000. For information about the notice inventory and default rates for 2001, see "2002 Compared with 2001."

Underwriting and other expenses increased to $234.5 million in 2001 from $177.8 million in 2000, an increase of 32%. The increase can be attributed to increases in both insurance and non-insurance expenses related to increased volume and contract underwriting.

Interest expense in 2001 increased to $30.6 million from $28.8 million in 2000 due to slightly higher weighted-average interest rates in 2001 compared to 2000, and higher weighted-average balances.

The consolidated insurance operations loss ratio was 15.4% for 2001 compared to 10.3% for 2000. The consolidated insurance operations expense and combined ratios were 16.5% and 31.9%, respectively, for 2001 compared to 16.4% and 26.7%, respectively for 2000.

The effective tax rate was 31.4% in 2001, compared to 31.3% in 2000. During both years, the effective tax rate was below the statutory rate of 35%, reflecting the benefits of tax-preferenced investments. The higher effective tax rate in 2001 resulted from a lower percentage of total income before tax being generated from tax-preferenced investments in 2001.

Other Matters

In June 2001, the Federal District Court for the Southern District of Georgia, before which Downey et. al. v. MGIC was pending, issued a final order approving a settlement agreement and certified a nationwide class of borrowers. In the fourth quarter of 2000, the Company recorded a $23.2 million charge to cover the estimated costs of the settlement, including payments to borrowers. Due to appeals by certain class members and members of classes in two related cases, payments to borrowers in the settlement are delayed pending the outcome of the appeals. The settlement includes an injunction that prohibits certain practices and specifies the basis on which agency pool insurance, captive mortgage reinsurance, contract underwriting and other products may be provided in compliance with the Real Estate Settlement Procedures Act. There can be no assurance that the standards established by the injunction will be determinative of compliance with the Real Estate Settlement Procedures Act were additional litigation to be brought in the future. The complaint in the case alleges that MGIC violated the Real Estate Settlement Procedures Act by providing agency pool insurance, captive mortgage reinsurance, contract underwriting and other products 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 at the time of judgment for the mortgage insurance found to be involved in a violation of the Real Estate Settlement Procedures Act. The complaint also seeks injunctive relief, including prohibiting MGIC from receiving future premium payments. If the settlement is not fully implemented, the litigation will continue. In these circumstances, there can be no assurance that the ultimate outcome of the litigation will not materially affect the Company's financial position or results of operations.

Under the Office of Federal Housing Enterprise Oversight's ("OFHEO") risk-based capital stress test for the GSEs, 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 3.5% reduction over the 10-year period of the stress test, while claim payments from a 'AA' rated insurer, such as MGIC, are subject to an 8.75% 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, there is an incentive for the GSEs to use private mortgage insurance provided by a 'AAA' rated insurer.

Financial Condition

Consolidated total investments and cash balances increased approximately $642 million to $4.7 billion at December 31, 2002 from $4.1 billion at December 31, 2001, primarily due to net cash provided by operating activities, the change in unrealized gains on securities marked to market of $176 million and the proceeds of the sale of the 6% Senior Notes discussed under "Liquidity and Capital Resources" below, offset by funds used to repurchase Common Stock discussed under "Liquidity and Capital Resources" below. The Company generated net cash from operating activities of $613.3 million for 2002, compared to $626.1 million generated during 2001. The decrease in operating cash flows during 2002 compared to 2001 is due primarily to increases in losses paid, offset by increases in renewal premiums, investment income and other revenue as discussed above.

As of December 31, 2002, the Company had $102.2 million of short-term investments with maturities of 90 days or less, and 82% of the portfolio was invested in tax-preferenced securities. In addition, at December 31, 2002, 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, 2002, the Company had $10.8 million of investments in equity securities compared to $20.7 million at December 31, 2001.

At December 31, 2002, the Company's derivative financial instruments in its investment portfolio were immaterial. 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, 2002, the effective duration of the Company's fixed income investment portfolio was 5.7 years. This means that for an instantaneous parallel shift in the yield curve of 100 basis points there would be an approximate 5.7% change in the market value of the Company's fixed income portfolio.

The Company's investments in unconsolidated joint ventures increased $78.4 million from $161.7 million at December 31, 2001 to $240.1 million at December 31, 2002 primarily as a result of equity earnings of $81.8 million and a $17.5 million contribution to affordable housing tax credit ventures, offset by $20.1 million of dividends received. The unconsolidated joint ventures are reported on the equity method. Only the Company's investment in the unconsolidated joint ventures appears on the Company's balance sheet.

Consolidated loss reserves increased to $733.2 million at December 31, 2002 from $613.7 million at December 31, 2001, reflecting increases in the primary and pool insurance notice inventories, as 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 $4.3 million from $174.5 million at December 31, 2001, to $170.2 million at December 31, 2002, primarily reflecting the continued high level of monthly premium policies written for which there is no unearned premium.

Consolidated shareholders' equity increased to $3.4 billion at December 31, 2002, from $3.0 billion at December 31, 2001, an increase of 12%. This increase consisted of $629.2 million of net income during 2002, other comprehensive income, net of tax, of $101.3 million and $0.4 million from the consolidation of a previously unconsolidated joint venture that is now majority owned, offset by $345.5 million from the repurchase of treasury stock (net of reissuances) and dividends declared of $10.4 million.

Liquidity and Capital Resources

The Company's consolidated sources of funds consist primarily of premiums written and investment income. The Company generated positive cash flows from operating activities of approximately $613.3 million and $626.1 million for the years ended December 31, 2002 and 2001, respectively, as shown on the Consolidated Statement of Cash Flows. Positive cash flows are invested pending future payments of claims and other expenses. Substantially all of the investment portfolio securities are held by the Company's insurance subsidiaries.

The Company has a $285 million commercial paper program, which is rated 'A-1' by Standard and Poors ("S&P") and 'P-1' by Moody's. At December 31, 2002 and 2001, the Company had $177.3 million and $172.1 million in commercial paper outstanding with a weighted average interest rate of 1.46% and 1.91% at December 31, 2002 and 2001, respectively.

The Company had a $285 million credit facility available at December 31, 2002 expiring in 2006. Under the terms of the credit facility, as amended in July 2002, the Company must maintain shareholders' equity of at least $2.25 billion and MGIC must maintain a risk-to-capital ratio of not more than 22:1 and maintain policyholders position (which includes MGIC's surplus and its contingency reserve) of not less than the amount required by Wisconsin insurance regulation. At December 31, 2002, the Company met these requirements. The facility is currently being used as a liquidity back up facility for the outstanding commercial paper. The remaining credit available under the facility after reduction for the amount necessary to support the commercial paper was $107.7 million at December 31, 2002.

In March of 2002, the Company issued, in a public offering, $200 million, 6% Senior Notes due in 2007. The notes are unsecured and were rated ‘A1’ by Moody’s, ‘A+’ by S&P and ‘AA-’ by Fitch. The Company had $300 million, 7.5% Senior Notes due in 2005 outstanding at December 31, 2002 and 2001.

In October 2002, the Company announced a new share repurchase program covering up to 5 million shares. During 2002, the Company repurchased 6.4 million shares at a cost of $373.3 million. Of these shares, 0.1 million were purchased under the new program and the remainder under a predecessor program which was completed. (The number of shares and the cost of the repurchases described in this paragraph include trades effected on or prior to December 31, 2002 but which settled thereafter.) From mid-1997 through December 31, 2002, the Company repurchased 21.4 million shares of Common Stock at a cost of $1.1 billion. Funds for the shares repurchased by the Company since mid-1997 have been provided through a combination of debt, including the Senior Notes and the commercial paper, and internally generated funds.

The commercial paper, back-up credit facility and the Senior Notes are obligations of the Company and not of its subsidiaries. The Company is a holding company and the payment of dividends from its insurance subsidiaries is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity. As a result of a $138 million dividend scheduled to be paid to the Company by MGIC in late March 2003, as of the date of the payment of such dividend, MGIC may not pay more than $1.7 million of additional dividends without the approval of the Office of the Commissioner of Insurance of the State of Wisconsin (the “OCI”). The first paragraph of Note 11 of the Notes to the Company’s consolidated financial statements discusses the regulations of the OCI governing the payment of dividends without approval of the OCI.

Interest payments on all long-term and short-term debt (commercial paper is classified as short-term debt) were $36.2 million and $22.6 million for the years ended December 31, 2002 and 2001, respectively. At December 31, 2002, the market value of the short- and long-term debt is $721.9 million.

The Company uses interest rate swaps to hedge interest rate exposure associated with its short- and long-term debt. In 2000, the Company paid an interest rate based on LIBOR and received a fixed rate of 7.5% to hedge the 5-year Senior Notes issued in the fourth quarter of 2000. These swaps were terminated in September 2001. In January 2002, the Company initiated a new swap which was designated as a fair value hedge of the 7.5% Senior Notes. This swap was terminated in June 2002. In May 2002, a swap designated as a cash flow hedge was amended to coincide with the new credit facility. Under the terms of the swap contract, the Company pays a fixed rate of 5.43% and receives an interest rate based on LIBOR. The swap has an expiration date coinciding with the maturity of the credit facility and is designated as a cash flow hedge. Gains or losses arising from the amendment or termination of interest rate swaps are deferred and amortized to interest expense over the life of the hedged items. Expenses on the swaps during 2002 and 2001 of approximately $1.8 million and $3.7 million, respectively, were included in interest expense. The cash flow swap outstanding at December 31, 2002 and 2001 is evaluated quarterly using regression analysis with any ineffectiveness being recorded as an expense. To date this evaluation has not resulted in any hedge ineffectiveness. The swaps are subject to credit risk to the extent the counterparty would be unable to discharge its obligations under the swap agreements.

The Company’s principal category of contingent liabilities is its obligation to pay claims under MGIC’s mortgage guaranty insurance policies. At December 31, 2002, MGIC’s direct (before any reinsurance) primary and pool risk in force (which is the unpaid principal balance of insured loans as reflected in the Company’s records multiplied by the coverage percentage, and taking account of any contractual loss limit) was approximately $52.9 billion. In addition, as part of its contract underwriting activities, the Company is responsible for the quality of its underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. Through December 31, 2002, the cost of remedies provided by the Company to customers for failing to meet the standards of the contracts has not been material. However, the decreasing trend of home mortgage interest rates over the last several years may have mitigated the effect of some of these costs since the general effect of lower interest rates can be to increase the value of certain loans on which remedies are provided. There can be no assurance that contract underwriting remedies will not be material in the future.

MGIC is the principal insurance subsidiary of the Company. MGIC's risk-to-capital ratio was 8.7:1 at December 31, 2002 (determined using $42.4 billion of risk, which includes calculated risk of $274 million on $3.0 billion of contractual pool risk, and $4.9 billion of capital) compared to 9.1:1 at December 31, 2001. The decrease was due to MGIC's increased policyholders' reserves, partially offset by the net additional risk in force of $3.2 billion, net of reinsurance, during 2002.

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

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

Risk Factors

Our revenues and losses could be affected by the risk 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. Forward looking statements consist of statements which relate to matters other than historical fact. Among others, statements that include words such as the Company "believes," "anticipates" or "expects," or words of similar import, are forward looking statements.

As the domestic economy deteriorates, more homeowners may default and the Company's losses may increase.

Losses result from events that reduce 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 deterioration in economic conditions generally increases the likelihood that borrowers will not have sufficient income to pay their mortgages and can also adversely affect housing values.

Competition or changes in the Company's relationships with its customers could reduce the Company's revenues or increase its losses.

Competition for private mortgage insurance premiums occurs not only among private mortgage insurers but increasingly with mortgage lenders through captive mortgage reinsurance transactions. In these transactions, a lender's affiliate reinsures a portion of the insurance written by a private mortgage insurer on mortgages originated by the lender. In 1996, the Company shared risk under risk sharing arrangements with respect to virtually none of its new insurance written. During the nine months ended September 30, 2002, about 53% of the Company's new insurance written on a flow basis was subject to risk sharing arrangements. A substantial portion of the Company's captive mortgage reinsurance arrangements are structured on an excess of loss basis. The Company has decided that, effective March 31, 2003, it will not participate in excess of loss risk sharing arrangements with net premium cessions in excess of 25% on terms which are generally present in the market. The captive mortgage reinsurance programs of larger lenders generally are not consistent with the Company's position. Hence, the Company expects its position with respect to such risk sharing arrangements will result in a reduction of business from such lenders.

The level of competition within the private mortgage insurance 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, consolidation among mortgage lenders has increased the share of the mortgage lending market held by large lenders. The Company's top ten customers generated 27.0% of the new primary insurance that it wrote on a flow basis in 1997 compared to 39.5% in 2002.

Our private mortgage insurance competitors include:

- PMI Mortgage Insurance Company
- GE Capital Mortgage Insurance Corporation
- United Guaranty Residential Insurance Company
- Radian Guaranty Inc.
- Republic Mortgage Insurance Company
- Triad Guaranty Insurance Corporation
- CMG Mortgage Insurance Company

If interest rates decline, house prices appreciate or mortgage insurance cancellation requirements change, the length of time that our policies remain in force could decline and result in declines in our revenue.

In each year, most of the Company's premiums are from insurance that has been written in prior years. As a result, the length of time insurance remains in force (which is also generally referred to as persistency) is an important determinant of revenues. The factors affecting the length of time the Company's insurance remains 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.

In recent years, the length of time that our policies remain in force has declined. Due to this decline, our premium revenues were lower than they would have been if the length had not declined.

If the volume of low down payment home mortgage originations declines, the amount of insurance that the Company writes could decline which would reduce our revenues.

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 can affect whether refinance loans have loan-to-value ratios that require private mortgage insurance, and

- government housing policy encouraging loans to first-time homebuyers.

While we have not experienced lower volume in recent years other than as a result of declining refinancing activity, one of the risks we face is that higher interest rates will substantially reduce purchase activity by first-time homebuyers and that the decline in cancellations of insurance that in the past have accompanied higher interest rates will not be sufficient to offset the decline in premiums from loans that are not made.

The amount of insurance the Company writes could be adversely affected if lenders and investors select alternatives to private mortgage insurance.

These alternatives to private mortgage insurance include:

- lenders structuring mortgage originations to avoid private mortgage insurance, 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,

- investors holding mortgages in portfolio and self-insuring,

- investors using credit enhancements other than private mortgage insurance or using other credit enhancements in conjunction with reduced levels of private mortgage insurance coverage, and

- lenders using government mortgage insurance programs, including those of the Federal Housing Administration and the Veterans Administration.

While no data is publicly available, the Company believes that due to the current low interest rate environment and favorable economic conditions, 80-10-10 loans are a significant percentage of mortgage originations. Investors are using reduced mortgage insurance coverage on a higher percentage of loans that the Company insures than they had over the last several years.

Changes in the business practices of Fannie Mae and Freddie Mac could reduce the Company's revenues or increase its losses.

The business practices of Fannie Mae and Freddie Mac affect the entire relationship between them and mortgage insurers and include:

- the level of private mortgage insurance coverage, subject to the limitations of Fannie Mae and Freddie Mac's charters, when private mortgage insurance is used as the required credit enhancement on low down payment mortgages,

- whether Fannie Mae or Freddie Mac influence the mortgage lender's selection of the mortgage insurer providing coverage and, if so, any transactions that are related to that selection,

- whether Fannie Mae or Freddie Mac will give mortgage lenders an incentive, such as a reduced guaranty fee, to select a mortgage insurer that has a 'AAA' claims-paying ability rating to benefit from the lower capital requirements for Fannie Mae and Freddie Mac when a mortgage is insured by a company with that rating,

- the underwriting standards that determine what loans are eligible for purchase by Fannie Mae or Freddie Mac, which thereby affect the quality of the risk insured by the mortgage insurer and 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.

Net premiums written could be adversely affected if a proposed regulation by the Department of Housing and Urban Development under the Real Estate Settlement Procedures Act is adopted.

The regulations of the Department of Housing and Urban Development under the Real Estate Settlement Procedures Act prohibit paying lenders for the referral of settlement services, including mortgage insurance, and prohibit lenders from receiving such payments. In July 2002, the Department of Housing and Urban Development proposed a regulation that would exclude from these anti-referral fee provisions settlement services included in a package of settlement services offered to a borrower at a guaranteed price. If mortgage insurance is required on a loan, the package must include any mortgage insurance premium paid at settlement. Although certain state insurance regulations prohibit an insurer's payment of referral fees, adoption of this regulation by the Department of Housing and Urban Development could adversely affect the Company's revenues to the extent that lenders offered such packages and received value from the Company in excess of what they could have received were the anti-referral fee provisions of the Real Estate Settlement Procedures Act to apply and if such state regulations were not applied to prohibit such payments.

The mortgage insurance industry is subject to litigation risk.

In recent years, consumers have brought a growing number of lawsuits against home mortgage lenders and settlement service providers. As of the end of December 2002, seven mortgage insurers, including the Company's MGIC subsidiary, were involved in litigation alleging violations of the Real Estate Settlement Procedures Act. MGIC and two other mortgage insurers entered into an agreement to settle the cases against them in December 2000, and another mortgage insurer entered into a comparable settlement agreement in February 2002. In June 2001, the Court entered a final order approving the settlement to which MGIC and the other two insurers are parties, although due to appeals challenging certain aspects of this settlement, the final implementation of the settlement will not occur until the appeals are resolved. The Company took a $23.2 million pre-tax charge in 2000 to cover MGIC's share of the estimated costs of the settlement. While MGIC's settlement includes an injunction that prohibits certain practices and specifies the basis on which other practices may be done in compliance with the Real Estate Settlement Procedures Act, MGIC may still be subject to future litigation under the Real Estate Settlement Procedures Act.

Consolidated Statement of Operations

	2002	2001	2000
REVENUES:	*(In thousands of dollars, except per share data)*		
Premiums written:			
Direct	**$ 1,292,283**	$ 1,101,160	$ 939,482
Assumed	**336**	516	847
Ceded (note 7)	**(114,664)**	(65,323)	(52,941)
Net premiums written	**1,177,955**	1,036,353	887,388
Decrease in unearned premiums	**4,143**	5,914	2,703
Net premiums earned (note 7)	**1,182,098**	1,042,267	890,091
Investment income, net of expenses (note 4)	**207,516**	204,393	178,535
Realized investment gains, net (note 4)	**29,113**	37,352	1,432
Other revenue	**147,076**	73,829	40,283
Total revenues	**1,565,803**	1,357,841	1,110,341
LOSSES AND EXPENSES:			
Losses incurred, net (notes 6 and 7)	**365,752**	160,814	91,723
Underwriting and other expenses	**265,633**	234,494	177,837
Interest expense	**36,776**	30,623	28,759
Litigation settlement (note 13)	**–**	–	23,221
Total losses and expenses	**668,161**	425,931	321,540
Income before tax	**897,642**	931,910	788,801
Provision for income tax (note 10)	**268,451**	292,773	246,802
Net income	**$ 629,191**	$ 639,137	$ 541,999
Earnings per share (note 11):			
Basic	**$ 6.07**	$ 5.98	$ 5.10
Diluted	**$ 6.04**	$ 5.93	$ 5.05

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

	2002	2001
	(In thousands of dollars)	
ASSETS		
Investment portfolio (note 4):		
Securities, available-for-sale, at fair value:		
Fixed maturities	**$ 4,613,462**	$ 3,888,740
Equity securities	**10,780**	20,747
Short-term investments	**102,230**	159,960
Total investment portfolio (amortized cost, 2002 – $4,466,183; 2001 – $3,985,656)	**4,726,472**	4,069,447
Cash	**11,041**	26,392
Accrued investment income	**58,432**	59,036
Reinsurance recoverable on loss reserves (note 7)	**21,045**	26,888
Reinsurance recoverable on unearned premiums (note 7)	**8,180**	8,415
Premiums receivable	**97,751**	78,853
Home office and equipment, net	**35,962**	34,762
Deferred insurance policy acquisition costs	**31,871**	32,127
Investments in joint ventures (note 8)	**240,085**	161,674
Other assets	**69,464**	69,418
Total assets	**$ 5,300,303**	$ 4,567,012
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Loss reserves (notes 6 and 7)	**$ 733,181**	$ 613,664
Unearned premiums (note 7)	**170,167**	174,545
Short- and long-term debt (note 5)	**677,246**	472,102
Income taxes payable	**133,843**	80,937
Other liabilities	**190,674**	205,577
Total liabilities	**1,905,111**	1,546,825
Contingencies (note 13)		
Shareholders' equity (note 11):		
Common stock, $1 par value, shares authorized 300,000,000; shares issued 2002 – 121,418,637; 2001 – 121,110,800 outstanding 2002 – 100,251,444; 2001 – 106,086,594	**121,419**	121,111
Paid-in surplus	**232,950**	214,040
Members' equity	**380**	–
Treasury stock (shares at cost 2002 – 21,167,193; 2001 – 15,024,206)	**(1,035,858)**	(671,168)
Accumulated other comprehensive income – net of tax (note 2)	**147,908**	46,644
Retained earnings (note 11)	**3,928,393**	3,309,560
Total shareholders' equity	**3,395,192**	3,020,187
Total liabilities and shareholders' equity	**$ 5,300,303**	$ 4,567,012

See accompanying notes to consolidated financial statements.

Consolidated Statement of Shareholders' Equity

	Common stock	Paid-in surplus	Members' equity	Treasury stock	Accumulated other comprehensive income (note 2)	Retained earnings	Comprehensive income
			(In thousands of dollars)				
Balance, December 31, 1999	$ 121,111	$ 211,593	$ –	$ (665,707)	$ (40,735)	$ 2,149,727	
Net income	–	–	–	–	–	541,999	$ 541,999
Unrealized investment gains (losses), net	–	–	–	–	116,549	–	116,549
Comprehensive income	–	–	–	–	–	–	$ 658,548
Dividends declared	–	–	–	–	–	(10,618)	
Repurchase of outstanding common shares	–	–	–	(6,224)	–	–	
Reissuance of treasury stock	–	(3,711)	–	50,898	–	–	
Balance, December 31, 2000	121,111	207,882	–	(621,033)	75,814	2,681,108	
Net income	–	–	–	–	–	639,137	$ 639,137
Unrealized investment gains (losses), net	–	–	–	–	(21,351)	–	(21,351)
Unrealized loss on derivatives, net	–	–	–	–	(7,819)	–	(7,819)
Comprehensive income	–	–	–	–	–	–	$ 609,967
Dividends declared	–	–	–	–	–	(10,685)	
Repurchase of outstanding common shares	–	–	–	(73,488)	–	–	
Reissuance of treasury stock	–	6,158	–	23,353	–	–	
Balance, December 31, 2001	121,111	214,040	–	(671,168)	46,644	3,309,560	
Net income	–	–	–	–	–	629,191	$ 629,191
Unrealized investment gains (losses), net (note 4)	–	–	–	–	114,724	–	114,724
Unrealized loss on derivatives, net (note 5)	–	–	–	–	(442)	–	(442)
Minimum pension liability adjustment, net (note 9)	–	–	–	–	(13,018)	–	(13,018)
Comprehensive income	–	–	–	–	–	–	$ 730,455
Change in members' equity	–	–	380	–	–	–	
Dividends declared	–	–	–	–	–	(10,358)	
Common stock shares issued	308	16,101	–	–	–	–	
Repurchase of outstanding common shares	–	–	–	(373,281)	–	–	
Reissuance of treasury stock	–	2,809	–	8,591	–	–	
Balance, December 31, 2002	**$ 121,419**	**$ 232,950**	**$ 380**	**$ (1,035,858)**	**$ 147,908**	**$ 3,928,393**	

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

	2002	2001	2000
		(In thousands of dollars)	
Cash flows from operating activities:			
Net income	**$ 629,191**	$ 639,137	$ 541,999
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred insurance policy acquisition costs	**25,862**	22,233	20,597
Increase in deferred insurance policy acquisition costs	**(25,606)**	(28,521)	(24,086)
Depreciation and other amortization	**12,292**	8,281	6,860
Decrease (increase) in accrued investment income	**604**	(7,617)	(4,706)
Decrease in reinsurance recoverable on loss reserves	**5,843**	6,338	2,595
Decrease (increase) in reinsurance recoverable on unearned premiums	**235**	265	(2,050)
Increase (decrease) in loss reserves	**119,517**	4,118	(32,432)
Decrease in unearned premiums	**(4,378)**	(6,179)	(654)
Equity earnings in joint ventures	**(81,240)**	(28,097)	(18,113)
Other	**(68,990)**	16,161	61,027
Net cash provided by operating activities	**613,330**	626,119	551,037
Cash flows from investing activities:			
Purchase of equity securities	**–**	(71)	(14,629)
Purchase of fixed maturities	**(2,804,029)**	(2,801,654)	(1,807,718)
Investments in joint ventures	**(17,528)**	(15,000)	(19,180)
Proceeds from sale of equity securities	**12,465**	1,685	14,029
Proceeds from sale or maturity of fixed maturities	**2,287,018**	2,213,289	1,349,398
Net cash used in investing activities	**(522,074)**	(601,751)	(478,100)
Cash flows from financing activities:			
Dividends paid to shareholders	**(10,358)**	(10,685)	(10,618)
Proceeds from issuance of short- and long-term debt	**202,087**	205,521	309,079
Repayment of short- and long-term debt	**–**	(133,384)	(336,751)
Reissuance of treasury stock	**6,179**	16,830	18,699
Repurchase of common stock	**(373,070)**	(73,488)	(6,224)
Common stock shares issued	**10,825**	–	–
Net cash (used in) provided by financing activities	**(164,337)**	4,794	(25,815)
Net (decrease) increase in cash and cash equivalents	**(73,081)**	29,162	47,122
Cash and cash equivalents at beginning of year	**186,352**	157,190	110,068
Cash and cash equivalents at end of year	**$ 113,271**	$ 186,352	$ 157,190

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 and retention.

At December 31, 2002, the Company's direct primary insurance in force (representing the principal balance in the Company's records of all mortgage loans that it insures) and direct primary risk in force (representing the insurance in force multiplied by the insurance coverage percentage), excluding MGIC Indemnity Corporation ("MIC") was approximately $197.0 billion and $49.2 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, 2002 was approximately $2.6 billion. MIC's direct primary insurance in force, direct primary risk in force and direct pool risk in force was approximately $0.4 billion, $0.3 billion and $0.2 billion, respectively, at December 31, 2002.

2. Basis of presentation and summary of significant accounting policies

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

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 45.9% investment in Credit-Based Asset Servicing and Securitization LLC ("C-BASS") and 45.5% investment in Sherman Financial Group LLC, ("Sherman"), which are joint ventures with Radian Group Inc., are accounted for using the equity method of accounting 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.)

The Company has certain other joint ventures and investments, accounted for in accordance with the equity method of accounting, of an immaterial amount.

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 are reported at fair value and the related unrealized gains or losses are, after considering the related tax expense or benefit, recognized as a component of accumulated other comprehensive income in shareholders' equity in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, Accounting for Certain Investments in Debt and Equity Securities. The Company's entire investment portfolio is 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 $38.6 million and

$34.9 million at December 31, 2002 and 2001, respectively. Depreciation expense for the years ended December 31, 2002, 2001 and 2000 was $5.5 million, $4.9 million and $4.7 million, respectively.

Deferred insurance policy acquisition costs

Costs associated with the acquisition of mortgage insurance business, consisting of employee compensation and other policy issuance and underwriting expenses, are initially deferred and reported as deferred insurance policy acquisition costs ("DAC"). Because SFAS No. 60, Accounting and Reporting by Insurance Enterprises, specifically excludes mortgage guaranty insurance from its guidance relating to the amortization of DAC, amortization of these costs for each underwriting year book of business is charged against revenue in proportion to estimated gross profits over the estimated life of the policies using the guidance of SFAS No. 97, Accounting and Reporting by Insurance Enterprises For Certain Long Duration Contracts and Realized Gains and Losses From the Sale of Investments. This includes accruing interest on the unamortized balance of DAC. The estimates for each underwriting year are updated annually to reflect actual experience and any changes to key assumptions such as persistency or loss development.

During 2002, 2001 and 2000, the Company amortized $25.9 million, $22.2 million and $20.6 million, respectively, of deferred insurance policy acquisition costs.

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.

The incurred but not reported ("IBNR") reserves result from defaults occurring prior to the close of an accounting period, but which have not been reported to the Company. Consistent with reserves for reported defaults, IBNR reserves are established using estimated claims rates and claims amounts for the estimated number of defaults not reported.

Reserves also provide for the estimated costs of settling claims, including legal and other expenses and general expenses of administering the claims settlement process. (See note 6.)

Revenue 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 which is the anticipated claim payment pattern based on historical experience. Premiums written on annual policies are earned on a monthly pro rata basis. Premiums written on monthly policies are earned as coverage is provided.

Fee income of the non-insurance subsidiaries is earned and recognized as the services are provided and the customer is obligated to pay.

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, in accordance with SFAS No. 109, Accounting for Income Taxes, 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. The cost to the Company was not significant in 2002, 2001 and 2000. (See note 9.)

Stock-based compensation

The Company has certain stock-based compensation plans, as more fully discussed in Note 11. The Company accounts for these plans under the expense and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. The following table illustrates the effect on net income and earnings per share if the fair value based method under SFAS No. 123, Accounting for Stock-Based Compensation, had been applied to all outstanding and unvested awards in each period (in thousands, except per share amounts).

	Years Ended December 31,		
	2002	2001	2000
Net income, as reported	$ 629,191	$ 639,137	$ 541,999
Add stock-based employee compensation expense included in reported earning, net of tax	2,610	2,038	1,840
Deduct stock-based employee compensation expense, determined under the fair value method, net of tax	(12,425)	(13,483)	(11,374)
Pro forma net income	$ 619,376	$ 627,692	$ 532,465
Earnings per share:			
Basic, as reported	$ 6.07	$ 5.98	$ 5.10
Basic, pro forma	$ 5.97	$ 5.87	$ 5.01
Diluted, as reported	$ 6.04	$ 5.93	$ 5.05
Diluted, pro forma	$ 5.94	$ 5.82	$ 4.96

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 SFAS No. 128, Earnings Per Share. 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,		
	2002	2001	2000
	(shares in thousands)		
Weighted-average shares – Basic	103,725	106,941	106,202
Common stock equivalents	489	854	1,058
Weighted-average shares – Diluted	104,214	107,795	107,260

Statement of cash flows

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

Comprehensive income

The Company's total comprehensive income, as calculated per SFAS No. 130, Reporting Comprehensive Income, was as follows:

	Years Ended December 31,		
	2002	2001	2000
	(in thousands of dollars)		
Net income	$ 629,191	$ 639,137	$ 541,999
Other comprehensive income (loss)	101,264	(29,170)	116,549
Total comprehensive income	$ 730,455	$ 609,967	$ 658,548
Other comprehensive income (loss) (net of tax):			
Cumulative effect – SFAS No. 133	$ N/A	$ (5,982)	$ N/A
Net derivative losses	(1,524)	(2,919)	N/A
Amortization of deferred losses	1,082	1,082	N/A
Unrealized gain (loss) on investments	114,724	(21,351)	116,549
Minimum pension liability adjustment	(13,018)	–	–
Other comprehensive income (loss)	$ 101,264	$ (29,170)	$ 116,549

The difference between the Company's net income and total comprehensive income for the years ended December 31, 2002, 2001 and 2000 is due to the change in unrealized appreciation/depreciation on investments, the cumulative effect of the adoption of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, the fair value adjustment and amortization of deferred losses relating to derivative financial instruments and a minimum pension liability adjustment, all net of tax. At December 31, 2002, accumulated other comprehensive income of $147.9 million includes $169.2 million of net unrealized gains on investments, ($13.0) million relating to the minimum pension liability and ($8.3) million relating to derivative financial instruments. (See notes 4, 5 and 9.)

Recent accounting pronouncements

The Company adopted SFAS No. 133 effective January 1, 2001. The statement establishes accounting and reporting standards for derivative instruments and for hedging activities. The adoption of SFAS No. 133 did not 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 5.)

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. Under SFAS No. 142, goodwill and intangible assets with indefinite useful lives are no longer amortized, but rather, are subject to review for impairment. The Company adopted SFAS No. 142, effective January 1, 2002. The adoption had an immaterial impact on the Company's financial statements.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which is effective for fiscal years beginning after December 15, 2001. Adoption of SFAS No. 144 in 2002 had no effect on the Company's financial statements.

Reclassifications

Certain reclassifications have been made in the accompanying financial statements to 2001 and 2000 amounts to allow for consistent financial reporting.

3. *Related party transactions*

The Company provided certain services to C-BASS in 2002, 2001 and 2000 in exchange for an immaterial amount of fees. In addition, C-BASS provided certain services to the Company during 2002, 2001 and 2000 in exchange for an immaterial amount of fees.

4. *Investments*

The following table summarizes the Company's investments at December 31, 2002 and 2001:

	Amortized Cost	Fair Value	Financial Statement Value
	(In thousands of dollars)		
At December 31, 2002:			
Securities, available-for-sale:			
Fixed maturities	$ 4,353,174	$ 4,613,462	$ 4,613,462
Equity securities	10,779	10,780	10,780
Short-term investments	102,230	102,230	102,230
Total investment portfolio	$ 4,466,183	$ 4,726,472	$ 4,726,472
At December 31, 2001:			
Securities, available-for-sale:			
Fixed maturities	$ 3,804,274	$ 3,888,740	$ 3,888,740
Equity securities	21,481	20,747	20,747
Short-term investments	159,901	159,960	159,960
Total investment portfolio	$ 3,985,656	$ 4,069,447	$ 4,069,447

The amortized cost and fair value of investments at December 31, 2002 are as follows:

December 31, 2002:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands of dollars)		
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 392,346	$ 11,929	$ (3)	$ 404,272
Obligations of states and political subdivisions	3,725,062	232,487	(1,267)	3,956,282
Corporate securities	247,828	12,586	(100)	260,314
Mortgage-backed securities	76,154	2,971	(5)	79,120
Debt securities issued by foreign sovereign governments	14,014	1,690	–	15,704
Total debt securities	4,455,404	261,663	(1,375)	4,715,692
Equity securities	10,779	1	–	10,780
Total investment portfolio	$ 4,466,183	$ 261,664	$ (1,375)	$ 4,726,472

The amortized cost and fair value of investments at December 31, 2001 are as follows:

December 31, 2001:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands of dollars)		
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 307,761	$ 3,486	$ (5,799)	$ 305,448
Obligations of states and political subdivisions	2,998,688	85,336	(14,513)	3,069,511
Corporate securities	564,659	15,201	(1,497)	578,363
Mortgage-backed securities	79,082	1,089	–	80,171
Debt securities issued by foreign sovereign governments	13,985	1,222	–	15,207
Total debt securities	3,964,175	106,334	(21,809)	4,048,700
Equity securities	21,481	–	(734)	20,747
Total investment portfolio	$ 3,985,656	$ 106,334	$ (22,543)	$ 4,069,447

The amortized cost and fair values of debt securities at December 31, 2002, 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	Fair Value
	(In thousands of dollars)	
Due in one year or less	$ 174,754	$ 175,766
Due after one year through five years	738,608	774,812
Due after five years through ten years	1,039,705	1,108,558
Due after ten years	2,426,183	2,577,436
	4,379,250	4,636,572
Mortgage-backed securities	76,154	79,120
Total at December 31, 2002	$ 4,455,404	$ 4,715,692

Net investment income is comprised of the following:

	2002	2001	2000
		(In thousands of dollars)	
Fixed maturities	$ 199,472	$ 195,821	$ 167,810
Equity securities	3,707	2,953	1,279
Short-term investments	5,611	6,863	10,673
Other	832	495	341
Investment income	209,622	206,132	180,103
Investment expenses	(2,106)	(1,739)	(1,568)
Net investment income	$ 207,516	$ 204,393	$ 178,535

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

	2002	2001	2000
		(In thousands of dollars)	
Net realized investment gains (losses), on sale of investments:			
Fixed maturities	$ 38,357	$ 38,199	$ 1,440
Equity securities	(9,283)	(876)	–
Short-term investments	39	29	(8)
	29,113	37,352	1,432
Change in net unrealized appreciation (depreciation):			
Fixed maturities	175,822	(32,032)	182,387
Equity securities	735	(873)	(3,084)
Short-term investments	(59)	59	–
	176,498	(32,846)	179,303
Net realized investment gains (losses) and change in net unrealized appreciation (depreciation)	$ 205,611	$ 4,506	$ 180,735

The gross realized gains and the gross realized losses on sales of securities were $47.2 million and $18.1 million, respectively, in 2002, $50.8 million and $13.4 million, respectively, in 2001 and $18.2 million and $16.8 million, respectively, in 2000.

The tax (benefit) expense of the changes in net unrealized (depreciation) appreciation was $61.8 million, ($11.5) million and $62.8 million for 2002, 2001 and 2000, respectively.

5. *Short- and long-term debt*

During the first quarter of 2001, the Company established a $200 million commercial paper program, which was rated 'A-1' by Standard and Poors ("S&P") and 'P-1' by Moody's. At December 31, 2002 and 2001, the Company had $177.3 million and $172.1 million in commercial paper outstanding with a weighted average interest rate of 1.46% and 1.91% at December 31, 2002 and 2001, respectively.

The Company had a $285 million credit facility available at December 31, 2002, expiring in 2006. Under the terms of the credit facility, as amended in July 2002, the Company must maintain shareholders' equity of at least $2.25 billion and MGIC must maintain a risk-to-capital ratio of not more than 22:1 and maintain policyholders' position (which includes MGIC's surplus and its contingency reserve) of not less than the amount required by Wisconsin insurance regulation. At December 31, 2002, the Company met these requirements. The facility is currently being used as a liquidity back-up facility for the outstanding commercial paper. The remaining credit available under the facility after reduction for the amount necessary to support the commercial paper was $107.7 million at December 31, 2002.

In March of 2002, the Company issued, in a public offering, $200 million, 6% Senior Notes due in 2007. The notes are unsecured and were rated 'A1' by Moody's, 'A+' by S&P and 'AA-' by Fitch. The Company had $300 million, 7.5% Senior Notes due in 2005 outstanding at December 31, 2002 and 2001.

Interest payments on all long-term and short-term debt were $36.2 million, $22.6 million and $27.1 million for the years ended December 31, 2002, 2001 and 2000, respectively. At December 31, 2002, the market value of the outstanding debt is $721.9 million.

The Company uses interest rate swaps to hedge interest rate exposure associated with its short- and long-term debt. In 2000, the Company paid an interest rate based on LIBOR and received a fixed rate of 7.5% to hedge the 5-year Senior Notes issued in the fourth quarter of 2000. These swaps were terminated in September 2001. In January 2002, the Company initiated a new swap which was designated as a fair value hedge of the 7.5% Senior Notes. This swap was terminated in June 2002. In May 2002, a swap designated as a cash flow hedge was amended to coincide with the new credit facility. Under the terms of the swap contract, the Company pays a fixed rate of 5.43% and receives an interest rate based on LIBOR. The swap has an expiration date coinciding with the maturity of the credit facility and is designated as a cash flow hedge. Gains or losses arising from the amendment or termination of interest rate swaps are deferred and amortized to interest expense over the life of the hedged items. Expenses on the swaps during 2002 and 2001, of approximately $1.8 million and $3.7 million, respectively, were included in interest expense. The cash flow swap outstanding at December 31, 2002 and 2001 is evaluated quarterly using regression analysis with any ineffectiveness being recorded as an expense. To date this evaluation has not resulted in any hedge ineffectiveness. The swaps are subject to credit risk to the extent the counterparty would be unable to discharge its obligations under the swap agreements.

6. *Loss reserves*

Loss reserve activity was as follows:

	2002	2001	2000
	(In thousands of dollars)		
Reserve at beginning of year	$ 613,664	$ 609,546	$ 641,978
Less reinsurance recoverable	26,888	33,226	35,821
Net reserve at beginning of year	586,776	576,320	606,157
Reserve transfer (1)	–	–	85
Adjusted reserve at beginning of year	586,776	576,320	606,242
Losses incurred:			
Losses and LAE incurred in respect of default notices received in:			
Current year	440,004	372,940	320,769
Prior years (2)	(74,252)	(212,126)	(229,046)
Subtotal	365,752	160,814	91,723
Losses paid:			
Losses and LAE paid in respect of default notices received in:			
Current year	19,546	14,047	9,044
Prior years	220,846	136,311	112,601
Subtotal	240,392	150,358	121,645
Net reserve at end of year	712,136	586,776	576,320
Plus reinsurance recoverables	21,045	26,888	33,226
Reserve at end of year	$ 733,181	$ 613,664	$ 609,546

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

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

Current year losses incurred increased from 2001 to 2002 primarily due to an increase in the primary notice inventory related to bulk default activity and defaults arising from the early development of the 2000 and 2001 flow books of business as well as a modest increase in losses paid. The primary insurance notice inventory increased from 54,653 at December 31, 2001 to

73,648 at December 31, 2002 and pool insurance notice inventory increased from 23,623 at December 31, 2001 to 26,676 at December 31, 2002. The average claim paid for 2002 was $20,115 compared to $18,607 in 2001. In 2002, the primary determinant of incurred losses has been the level and composition of the notice inventory, rather than claim severity.

The favorable development of the reserves in 2002, 2001 and 2000 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, 2001, 2000 and 1999, 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.

Information about the composition of the primary insurance default inventory at December 2002 and 2001 appears in the table below.

	December 31, 2002	December 31, 2001
Total loans delinquent	73,648	54,653
Percentage of loans delinquent (default rate)	4.45%	3.46%
Flow loans delinquent	43,196	36,193
Percentage of flow loans delinquent (default rate)	3.19%	2.65%
Bulk loans delinquent	30,452	18,460
Percentage of bulk loans delinquent (default rate)	10.09%	8.59%
A-minus and subprime credit loans delinquent (1)	25,504	15,649
Percentage of A-minus and subprime credit loans delinquent (default rate)	12.68%	11.60%

(1) A portion of A-minus and subprime credit loans is included in flow loans delinquent and the remainder is included in bulk loans delinquent. Most A-minus and subprime credit loans are written through the bulk channel.

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 has ceded business to captive reinsurance subsidiaries of certain mortgage lenders primarily under excess of loss agreements.

The reinsurance recoverable on loss reserves and the reinsurance recoverable on unearned premiums primarily represent amounts recoverable from large international reinsurers. The Company monitors the financial strength of its reinsurers including their claims paying ability rating and does not currently anticipate any collection problems. Generally, reinsurance recoverables on loss reserves and unearned premiums are backed by trust funds or letters of credit. No reinsurer represents more than $10 million of the aggregate amount recoverable.

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

	2002	2001	2000
		(In thousands of dollars)	
Premiums earned:			
Direct	$ 1,296,548	$ 1,107,168	$ 939,981
Assumed	448	686	999
Ceded	(114,898)	(65,587)	(50,889)
Net premiums earned	$ 1,182,098	$ 1,042,267	$ 890,091
Losses incurred:			
Direct	$ 367,149	$ 157,360	$ 93,218
Assumed	(208)	(123)	35
Ceded	(1,189)	3,577	(1,530)
Net losses incurred	$ 365,752	$ 160,814	$ 91,723

8. *Investments in joint ventures*

C-BASS is a mortgage investment and servicing firm specializing in credit-sensitive single-family residential mortgage assets and residential mortgage-backed securities. C-BASS principally invests in whole loans (including subprime loans) and mezzanine and subordinated residential mortgage-backed securities backed by non-conforming residential mortgage loans. C-BASS's principal sources of revenues during the last three years were gains on securitization and liquidation of mortgage-related assets, servicing fees and net interest income (including accretion on mortgage securities), which revenue items were offset by unrealized losses. C-BASS's results of operations are affected by the timing of its securitization transactions. Virtually all of C-BASS's 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. These estimates reflect the net present value of the future expected cash flows from the assets, which in turn depend on, among other things, estimates of the level of losses on the underlying mortgages and prepayment activity by the mortgage borrowers. Market value adjustments could impact C-BASS's results of operations and the Company's share of those results.

Total consolidated assets of C-BASS at December 31, 2002 and 2001 were approximately $1.8 billion and $1.3 billion, respectively. Total liabilities at December 31, 2002 and 2001 were approximately $1.4 billion and $1.0 billion, respectively, of which approximately $1.1 billion and $0.9 billion, respectively, were funding arrangements, including accrued interest, virtually all of which mature within one year or less. For the years ended December 31, 2002 and 2001, revenues of approximately $311 million and $216 million, respectively, and expenses of approximately $173 million and $130 million, respectively, resulted in income before tax of approximately $138 million and $86 million, respectively. The Company's investment in C-BASS on an equity basis at December 31, 2002 was $168.7 million.

Sherman is engaged in the business of purchasing and servicing delinquent consumer assets such as credit card loans and Chapter 13 bankruptcy debt. A substantial portion of Sherman's consolidated assets are investments in consumer receivable portfolios that do not have readily ascertainable market values. Sherman's results of operations are sensitive to estimates by Sherman's management of ultimate collections on these portfolios. The Company's investment in Sherman on an equity basis at December 31, 2002 was $54.4 million.

Because C-BASS and Sherman are accounted for by the equity method, they are not consolidated with the Company and their assets and liabilities do not appear in the Company's balance sheet. The "investments in joint ventures" item in the Company's balance sheet reflects the amount of capital contributed by the Company to the joint ventures plus the Company's share of their net income (or minus its share of their net loss) and minus capital distributed to the Company by the joint ventures. (See note 2.)

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	
	2002	2001	2002	2001
	(In thousands of dollars)			
Reconciliation of benefit obligation:				
Benefit obligation at beginning of year	$ 91,629	$ 74,182	$ 36,732	$ 27,924
Service cost	6,580	5,113	3,136	2,065
Interest cost	6,585	5,518	2,711	2,056
Plan amendment (1)	2,092	1,202	–	–
Actuarial loss (gain)	5,708	6,838	4,361	5,336
Benefits paid	(1,409)	(1,224)	(630)	(649)
Benefit obligation at end of year	$ 111,185	$ 91,629	$ 46,310	$ 36,732
Reconciliation of fair value of plan assets:				
Fair value of plan assets at beginning of year	$ 90,159	$ 86,285	$ 14,102	$ 13,556
Actual return on plan assets	(17,288)	(4,385)	(3,004)	(1,095)
Employer contributions	19,703	9,483	2,088	1,641
Benefits paid	(1,409)	(1,224)	–	–
Fair value of plan assets at end of year	$ 91,165	$ 90,159	$ 13,186	$ 14,102
Reconciliation of funded status:				
Benefit obligation at end of year	$ (111,185)	$ (91,629)	$ (46,310)	$ (36,732)
Fair value of plan assets at end of year	91,165	90,159	13,186	14,102
Funded status at end of year	(20,020)	(1,470)	(33,124)	(22,630)
Unrecognized net actuarial loss (gain)	38,506	8,935	12,346	4,075
Unrecognized net transition obligation	–	–	5,299	5,829
Unrecognized prior service cost	4,448	2,864	–	–
Net amount recognized	$ 22,934	$ 10,329	$ (15,479)	$ (12,726)

(1) The plan has been amended to provide additional benefits for certain participants as listed in the plan documents and for the increased benefit and salary limits on the projected benefit obligation.

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

	Pension Benefits			Other Postretirement Benefits		
	2002	2001	2000	2002	2001	2000
	(In thousands of dollars)					
Service cost	$ 6,580	$ 5,113	$ 4,734	$ 3,137	$ 2,065	$ 1,943
Interest cost	6,585	5,518	4,885	2,711	2,056	1,831
Expected return on plan assets	(6,712)	(6,350)	(6,496)	(1,058)	(1,016)	(1,009)
Recognized net actuarial loss (gain)	32	(27)	(520)	152	(54)	(146)
Amortization of transition obligation	–	–	32	530	530	530
Amortization of prior service cost	507	232	183	–	–	–
Net periodic benefit cost	$ 6,992	$ 4,486	$ 2,818	$ 5,472	$ 3,581	$ 3,149

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		
	2002	2001	2000	2002	2001	2000
Weighted-average interest rate assumptions as of December 31:						
Discount rate	6.75%	7.00%	7.50%	6.75%	7.00%	7.50%
Expected return on plan assets	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Rate of compensation increase	4.50%	6.00%	6.00%	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 rates used in measuring the accumulated postretirement benefit obligation are:

Medical	8.5% for 2002 graded down by 0.5% per year to 6.0% in 2007 and remaining level thereafter.
Dental	6.0% per year.

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	$ 1,382	$ (1,103)
Effect on postretirement benefit obligation	9,895	(7,932)

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 $6.3 million, $5.8 million and $4.7 million in 2002, 2001 and 2000, respectively.

10. Income taxes

The components of the net deferred tax liability as of December 31, 2002 and 2001 are as follows:

	2002	2001
	(In thousands of dollars)	
Unearned premium reserves	$ (14,470)	$ (11,269)
Deferred policy acquisition costs	11,155	11,244
Loss reserves	(6,163)	(4,009)
Unrealized appreciation in investments	86,653	25,116
Contingency loss reserves	43,268	50,018
Mortgage investments	57,829	45,966
Litigation settlement	(7,918)	(7,918)
Investments in joint ventures	(9,804)	3,074
Other, net	(12,145)	(5,772)
Net deferred tax liability	$ 148,405	$ 106,450

At December 31, 2002, gross deferred tax assets and liabilities amount to $87.0 million and $235.4 million, respectively. Management believes that all gross deferred tax assets at December 31, 2002 are fully realizable and no valuation reserve is established.

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

	2002	2001	2000
	(In thousands of dollars)		
Federal:			
Current	$ 277,536	$ 248,679	$ 208,949
Deferred	(12,572)	40,376	34,476
State	3,487	3,718	3,377
Provision for income tax	$ 268,451	$ 292,773	$ 246,802

The Company paid $261.3 million, $271.3 million and $199.9 million in federal income tax in 2002, 2001 and 2000, respectively. At December 31, 2002 and 2001, the Company owned $1,181.9 million and $1,004.3 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:

	2002	2001	2000
		(In thousands of dollars)	
Tax provision computed at federal tax rate	$ 314,175	$ 326,169	$ 276,080
(Decrease) increase in tax provision resulting from:			
Tax exempt municipal bond interest	(46,381)	(35,715)	(32,350)
Other, net	657	2,319	3,072
Provision for income tax	$ 268,451	$ 292,773	$ 246,802

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 the result of an extraordinary dividend paid by MGIC in February 2002, MGIC cannot pay any dividends without regulatory approval until February 16, 2003. Thereafter, MGIC can pay $154.8 million of dividends. The other insurance subsidiaries of the Company can pay $8.7 million of dividends without such regulatory approval.

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

In 2002, 2001 and 2000, the Company paid dividends of $10.4 million, $10.7 million and $10.6 million, respectively, or $0.10 per share in 2002, 2001 and 2000.

The principles used in determining statutory financial amounts differ from 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.

Under statutory accounting practices, purchases of tax and loss bonds are accounted for as investments. Under GAAP, purchases of tax and loss bonds are recorded as payments of current income taxes.

Under statutory accounting practices, fixed maturity investments are generally 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.

Under statutory accounting practices, certain assets, designated as non-admitted assets, are charged directly against statutory surplus. Such assets are reflected on the GAAP financial statements.

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)		
2002	$ 296,595	$ 1,634,707	$ 3,521,100
2001	426,294	1,451,808	3,039,332
2000	348,137	991,343	2,616,653

Effective January 1, 2001, the OCI required that insurance companies domiciled in the State of Wisconsin prepare their statutory basis financial statements in accordance with new guidance contained in the National Association of Insurance Commissioners' "Accounting Practices and Procedures Manual" version effective on that date. The effect of the adoption in 2001 did not have a material impact on the Company's insurance subsidiaries' statutory surplus. The most significant change affecting surplus is the requirement to record deferred income taxes.

The Company has 1991 and 2002 stock incentive plans. When the 2002 plan was adopted in 2002, no further awards could be made under the 1991 plan. The number of shares covered by awards under the 2002 plan is the total of 10 million shares plus the number of shares covered by awards under the 1991 plan that were outstanding on March 1, 2002 that are subsequently forfeited and the number of shares that must be purchased at a purchase price of not less than the fair market value of the shares as a condition to the award of restricted stock under the 2002 plan. The maximum number of shares of restricted stock that can be awarded under the 2002 plan is 1 million shares. Both plans provide for the award of stock options with maximum terms of 10 years and for the grant of restricted stock, and the 2002 plan also provides for the grant of stock appreciation rights. The exercise price of options is the closing price of the common stock on the New York Stock Exchange on the date of grant. The vesting provisions of options and restricted stock are determined at the time of grant. Directors may receive awards under the 2002 plan and were eligible for awards of restricted stock under the 1991 plan.

No awards under the 2002 plan were made in 2002. A summary of activity in the 1991 stock option plans during 2000, 2001 and 2002 is as follows:

	Weighted Average Exercise Price	Shares Subject to Option
Outstanding, December 31, 1999	$ 30.52	3,546,264
Granted	45.40	954,000
Exercised	16.91	(1,080,208)
Canceled	37.96	(35,060)
Outstanding, December 31, 2000	38.96	3,384,996
Granted	57.90	533,750
Exercised	29.28	(555,952)
Canceled	44.15	(25,107)
Outstanding, December 31, 2001	43.56	3,337,687
Granted	63.86	818,000
Exercised	34.46	(516,828)
Canceled	49.32	(51,300)
Outstanding, December 31, 2002	49.42	3,587,559

The exercise price of the options granted in 2000, 2001 and 2002 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, 2002, 10,052,621 shares were available for future grant under the stock option plan.

Information about restricted stock granted during 2002, 2001 and 2000 is as follows:

	Year Ended December 31, 2002	2001	2000
Shares granted	95,638	58,180	78,598
Weighted average grant date fair market value	$ 64.33	$ 57.93	$ 42.57

For purposes of determining the pro forma net income disclosure in Note 2, as if compensation expense were determined using the fair value method described in SFAS No. 123, 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:

	Grants Issued in Year Ended December 31,		
	2002	2001	2000
Risk free interest rate	4.51%	5.10%	6.75%
Expected life	5.0 years	5.0 years	6.8 years
Expected volatility	41.96%	39.64%	33.62%
Expected dividend yield	0.24%	0.16%	0.15%
Fair value of each option	$27.15	$24.43	$21.96

The following is a summary of stock options outstanding at December 31, 2002:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Shares	Remaining Average Life (yrs.)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$9.63–$20.88	67,600	1.1	$ 15.69	67,600	$ 15.69
$26.69–$47.31	2,073,609	5.8	41.86	1,263,809	39.77
$53.70–$68.63	1,446,350	8.4	61.83	208,150	61.32
Total	3,587,559	6.8	49.42	1,539,559	41.62

At December 31, 2001 and 2000, option shares of 1,486,768 and 1,229,038 were exercisable at an average exercise price of $37.55 and $31.93, respectively. The Company also granted an immaterial amount of equity instruments other than options and restricted stock during 2000, 2001 and 2002.

Under terms of the Company's Shareholder Rights Agreement each outstanding share of the Company's Common Stock is accompanied by one Right. The "Distribution Date" occurs ten days after an announcement that a person has become the beneficial owner (as defined in the Agreement) of the Designated Percentage 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 Designated Percentage is 15% or more, except that for certain investment advisers and investment companies advised by such advisers, the Designated Percentage is 17.5% or more if certain conditions are met. 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 $0.001 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 $7.4 million, $6.7 million and $5.3 million in 2002, 2001 and 2000, respectively.

At December 31, 2002, minimum future operating lease payments are as follows (in thousands of dollars):

2003	$ 6,234
2004	4,953
2005	2,724
2006	940
2007	570
2008 and thereafter	40
Total	$ 15,461

13. Contingencies and litigation settlement

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

In addition, in June 2001, the Federal District Court for the Southern District of Georgia, before which

Downey et. al. v. MGIC was pending, issued a final order approving a settlement agreement and certified a nationwide class of borrowers. In the fourth quarter of 2000, the Company recorded a $23.2 million charge to cover the estimated costs of the settlement, including payments to borrowers. Due to appeals by certain class members and members of classes in two related cases, payments to borrowers in the settlement are delayed pending the outcome of the appeals. The settlement includes an injunction that prohibits certain practices and specifies the basis on which agency pool insurance, captive mortgage reinsurance, contract underwriting and other products may be provided in compliance with the Real Estate Settlement Procedures Act. There can be no assurance that the standards established by the injunction will be determinative of compliance with the Real Estate Settlement Procedures Act were additional litigation to be brought in the future.

The complaint in the case alleges that MGIC violated the Real Estate Settlement Procedures Act by providing agency pool insurance, captive mortgage reinsurance, contract underwriting and other products 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 at the time of judgment for the mortgage insurance found to be involved in a violation of the Real Estate Settlement Procedures Act. The complaint also seeks injunctive relief, including prohibiting MGIC from receiving future premium payments. If the settlement is not fully implemented, the litigation will continue. In these circumstances, there can be no assurance that the ultimate outcome of the litigation will not materially affect the Company's financial position or results of operations.

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, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. 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 of America, 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 our opinion.

PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
January 8, 2003

Unaudited quarterly financial data

2002	Quarter First	Quarter Second	Quarter Third	Quarter Fourth	2002 Year
	(In thousands of dollars, except per share data)				
Net premiums written	$ 283,097	$ 286,615	$ 301,361	$ 306,882	$ 1,177,955
Net premiums earned	284,449	288,169	298,953	310,527	1,182,098
Investment income, net of expenses	51,950	51,654	51,036	52,876	207,516
Losses incurred, net	59,714	64,416	101,094	140,528	365,752
Underwriting and other expenses, net	64,468	63,049	64,646	73,470	265,633
Net income	169,187	170,936	151,570	137,498	629,191
Earnings per share (a):					
Basic	1.59	1.63	1.47	1.37	6.07
Diluted	1.58	1.61	1.47	1.37	6.04

2001	Quarter First	Quarter Second	Quarter Third	Quarter Fourth	2001 Year
	(In thousands of dollars, except per share data)				
Net premiums written	$ 229,588	$ 256,903	$ 271,006	$ 278,856	$ 1,036,353
Net premiums earned	241,182	257,372	264,780	278,933	1,042,267
Investment income, net of expenses	50,045	51,566	51,021	51,761	204,393
Losses incurred, net	29,377	36,304	43,468	51,665	160,814
Underwriting and other expenses, net	51,654	58,524	58,317	65,999	234,494
Net income	157,924	161,218	158,992	161,003	639,137
Earnings per share (a):					
Basic	1.48	1.51	1.48	1.51	5.98
Diluted	1.46	1.49	1.47	1.50	5.93

(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 International
Chevy Chase, MD
An international financial advisory firm

Karl E. Case
Professor of Economics
Wellesley College
Wellesley, MA

Curt S. Culver
President and Chief Executive Officer
MGIC Investment Corporation
Milwaukee, WI

David S. Engelman
Private Investor
Rancho Santa Fe, CA

Thomas M. Hagerty
Managing Director
Thomas H. Lee Company
Boston, MA
A private investment firm

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

Michael E. Lehman
Former Executive Vice President and Chief Financial Officer
Sun Microsystems, Inc.
Santa Clara, CA

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
President and Chief Executive Officer
Fiserv, Inc.
Brookfield, WI
A financial industry automation products and services company

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MGIC Investment Corporation

President and Chief Executive Officer
Curt S. Culver

Executive Vice Presidents
John D. Fisk
Strategic Planning

J. Michael Lauer
Chief Financial Officer

Senior Vice Presidents
Joseph J. Komanecki
Controller and Chief Accounting Officer

Jeffrey H. Lane
General Counsel and Secretary

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

Vice President
James A. Karpowicz
Treasurer

Mortgage Guaranty Insurance Corporation

President and Chief Executive Officer
Curt S. Culver

Executive Vice Presidents
John D. Fisk
Strategic Planning

J. Michael Lauer
Chief Financial Officer

James S. MacLeod
Field Operations

Lawrence J. Pierzchalski
Risk Management

Senior Vice Presidents
Joseph J. Komanecki
Controller and Chief Accounting Officer

Jeffrey H. Lane
General Counsel and Secretary

Michael G. Meade
Information Services

Patrick Sinks
Field Operations

Steven T. Snodgrass
Capital Markets

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

Vice Presidents
Gary A. Antonovich
Internal Audit

Stephen L. Blose
Corporate Development

Mark F. Conrad
National Accounts

Stephen M. Dempsey
Sales

Larry M. Dew, Jr.
National Accounts

Thomas A. Drew
Claims

Sandra K. Dunst
Capital Markets Operations

Henry W. Duvall, Jr.
Managing Director

Carla A. Gallas
Field Operations

David A. Greco
National Accounts

Frank E. Hilliard
Managing Director

Steven F. Himebauch
National Accounts

James J. Hlavacek
National Accounts

James J. Hughes
Managing Director

W. Thomas Hughes
Managing Director

Malcom T. Hurst
Sales

James A. Karpowicz
Treasurer

John D. Ludwick
Human Resources

Robin D. Mallory
Managing Director

Mark E. Marple
Mortgage Banking Strategies

Salvatore A. Miosi
Information Services

Charlotte L. Reed
Information Services

Eric L. Rice
Sales

John R. Schroeder
Credit Policy

Dan D. Stilwell
Assistant General Counsel and Assistant Secretary

James R. Stirling
Information Services

Thomas B. Theobald
National Accounts

Steven M. Thompson
Risk Management

Bernhard W. Verhoeven
Risk Management

Cheryl L. Webb
Marketing

E. Stephen White
Managing Director

John S. Wiseman
Managing Director

Jerry L. Wormmeester
Sales

Terrance R. Wright
Regulatory Relations

Michael J. Zimmerman
Investor Relations

The Annual Meeting
The Annual Meeting of Shareholders of MGIC Investment Corporation will convene at 9 a.m. Central Time on May 8, 2003 at the Marcus Center for the Performing Arts, 929 North Water 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, 2003, to shareholders on request from:

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

Transfer Agent and Registrar
Wells Fargo Bank Minnesota, N.A.
Shareowner Services
P. O. Box 64854
St. Paul, Minnesota 55164
(800) 468-9716

Corporate Headquarters
MGIC Plaza
250 East Kilbourn Avenue
Milwaukee, Wisconsin 53202

Mailing Address
P. O. Box 488
Milwaukee, Wisconsin 53201

Shareholder 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, 2002, 100,251,444 shares were outstanding. The following table sets forth for 2001 and 2002 by quarter the high and low sales prices of the Common Stock on the New York Stock Exchange Composite Tape.

	2001		2002	
Quarters	High	Low	High	Low
1st	$ 69.36	$ 51.00	$ 71.85	$ 59.03
2nd	77.31	61.00	74.40	65.40
3rd	76.50	54.00	68.95	38.60
4th	66.20	50.56	48.52	33.60

In 2001 and 2002 the Company declared and paid the following cash dividends:

Quarters	2001	2002
1st	$ .025	$ .025
2nd	.025	.025
3rd	.025	.025
4th	.025	.025
	$ .100	$ .100

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 the sixth paragraph under “Management’s Discussion and Analysis — Liquidity and Capital Resources” and Note 11 of the Notes to the Consolidated Financial Statements.

As of March 12, 2003, the number of shareholders of record was 207. In addition, there were approximately 139,000 beneficial owners of shares held by brokers and fiduciaries.

MGIC Investment Corporation
MGIC Plaza, Milwaukee, Wisconsin 53202

71-42032