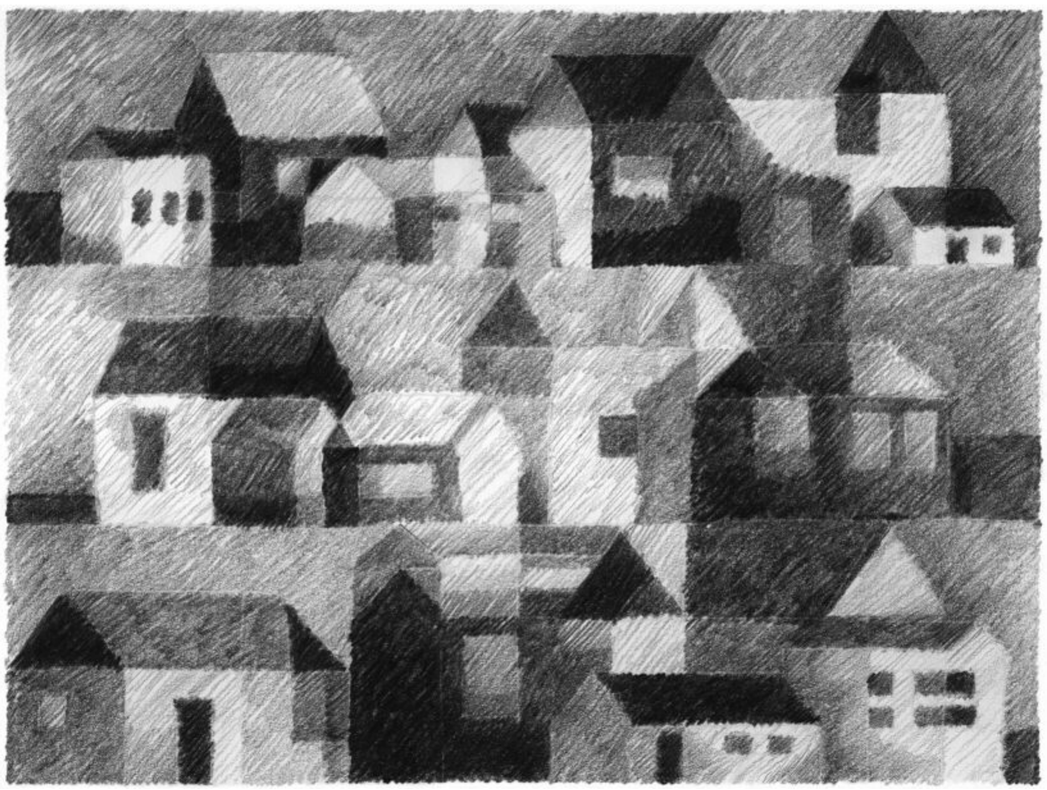
MGIC

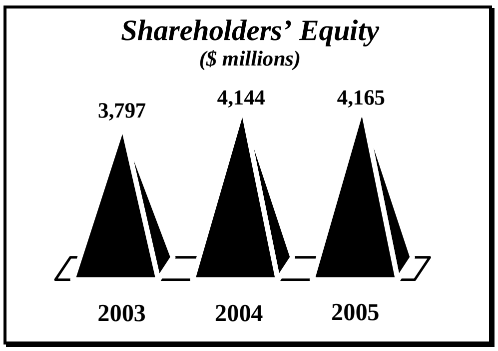
MGIC INVESTMENT CORPORATION

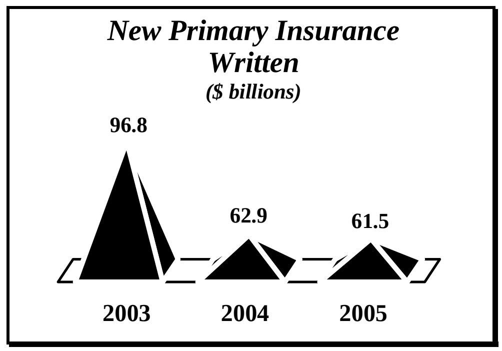


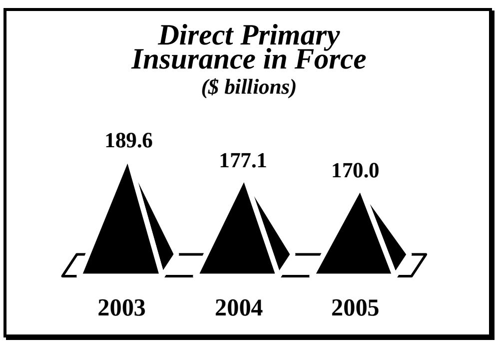
2005 Annual Report

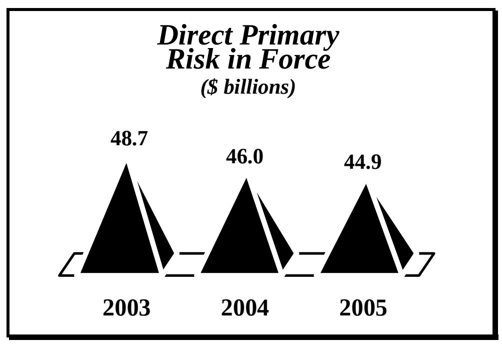
Financial Highlights

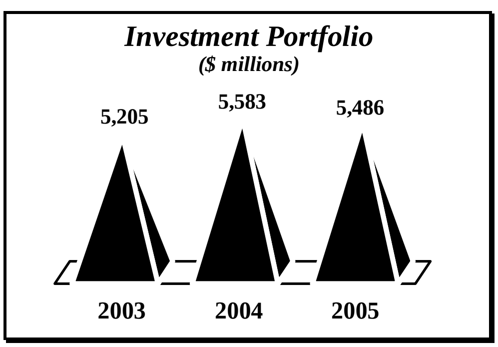
	2003	2004	2005
Net income ($ millions)	493.9	553.2	**626.9**
Diluted earnings per share ($)	4.99	5.63	**6.78**
Return on equity (%)	13.7	13.8	**14.9**

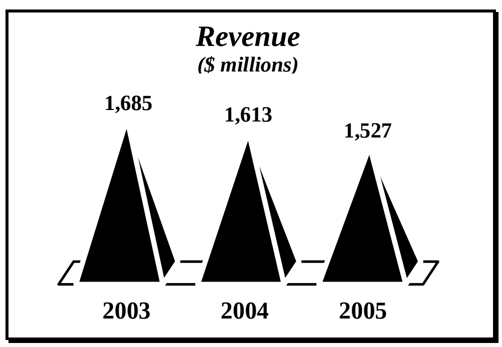












Fellow Shareholders

MGIC achieved strong financial results in 2005, reporting net income of $627 million, a 13% increase from 2004, and a return on equity of 14.9%. These results were driven in large part by lower losses incurred, an increase in joint venture contributions, and excellent expense management. We also continued to be our industry's leader.

Losses incurred were $553.5 million, down 21%, primarily a result of the economy shifting from recovery to expansion throughout the year. C-BASS and Sherman, our primary joint ventures, had another outstanding year in a long line of successful years with our joint venture net income up 22% to $147.3 million. Operating expenses declined 1.2% to $275.4 million, demonstrating the strong work ethic of our co-workers, which produces the industry's lowest expense ratio. Reflecting our strong cash flow and capital position, we repurchased 8.7 million shares in 2005, increased the common stock dividend in May of 2005, and again in January 2006, and increased book value per share by 9.9%.

That is not to say that 2005 was free of challenges. Revenues declined by 5% to $1.5 billion, and insurance in force was down 4% to $170 billion. This is the result of the continued competition from alternative executions to mortgage insurance, and the effect low interest rates and high home appreciation had on our policy renewal rate. The good news is that interest rates finally began to rise late in the year, home price appreciation is beginning to show signs of slowing and banking regulators along with rating agencies are increasing their focus on both piggyback and other lending programs such as Interest-Only and Option ARMs. These trends should allow persistency to continue its gradual improvement and cause mortgage insurance penetration to gradually increase in 2006.

Last year I wrote that we needed to maintain our discipline and not succumb to the "top of market" environment that existed at the time and chase short-term benefits. Rather we needed to stay focused on creating long-term, sustainable value for all of our constituencies. That was the objective then and it remains the same today. At times this strategy can be difficult to execute; however, it will ultimately be rewarded and as I outlined above, it appears that the business fundamentals are beginning to turn in our favor.

In addition, we must continue to listen to our customers and develop programs and solutions that make MGIC the credit enhancer of choice. Our SingleFile program, which was introduced in late 2004, continues to gather momentum, both with consumers and lenders. The Risk Management team is an active participant in the securitization of residential mortgages that are sold in the capital markets. Emerging Markets programs such as Building a Life in America, SmartPath, and others are making homeownership a reality for many of the underserved housing markets in our country. In January of this year, we acquired Myers Internet. Myers both compliments and enhances our eMagic technology platform, which simplifies the lending process for both MGIC and our customers. Finally, our Capital Markets programs, such as Lender Landscape and Defender, allow our customers to deploy new strategies to grow their businesses in an efficient and profitable manner. And while our primary focus is and will remain on the domestic mortgage market, we have also begun to build an international platform to position our company, over the long term, to take advantage of the growing global need for homeownership.

As we approach our fiftieth year of business, we recognize that the mortgage industry is constantly changing and that MGIC must continually evolve to maintain our place as a market leader. Our customers expect business partners that are the best in their field, partners they can count on to be there in good times and in challenging times. I believe that MGIC meets and exceeds this standard, which is why I am both excited about the marketplace opportunities and confident about our ability to continue to be the credit enhancer of choice for single-family mortgages.

Sincerely,

Curt S. Culver

Curt S. Culver
Chairman and Chief Executive Officer

The factors discussed under "Risk Factors" in "Management's Discussion and Analysis" elsewhere in 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 "should," "is expected" or "will be" or words of similar import, are forward-looking statements.

Five-Year Summary of Financial Information

	2005	2004	2003	2002	2001
	(In thousands of dollars, except per share data)				
Summary of Operations					
Revenues:					
Net premiums written	**$ 1,252,310**	$ 1,305,417	$ 1,364,631	$ 1,177,955	$ 1,036,353
Net premiums earned	**$ 1,238,692**	$ 1,329,428	$ 1,366,011	$ 1,182,098	$ 1,042,267
Investment income, net	**228,854**	215,053	202,881	207,516	204,393
Realized investment gains, net	**14,857**	17,242	36,862	29,113	37,352
Other revenue	**44,127**	50,970	79,657	65,836	30,448
Total revenues	**1,526,530**	1,612,693	1,685,411	1,484,563	1,314,460
Losses and expenses:					
Losses incurred, net	**553,530**	700,999	766,028	365,752	160,814
Underwriting and other expenses	**275,416**	278,786	302,473	265,633	234,494
Interest expense	**41,091**	41,131	41,113	36,776	30,623
Total losses and expenses	**870,037**	1,020,916	1,109,614	668,161	425,931
Income before tax and joint ventures	**656,493**	591,777	575,797	816,402	888,529
Provision for income tax	**176,932**	159,348	146,027	240,971	277,590
Income from joint ventures, net of tax	**147,312**	120,757	64,109	53,760	28,198
Net income	**$ 626,873**	$ 553,186	$ 493,879	$ 629,191	$ 639,137
Weighted average common shares outstanding (in thousands)	**92,443**	98,245	99,022	104,214	107,795
Diluted earnings per share	**$ 6.78**	$ 5.63	$ 4.99	$ 6.04	$ 5.93
Dividends per share	**$ .525**	$ .2250	$ .1125	$ .10	$ .10
Balance sheet data					
Total investments	**$ 5,486,070**	$ 5,582,627	$ 5,205,161	$ 4,726,472	$ 4,069,447
Total assets	**6,357,569**	6,380,691	5,917,387	5,300,303	4,567,012
Loss reserves	**1,124,454**	1,185,594	1,061,788	733,181	613,664
Short- and long-term debt	**685,163**	639,303	599,680	677,246	472,102
Shareholders' equity	**4,165,055**	4,143,639	3,796,902	3,395,192	3,020,187
Book value per share	**47.31**	43.05	38.58	33.87	28.47

A brief description of the Company's business is contained in the first paragraph of "Overview – Business and General Environment" in "Management's Discussion and Analysis."

Five-Year Summary of Financial Information

	2005	2004	2003	2002	2001
New primary insurance written ($ millions)	**$ 61,503**	$ 62,902	$ 96,803	$ 92,532	$ 86,122
New primary risk written ($ millions)	**16,836**	16,792	25,209	23,403	21,038
New pool risk written ($ millions) (1)	**358**	208	862	674	412
Insurance in force (at year-end) ($ millions)					
Direct primary insurance	**170,029**	177,091	189,632	196,988	183,904
Direct primary risk	**44,860**	45,981	48,658	49,231	45,243
Direct pool risk (1)	**2,909**	3,022	2,895	2,568	1,950
Primary loans in default ratios					
Policies in force	**1,303,084**	1,413,678	1,551,331	1,655,887	1,580,283
Loans in default	**85,788**	85,487	86,372	73,648	54,653
Percentage of loans in default	**6.58%**	6.05%	5.57%	4.45%	3.46%
Percentage of loans in default — bulk	**14.72%**	14.06%	11.80%	10.09%	8.59%
Insurance operating ratios (GAAP)					
Loss ratio (2)	**44.7%**	52.7%	56.1%	30.9%	15.4%
Expense ratio (2)	**15.9%**	14.6%	14.1%	14.8%	16.5%
Combined ratio	**60.6%**	67.3%	70.2%	45.7%	31.9%
Risk-to-capital ratio (statutory)					
MGIC	**6.3:1**	6.8:1	8.1:1	8.7:1	9.1:1

(1) Represents contractual aggregate loss limits and, for the years ended December 31, 2005, 2004, 2003 and 2002, for $5.0 billion, $4.9 billion, $4.9 billion and $3.0 billion, respectively, of risk without such limits, risk is calculated at $51 million, $65 million, $192 million and $147 million, respectively, for new risk written and $469 million, $418 million, $353 million and $161 million, respectively, for risk in force, the estimated amount that would credit enhance these loans to a 'AA' level based on a rating agency model.

(2) The loss ratio (expressed as a percentage) is the ratio of the sum of incurred losses and loss adjustment expenses to net premiums earned. The expense ratio (expressed as a percentage) is the ratio of the combined insurance operations underwriting expenses to net premiums written.

Overview

Business and General Environment

The Company, through its subsidiary Mortgage Guaranty Insurance Corporation ("MGIC"), is the leading provider of private mortgage insurance in the United States to the home mortgage lending industry. The Company's principal products are primary mortgage insurance and pool mortgage insurance. Primary mortgage insurance may be written through the flow market channel, in which loans are insured in individual, loan-by-loan transactions. Primary mortgage insurance may also be written through the bulk market channel, in which portfolios of loans are individually insured in single, bulk transactions.

The Company's results of operations are affected by:

- Premiums written and earned

  Premiums written and earned in a year are influenced by:

  - New insurance written, which increases the size of the in force book of insurance. New insurance written is the aggregate principal amount of the mortgages that are insured during a period and is referred to as "NIW." NIW is affected by many factors, including the volume of low-down-payment home mortgage originations and competition to provide credit enhancement on those mortgages, including competition from other mortgage insurers and alternatives to mortgage insurance, such as piggyback loans.
  - Cancellations, which reduce the size of the in force book of insurance that generates premiums. Cancellations due to refinancings are affected by the level of current mortgage interest rates compared to the mortgage coupon rates throughout the in force book, as well as by home price appreciation.
  - Premium rates, which are affected by the risk characteristics of the loans insured and the percentage of coverage on the loans.
  - Premiums ceded to reinsurance subsidiaries of certain mortgage lenders and risk sharing arrangements with the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (government-sponsored entities or "GSEs").

  Premiums are generated by the insurance that is in force during all or a portion of the period. Hence, lower average insurance in force in one period compared to another is a factor that will reduce premiums written and earned, although this effect may be mitigated (or enhanced) by differences in the average premium rate between the two periods as well as by premium that is ceded. Also, NIW and cancellations during a period will generally have a greater effect on premiums written and earned in subsequent periods than in the period in which these events occur.

- Investment income

  The investment portfolio is comprised almost entirely of highly rated, fixed-income securities. The principal factors that influence investment income are the size of the portfolio and its yield. As measured by amortized cost (which excludes changes in fair market value, such as from changes in interest rates), the size of the investment portfolio, which is principally held by MGIC, is mainly a function of cash generated from operations, including investment earnings, less cash used for noninvestment purposes, such as dividends paid to the Company.

- Losses incurred

  Losses incurred are the expense that results from a payment delinquency on an insured loan. As explained under "Critical Accounting Policies" below, this expense is recognized only when a loan is delinquent. Losses incurred are generally affected by:

  - The state of the economy, which affects the likelihood that loans will become delinquent and whether loans that are delinquent cure their delinquency. The level of delinquencies has historically followed a seasonal pattern, with a reduction in delinquencies in the first part of the year, followed by an increase in the latter part of the year.
  - The product mix of the in force book, with loans having higher risk characteristics generally resulting in higher delinquencies and claims.

– The average claim payment, which is affected by the size of loans insured (higher average loan amounts tend to increase losses incurred), the percentage coverage on insured loans (deeper average coverage tends to increase incurred losses), and housing values, which affect the Company's ability to mitigate its losses through sales of properties with delinquent mortgages.

– The distribution of claims over the life of a book. Historically, the first two years after a loan is originated are a period of relatively low claims, with claims increasing substantially for several years subsequent and then declining, although persistency and the condition of the economy can affect this pattern.

- Underwriting and other expenses

  The operating expenses of the Company generally vary primarily due to contract underwriting volume, which in turn generally varies with the level of mortgage origination activity. Contract underwriting generates fee income included in "Other revenue."

- Income from joint ventures

  The Company's results of operations are also affected by income from joint ventures. Joint venture income principally consists of the aggregate results of the Company's investment in two less than majority owned joint ventures, Credit-Based Asset Servicing and Securitization LLC ("C-BASS") and Sherman Financial Group LLC ("Sherman").

  C-BASS: C-BASS is primarily an investor in the credit risk of credit-sensitive single-family residential mortgages. It finances these activities through borrowings included on its balance sheet and by securitization activities generally conducted through off-balance sheet entities. C-BASS generally retains the first-loss and other subordinate securities created in the securitization. The loans owned by C-BASS and underlying C-BASS's mortgage securities investments are serviced by Litton Loan Servicing LP, a subsidiary of C-BASS ("Litton"). Litton's servicing operations primarily support C-BASS's investment in credit risk, and investments made by funds managed or co-managed by C-BASS, rather than generating fees for servicing loans owned by third parties.

  C-BASS's consolidated results of operations are affected by:

  – Portfolio revenue, which in turn is primarily affected by net interest income, gain on sale and liquidation and hedging gains and losses related to portfolio assets, net of mark-to-market and whole loan reserve changes.

    o Net interest income

      Net interest income is principally a function of the size of C-BASS's portfolio of whole loans and mortgages and other securities, and the spread between the interest income generated by these assets and the interest expense of funding them. Interest income from a particular security is recognized based on the expected yield for the security.

    o Gain on sale and liquidation

      Gain on sale and liquidation results from sales of mortgage and other securities, and liquidation of mortgage loans. Securities may be sold in the normal course of business or because of the exercise of call rights by third parties. Mortgage loan liquidations result from loan payoffs, from foreclosure or from sales of real estate acquired through foreclosure.

  – Servicing revenue

    Servicing revenue is a function of the unpaid principal balance of mortgage loans serviced and servicing fees and charges. The unpaid principal balance of mortgage loans serviced by Litton is affected by mortgages acquired by C-BASS because servicing on subprime and other mortgages acquired is generally transferred to Litton. Litton also services or provides special servicing on loans in mortgage securities owned by funds managed or co-managed by C-BASS. Litton also may obtain servicing on loans in third party mortgage securities acquired by C-BASS or when the loans become delinquent by a specified number of payments (known as "special servicing").

  – Revenues from money management activities

    These revenues include management fees from C-BASS-issued collateralized bond obligations ("CBOs"), equity in earnings from C-BASS investments in investment funds managed or co-managed by C-BASS and management fees and incentive income from investment funds managed or co-managed by C-BASS.

– Transaction revenue, which in turn is affected by gain on securitization and hedging gains and losses related to securitization.

  o Gain on securitization

    Gain on securitization is a function of the face amount of the collateral in the securitization and the margin realized in the securitization. This margin depends on the difference between the proceeds realized in the securitization and the purchase price paid by C-BASS for the collateral. The proceeds realized in a securitization include the value of securities created in the securitization that are retained by C-BASS.

  o Hedging gains and losses, net of mark-to-market and whole loan reserve changes

    Hedging gains and losses primarily consist of changes in the value of derivative instruments (including interest rate swaps, interest rate caps and futures) and short positions, as well as realized gains and losses from the closing of hedging positions. C-BASS uses derivative instruments and short sales in a strategy to reduce the impact of changes in interest rates on the value of its mortgage loans and securities. Changes in value of derivative instruments are subject to current recognition because C-BASS does not account for the derivatives as "hedges" under SFAS No. 133.

    Mortgage and other securities are classified by C-BASS as trading securities and are carried at fair value, as estimated by C-BASS. Changes in fair value between period ends (a "mark-to-market") are reflected in C-BASS's statement of operations as unrealized gains or losses. Changes in fair value of mortgage and other securities may relate to changes in credit spreads or to changes in the level of interest rates or the slope of the yield curve. Mortgage loans are not marked-to-market and are carried at the lower of cost or fair value on a portfolio basis, as estimated by C-BASS.

    During a period in which short-term interest rates decline, in general, C-BASS's hedging positions will decline in value and the change in value, to the extent that the hedges related to whole loans, will be reflected in C-BASS's earnings for the period as an unrealized loss. The related increase, if any, in the value of mortgage loans will not be reflected in earnings but, absent any countervailing factors, when mortgage loans owned during the period are securitized, the proceeds realized in the securitization should increase to reflect the increased value of the collateral.

Sherman: Sherman is principally engaged in purchasing and collecting for its own account delinquent consumer receivables, which are primarily unsecured, and in originating and servicing subprime credit card receivables. The borrowings used to finance these activities are included in Sherman's balance sheet.

Sherman's consolidated results of operations are affected by:

– Revenues from delinquent receivable portfolios

  These revenues are the cash collections on such portfolios, and depend on the aggregate amount of delinquent receivables owned by Sherman, the type of receivable and the length of time that the receivable has been owned by Sherman.

– Amortization of delinquent receivable portfolios

  Amortization is the recovery of the cost to purchase the receivable portfolios. Amortization expense is a function of estimated collections from the portfolios over their estimated lives. If estimated collections cannot be reasonably predicted, cost is fully recovered before any net revenue (the difference between revenues from a receivable portfolio and that portfolio's amortization) is recognized.

– Costs of collection, which include servicing fees paid to third parties to collect receivables.

2005 Results

The Company's results of operations in 2005 were principally affected by:

- Losses incurred

Losses incurred decreased in 2005 compared to 2004, primarily due to a decrease in the estimates regarding how many delinquencies will eventually result in a claim, when compared to 2004.

- Premiums written and earned

  The Company's written and earned premiums in 2005 were lower than in 2004 due to a decline in the average insurance in force.

- Investment income

  Investment income was higher in 2005 than in 2004 due to an increase in the average investment portfolio as measured by amortized cost, as well as a slight increase in the pretax yield.

- Underwriting and other expenses

  Underwriting and other expenses decreased in 2005, compared to 2004, primarily as a result of decreases in expenses related to contract underwriting activity.

- Income from joint ventures

  Income from joint ventures increased in 2005, compared to 2004, due to higher income from each of C-BASS and Sherman.

Results of Consolidated Operations

As discussed under "Risk Factors" below, actual results may differ materially from the results contemplated by forward looking statements. The Company is not undertaking any obligation to update any forward looking statements it may make in the following discussion or elsewhere in this document even though these statements may be affected by events or circumstances occurring after the forward looking statements were made.

NIW

The amount of MGIC's NIW (this term is defined under "Premiums written and earned" in the "Overview – Business and General Environment" section) during the years ended December 31, 2005, 2004 and 2003 was as follows:

	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
		($ billions)	
Flow NIW	$ 40.1	$ 47.1	$ 71.1
Bulk NIW	21.4	15.8	25.7
Total NIW	$ 61.5	$ 62.9	$ 96.8
Refinance volume as a % of primary flow NIW	28%	30%	47%

The decrease in NIW on a flow basis in 2005 was primarily the result of continued market growth for piggyback loans that offer alternatives to mortgage insurance. For a discussion of NIW written through the bulk channel, see "Bulk transactions" below. The Company expects NIW in 2006 to be slightly below the level in 2005.

The decrease in NIW on a flow basis in 2004, compared to 2003, was primarily related to a decrease in the overall mortgage origination market.

Cancellations and insurance in force

NIW and cancellations of primary insurance in force during the years ended December 31, 2005, 2004 and 2003 were as follows:

	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
		($ billions)	
NIW	$ 61.5	$ 62.9	$ 96.8
Cancellations	(68.6)	(75.4)	(104.2)
Change in primary insurance in force	$ (7.1)	$ (12.5)	$ (7.4)
As of December 31, direct primary insurance in force	$ 170.0	$ 177.1	$ 189.6

Cancellation activity has historically been affected by the level of mortgage interest rates and the level of home price appreciation. Cancellations generally move inversely to the change in the direction of interest rates, although they generally lag a change in direction. MGIC's persistency rate (percentage of insurance remaining in force from one year prior) was 61.3% at December 31, 2005, 60.2% at December 31, 2004 and 47.1% at December 31, 2003. The Company expects modest improvement in the persistency rate in 2006, although this expectation assumes the absence of significant declines in the level of mortgage interest rates from their level in late February 2006.

Bulk transactions

The Company's writings of bulk insurance are in part sensitive to the volume of securitization transactions involving nonconforming loans. The Company's writings of bulk insurance are also sensitive to competition from other methods of providing credit enhancement in a securitization, including an execution in which the subordinate tranches in the securitization rather than mortgage insurance bear the first loss from mortgage defaults. Competition from such an execution in turn depends on, among other factors, the yield at which investors are willing to purchase tranches of the securitization that involve a higher degree of credit risk compared to the yield for tranches involving the lowest credit risk (the difference in such yields is referred to as the spread) and the amount of credit for losses that a rating agency will give to mortgage insurance. As the spread narrows, competition from an execution in which the subordinate tranches bear the first loss increases. The competitiveness of the mortgage insurance execution in the bulk channel may also be impacted by changes in the Company's view of the risk of the business, which is affected by the historical performance of previously insured pools and the Company's expectations for regional and local real estate values. As a result of the sensitivities discussed above, bulk volume can vary materially from period to period.

NIW for bulk transactions increased from $15.8 billion in 2004 to $21.4 billion in 2005 due primarily to transactions with customers for which no insurance had been written in 2004, as well as slightly wider spreads in the last few months of 2005. In 2004, NIW for bulk transactions decreased from $25.7 billion in 2003, due primarily to narrower spreads and competition from other mortgage insurers. As it has in past years, the Company priced the bulk business written in 2005 to generate acceptable returns; there can be no assurance, however, that the assumptions underlying the premium rates will achieve this objective.

Pool insurance

In addition to providing primary insurance coverage, the Company also insures pools of mortgage loans. New pool risk written during the years ended December 31, 2005, 2004 and 2003 was $358 million, $208 million and $862 million, respectively. The Company's direct pool risk in force was $2.9 billion, $3.0 billion and $2.9 billion at December 31, 2005, 2004 and 2003, respectively. These risk amounts represent pools of loans with contractual aggregate loss limits and those without such limits. For pools of loans without such limits, risk is estimated based on the amount that would credit enhance the loans in the pool to a 'AA' level based on a rating agency model. Under this model, at December 31, 2005, 2004 and 2003, for $5.0 billion, $4.9 billion and $4.9 billion, respectively, of risk without such limits, risk in force is calculated at $469 million, $418 million and $353 million, respectively. New risk written, under this model, for the years ended December 31, 2005 and 2004 was $51 million and $65 million, respectively.

Net premiums written and earned

Net premiums written and earned during 2005 decreased, compared to 2004, due to a decline in the average insurance in force, which has continued to decline since the beginning of 2003. The Company expects the average insurance in force during 2006 to be lower than in 2005. As a result, the Company anticipates that net premiums written and earned in 2006 will decline compared to 2005.

Net premium written and earned decreased in 2004, compared to 2003, due to a decline in the average insurance in force, as well as a decrease in new insurance written through the flow and bulk channels.

Risk-sharing arrangements

For the nine months ended September 30, 2005, approximately 47.8% of the Company's new insurance written on a flow basis was subject to arrangements with reinsurance subsidiaries of certain mortgage lenders or risk-sharing arrangements with the GSEs compared to 50.6% for the year ended December 31, 2004 and 52.3% for the year ended December 31, 2003. 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, the percentage of new insurance written covered by such arrangements is not shown for the current quarter. Premiums ceded in such arrangements are reported in the period in which they are ceded regardless of when the mortgage was insured.

In 2005, to reduce exposure to certain geographical areas and categories of risk, including Alt-A loans (loans with reduced levels of borrower disclosure or verification of borrower disclosure), the Company entered into two separate excess of loss reinsurance agreements under which it ceded approximately $85.5 million of risk in force in the aggregate to two special purpose reinsurance companies (the “SPRs”). The SPRs are not affiliated with the Company and were formed solely to enter into the reinsurance arrangements. The SPRs obtained their capital from institutional investors by issuance of various classes of notes the return on which is linked to the performance of the reinsured portfolio. The SPRs invested the proceeds of the notes in high quality short-term investments. Income earned on those investments and reinsurance premiums paid by the Company are applied to pay interest on the notes as well as expenses of the SPRs. The investments will be liquidated to pay reinsured loss amounts to the Company. Proceeds not required to pay reinsured losses will be applied to pay principal on the notes. Premiums ceded under these agreements have not been material and are included in “ceded premiums.”

Investment income

Investment income for 2005 increased due to an increase in the amortized cost of average invested assets to $5.4 billion for 2005 from $5.2 billion for 2004, as well as a slight increase in the average investment yield. The portfolio’s average pretax investment yield was 4.28% at December 31, 2005 and 4.25% at December 31, 2004. The portfolio’s average after-tax investment yield was 3.86% at December 31, 2005 and 3.76% at December 31, 2004. The Company’s net realized gains in 2005 and 2004 resulted primarily from the sale of fixed maturities. Under guidance from the staff of the FASB that was finalized in the fourth quarter of 2005, it could be more likely that a decrease in the market value of certain investments in the Company’s fixed-income portfolio will be required to be recognized as a realized loss in the statement of operations than under the existing accounting standard.

Investment income for 2004 increased compared to 2003 due to an increase in the amortized cost of average invested assets to $5.2 billion for 2004 from $4.7 billion for 2003. The Company’s net realized gains for 2003 resulted primarily from the sale of fixed maturities.

Other revenue

The decrease in other revenue in 2005, compared to 2004 is primarily the result of decreased revenue from noninsurance operations, other than contract underwriting.

The decrease in other revenue in 2004, compared to 2003, is primarily the result of decreased revenue from contract underwriting due to a lower level of mortgage origination activity during 2004 compared to 2003.

Losses

As discussed in “Critical Accounting Policies,” consistent with industry practices, 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 and are defined as an insured loan with a mortgage payment that is 45 days or more past due.) 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.

In 2005, net losses incurred were $554 million, of which $680 million pertained to current year loss development and ($126) million pertained to favorable prior years’ loss development. In 2004, net losses incurred were $701 million, of which $714 million pertained to current year loss development and ($13) million pertained to favorable prior years’ loss development. See “Note 6. Loss reserves” to the Company’s consolidated financial statements.

The amount of losses incurred pertaining to current year loss development represents the estimated amount to be ultimately paid on default notices received in the current year. Losses incurred pertaining to the current year decreased in 2005, compared to 2004, primarily due to decreases in the estimates regarding how many primary default notices will eventually result in a claim. These decreases in estimates relate to an improvement in claim rates in all regions except for the Midwest which had a modest increase, as well as a number of recent delinquencies included in the year-end default inventory that are reserved for at a reduced claim rate and are a result of Hurricanes Katrina, Rita and Wilma.

The amount of losses incurred pertaining to prior year loss development represents actual claim payments that were higher or lower than what was estimated by the Company at the end of the prior year as well as a reestimation of amounts to be ultimately paid on defaults remaining in inventory from the end of the prior year. This reestimation is the result of management's review of current trends in default inventory, such as defaults that have resulted in a claim, the amount of the claim, the change in relative level of defaults by geography and the change in average loan exposure. In 2005, the $126 million reduction in losses incurred pertaining to prior years was due primarily to more favorable loss trends experienced during the year. In 2004, the $13 million reduction in losses incurred pertaining to prior years was due primarily to more stable loss trends experienced in that year.

The Company anticipates that losses incurred in 2006 will exceed their 2005 level.

In 2004, compared to 2003, losses incurred decreased primarily due to a decrease in the delinquency inventory compared to the prior period increase. This decrease in delinquency inventory was in part offset by increases in the estimates regarding how many delinquencies will eventually result in a claim and how much will be paid on claims.

Information about the composition of the primary insurance default inventory at December 31, 2005, 2004 and 2003 appears in the table below.

	2005	2004	2003
Total loans delinquent	85,788	85,487	86,372
Percentage of loans delinquent (default rate)	6.58%	6.05%	5.57%
Flow loans delinquent	47,051	44,925	45,259
Percentage of flow loans delinquent (default rate)	4.52%	3.99%	3.76%
Bulk loans delinquent	38,737	40,562	41,113
Percentage of bulk loans delinquent (default rate)	14.72%	14.06%	11.80%
A-minus and subprime credit loans delinquent*	36,485	35,824	34,525
Percentage of A-minus and subprime credit loans delinquent (default rate)	18.30%	16.49%	14.14%

* 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. A-minus loans have FICO credit scores of 575–619, as reported to MGIC at the time a commitment to insure is issued, and subprime loans have FICO credit scores of less than 575.

The average primary claim paid for 2005 was $26,361 compared to $24,438 in 2004 and $22,925 in 2003.

The pool notice inventory decreased from 25,500 at December 31, 2004 to 23,772 at December 31, 2005; the pool notice inventory was 28,135 at December 31, 2003.

The Company estimates that the default inventory at December 31, 2005 includes 5,300 defaults related to Hurricanes Katrina, Rita and Wilma. For additional information on the potential effect of these hurricanes, see "Deterioration in the domestic economy or changes in the mix of business may result in more homeowners defaulting and the Company's losses increasing" under "Risk Factors" below.

Information about net losses paid in 2005, 2004 and 2003 appears in the table below.

	Year Ended December 31,		
	2005	2004	2003
		(In millions)	
Net paid claims			
Flow	$ 281	$ 273	$ 194
Bulk	249	227	160
Other	82	77	80
	$ 612	$ 577	$ 434

As of December 31, 2005, 77% of the Company's primary insurance in force was written subsequent to December 31, 2002. On the Company's flow business, the highest claim frequency years have typically been the third and fourth year after the year of loan origination. However, the pattern of claims frequency can be affected by many factors, including low persistency (which can have the effect of accelerating the period in the life of a book during which the highest claim frequency occurs) and deteriorating economic conditions (which can result in increasing claims following a period of declining claims). On the Company's bulk business, the period of highest claims frequency has generally occurred earlier than in the historical pattern on the Company's flow business.

Underwriting and other expenses

The decrease in underwriting and other expenses in 2005, compared to 2004, as well as the decrease in 2004, compared to 2003, is primarily attributable to decreases in expenses related to contract underwriting activity. The Company anticipates that expenses in 2006 will increase compared to 2005, due to an increase in expenses related to Myers Internet, Inc. acquired in January 2006 (see "Note 16. Subsequent events" to the Company's consolidated financial statements), international operations, and expensing of unvested stock options granted in 2002. (Beginning in 2003, the Company has expensed the fair value of stock options granted on or after January 1, 2003.)

Consolidated ratios

The table below presents the Company's consolidated loss, expense and combined ratios for the periods indicated.

	Year Ended December 31,		
	2005	2004	2003
Consolidated Insurance Operations:			
Loss ratio	44.7%	52.7%	56.1%
Expense ratio	15.9%	14.6%	14.1%
Combined ratio	60.6%	67.3%	70.2%

The loss ratio (expressed as a percentage) is the ratio of the sum of incurred losses and loss adjustment expenses to net premiums earned. The expense ratio (expressed as a percentage) is the ratio of underwriting expenses to net premiums written. The combined ratio is the sum of the loss ratio and the expense ratio.

Income taxes

The effective tax rate was 27.0% in 2005, compared to 26.9% in 2004 and 25.4% in 2003. During those periods, the effective tax rate was below the statutory rate of 35%, reflecting the benefits recognized from tax-preferenced investments. Tax-preferenced investments of the Company include tax-exempt municipal bonds, interests in mortgage related securities with flow through characteristics and investments in real estate ventures which generate low income housing credits. Changes in the effective tax rate principally result from a higher or lower percentage of total income before tax being generated from tax-preferenced investments.

The higher effective tax rate in 2004, compared to 2003, was principally due to less benefits being recognized from these investments.

Joint ventures

The Company's equity in the earnings from the C-BASS and Sherman joint ventures with Radian Group Inc. ("Radian") and certain other joint ventures and investments, accounted for in accordance with the equity method of accounting, is shown separately, net of tax, on the Company's consolidated statement of operations. The increase in income from joint ventures in 2005, compared to 2004, as well as the increase in 2004, compared to 2003, is primarily the result of increased equity earnings from each of Sherman and C-BASS.

<u>C-BASS</u>

Summary C-BASS balance sheets and income statements at the dates and for the periods indicated appear below.

	December 31,	
	2005	2004
	($ millions)	
<u>C-BASS Summary Balance Sheets</u>		
Assets		
Whole loans	$ 4,638	$ 1,753
Securities	2,054	1,450
Servicing	468	444
Other	534	362
Total assets	$ 7,694	$ 4,009
Total liabilities	6,931	3,409
Debt*	6,434	2,648
Owners' equity	763	600

* Most of which is scheduled to mature within one year or less.

Included in total assets and total liabilities at December 31, 2004 were approximately $457 million of assets and the same amount of liabilities from securitizations that did not qualify for off-balance sheet treatment. The liabilities from these securitizations are not included in Debt in the table above. There were no such assets and liabilities at December 31, 2005.

The increase in whole loans and securities from 2004 to 2005 and related debt used to finance these assets principally resulted from acquisitions in the fourth quarter of 2005 and reflected more favorable market pricing for the acquisition of these assets. Principally as a result of securitizations during the first two months of 2006, C-BASS's whole loan inventory at February 28, 2006 was approximately $2.6 billion lower than at year-end 2005 and its securities inventory was approximately $500 million lower. Debt used to finance these assets was also reduced.

	Year Ended December 31,		
	2005	2004	2003
		(In millions)	
C-BASS Summary Income Statements:			
Portfolio	$ 292.2	$ 230.5	$ 154.6
Servicing	257.5	164.7	128.4
Money management	35.8	19.9	24.5
Transaction	39.4	64.0	49.3
Total revenue	624.9	479.1	356.8
Total expense	384.3	271.0	212.9
Income before tax	$ 240.6	$ 208.1	$ 143.9
Company's share of pretax income	$ 110.9	$ 97.9	$ 66.1

See "Overview – Business and General Environment – Income from Joint Ventures – C-BASS" for a description of the components of the revenue lines.

The increased contribution from C-BASS for 2005, compared to 2004, was primarily due to increased servicing revenue, net interest income and portfolio mark-to-market and hedging gains. The increased servicing revenue was due primarily to Litton's higher average servicing portfolio. Higher net interest income was the result of a higher average investment portfolio and higher earnings on trust deposits for securities serviced by Litton. The portfolio mark-to-market resulted from securities called by C-BASS and securities obtained by C-BASS through risk-sharing arrangements where C-BASS owned the securities at a discount. The realized gains from hedging reflected hedging on whole loans securitized.

The increased contribution from C-BASS in 2004 compared to 2003 was primarily due to an increase in gains on sales and liquidation to third parties of securities and mortgage loans, higher net interest income, higher mark-to-market from calls by C-BASS of CBO securitizations and lower hedging losses. Gains on sale and liquidation to third parties increased principally due to calls of securities at par which had a book value below par. Higher net interest income was principally the result of a higher average portfolio of mortgage loans. Higher mark-to-market and lower hedging losses were reflective of changes in interest rates.

The Company's investment in C-BASS on an equity basis at December 31, 2005 was $362.6 million. The Company received $33.5 million in distributions from C-BASS during 2005.

Sherman

Summary Sherman balance sheets and income statements at the dates and for the periods indicated appear below.

	December 31,	
	2005	2004
	(In millions)	
Sherman Summary Balance Sheets:		
Total assets	$ 979	$ 484
Total liabilities	743	245
Debt	597	143
Members' equity	236	239

In March 2005, Sherman acquired the holding company for Credit One Bank ("Credit One"), formerly known as First National Bank of Marin, for a payment of cash and subordinated notes. Credit One originates and services subprime credit cards. During 2005, the increases in total assets, total liabilities and debt were primarily related to the acquisition of Credit One.

	Year Ended December 31, 2005		2004		2003	
	($ millions)					
Sherman Summary Income Statements:						
Revenues from receivable portfolios	$	855.5	$	801.8	$	603.3
Portfolio amortization		292.8		343.4		343.9
Revenues, net of amortization		562.7		458.4		259.4
Credit card interest income and fees		196.7		–		–
Other revenue		71.1		59.5		34.2
Total revenues		830.5		517.9		293.6
Total expenses		542.9		317.3		222.7
Income before tax	$	287.6	$	200.6	$	70.9
Company's share of pretax income	$	110.3	$	83.3	$	29.4

The increased contribution from Sherman in 2005, compared to 2004, and in 2004 compared to 2003, was primarily due to increased revenue, net of amortization, from delinquent receivable portfolios owned during the comparison periods attributable to continuing collections and lower amortization and from higher collections due to growth in the amount of delinquent receivable portfolios owned by Sherman in sequential periods. The increase in revenue for 2005 was also due to credit card income and fees generated by Credit One; the increase in expenses in 2005 was also related to Credit One.

The Company anticipates that Sherman's income before tax in 2006 will be less than its income before tax in 2005.

The Company's investment in Sherman on an equity basis at December 31, 2005 was $79.3 million. The Company received $110.7 million of distributions from Sherman in 2005.

In June 2005, MGIC, Radian (MGIC and Radian are collectively referred to as the "Corporate Partners") and entities (the "Management Entities") owned by the senior management ("Senior Management") of Sherman entered into a Securities Purchase Agreement and a Call Option Agreement. Under the Securities Purchase Agreement, each of MGIC and Radian agreed to sell to one of the Management Entities 6.92% of the 41.5% interest in Sherman owned by each (a total of 13.84% for both MGIC and Radian) for approximately $15.7 million, which is $1.0 million in excess of the approximate book value of the interest at April 30, 2005. Upon completion of the sale in August 2005, Senior Management of Sherman owned an interest in Sherman of 30.84% and each of MGIC and Radian owned interests of 34.58%.

Under the Call Option Agreement, one of the Management Entities granted separate options (each an "Option") to each Corporate Partner to purchase a 6.92% interest in Sherman (a total of 13.84% under both Options). Each Option is exercisable beginning in July 2006 at the option price provided in the Call Option Agreement. If one Corporate Partner does not exercise its Option, the other Corporate Partner may exercise that Option.

In connection with these transactions, the payout under Sherman's annual incentive plan (which is based on a percentage of Sherman's prebonus results) was reduced effective May 1, 2005.

Other Matters

Under the Office of Federal Housing Enterprise Oversight's 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.

On February 9, 2006, the Company learned the New York Insurance Department had sent it and other mortgage insurers a letter asking for, among other things, a review of premium rates used in New York and the filing of adjusted premium rates based on recent years' experience or an explanation why such experience would not alter rates.

Financial Condition

The Company had $300 million, 5.375% Senior Notes due in November 2015 and $200 million, 6% Senior Notes due in March 2007 outstanding at December 31, 2005. At December 31, 2004 the Company had

$300 million, 7.5% Senior Notes due in October 2005 and $200 Million, 6% Senior Notes due in March 2007. In October 2005 the Company issued, in a public offering, $300 million, 5.375% Senior Notes due in 2015. Interest on the Notes is payable semiannually in arrears on May 1 and November 1 of each year, beginning on May 1, 2006. The Senior Notes were rated ‘A-1’ by Moody’s, ‘A’ by S&P and ‘A+’ by Fitch. The Company utilized the proceeds from the sale of these Senior Notes, together with available cash, to repay the $300 million, 7.5% Senior Notes that matured October 17, 2005. At December 31, 2005 and 2004, the market value of the outstanding debt was $687.9 million and $661.3 million, respectively.

See “Results of Consolidated Operations – Joint ventures” above for information about the financial condition of C-BASS and Sherman.

As of December 31, 2005, 80% of the investment portfolio was invested in tax-preferenced securities. In addition, at December 31, 2005, based on book value, more than 99% of the Company’s fixed-income securities were invested in ‘A’ rated and above, readily marketable securities, concentrated in maturities of less than 15 years.

At December 31, 2005, 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, 2005, the effective duration of the Company’s fixed-income investment portfolio was 4.9 years. This means that for an instantaneous parallel shift in the yield curve of 100 basis points there would be an approximate 4.9% change in the market value of the Company’s fixed-income portfolio.

Liquidity and Capital Resources

The Company’s consolidated sources of funds consist primarily of premiums written and investment income. Positive cash flows are invested pending future payments of claims and other expenses. Management believes that future cash inflows from premiums will be sufficient to meet future claim payments. Cash flow shortfalls, if any, could be funded through sales of short-term investments and other investment portfolio securities subject to insurance regulatory requirements regarding the payment of dividends to the extent funds were required by other than the seller. Substantially all of the investment portfolio securities are held by the Company’s insurance subsidiaries.

The Company has a $300 million commercial paper program, which is rated ‘A-1’ by S&P and ‘P-1’ by Moody’s. At December 31, 2005 and 2004, the Company had $187.8 and $139.5 million in commercial paper outstanding with a weighted average interest rate of 4.39% and 2.36%, respectively.

In March of 2005, the Company obtained a $300 million, five-year revolving credit facility, expiring in 2010. The facility replaced the previous $285 million facility that was set to expire in 2006. Under the terms of the credit facility, 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 statutory surplus and its contingency reserve) of not less than the amount required by Wisconsin insurance regulation. At December 31, 2005, these requirements were met. The facility will continue to be 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 $112.2 million and $145.5 million at December 31, 2005 and 2004, respectively.

In March 2005, an outstanding swap was amended to coincide with the new credit facility. Under the terms of the swap contract, the Company pays a fixed rate of 5.07% and receives a variable 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. The cash flow swaps outstanding at December 31, 2005 and 2004 are evaluated quarterly with any ineffectiveness being recorded as an expense. To date this evaluation has not resulted in any hedge ineffectiveness. Swaps are subject to credit risk to the extent the counterparty would be unable to discharge its obligations under the swap agreements.

Expense on the interest rate swaps in 2005, 2004 and 2003 of approximately $0.8 million, $3.3 million and $3.4 million, respectively, was included in interest expense. 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.

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. At the end of February 2006, MGIC paid a quarterly dividend of $55 million, as well as an extraordinary dividend of $150 million. As a result of this extraordinary dividend, MGIC cannot currently pay any dividends without regulatory approval until the end of February 2007. For additional information about the financial condition, results of operations and cash flows of the Company, on a parent company basis, and MGIC, on a consolidated basis, see "Note 15. Condensed consolidating financial statements" to the Company's consolidated financial statements.

During 2005, the Company repurchased 8.7 million shares of Common Stock under publicly announced programs at a cost of $533.8 million, a portion of which is subject to adjustment based on the price of the Company's stock in the first part of 2006. At December 31, 2005, the Company had authority covering the purchase of an additional 0.8 million shares under these programs. In January 2006, the Company's Board of Directors authorized the repurchase of an additional 10 million shares. From mid-1997 through December 31, 2005, the Company has repurchased 35.5 million shares under publicly announced programs at a cost of $2.0 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 Company's principal exposure to loss is its obligation to pay claims under MGIC's mortgage guaranty insurance policies. At December 31, 2005, 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 loss limit) was approximately $52.3 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, 2005, 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.

The Company's consolidated risk-to-capital ratio was 7.4:1 at December 31, 2005 compared to 7.9:1 at December 31, 2004. The decrease was due to an increase in capital and a decrease in risk in force during 2005.

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 historical and projected operating performance, business outlook, competitive position, management and corporate strategy.

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

Contractual Obligations

At December 31, 2005, the approximate future payments under the contractual obligations of the Company of the type described in the table below are as follows:

Contractual Obligations ($ millions)	Payments Due by Period Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-term debt obligations	$ 680	$ 29	$ 238	$ 32	$ 381
Operating lease obligations	13	5	7	1	–
Purchase obligations	17	16	1	–	–
Other long-term liabilities	1,124	597	460	67	–
Total	$ 1,834	$ 647	$ 706	$ 100	$ 381

The Company's long-term debt obligations consist of $300 million, 5.375% Senior Notes due in 2015 and $200 million, 6% Senior Notes due in 2007, as discussed in "Note 5. Short- and long-term debt" to the Company's consolidated financial statements and under "Liquidity and Capital Resources" above. The Company's operating lease obligations include operating leases on certain office space, data processing equipment and autos, as discussed in "Note 12. Leases" to the Company's consolidated financial statements. The Company's purchase obligations included obligations to purchase computer software, home office furniture and equipment, and Myers Internet, Inc., as discussed in "Note 16. Subsequent events" to the Company's consolidated financial statements.

The Company's other long-term liabilities represent the loss reserves established to recognize the liability for losses and loss adjustment expenses related to defaults on insured mortgage loans. The establishment of loss reserves is subject to inherent uncertainty and requires significant judgment by management. The future loss payment periods are estimated based on historical experience.

Critical Accounting Policies

The Company believes that the accounting policies described below involved significant judgments and estimates used in the preparation of its consolidated financial statements.

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. A default is defined as an insured loan with a mortgage payment that is 45 days or more past due. Reserves are also established for estimated losses incurred on notices of default not yet reported. 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. The estimated claims rates and claims amounts represent what management believes best reflect the estimate of what will actually be paid on the loans in default. These estimates are based on management's review of trends in the default inventory, such as defaults that have resulted in a claim, the amount of the claim, the change in the level of defaults by geography and the change in average loan exposure. Amounts for salvage recoverable are considered in the determination of the reserve estimates. The establishment of loss reserves is subject to inherent uncertainty and requires significant judgment by management. 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 referred to above 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. As of December 31, 2005 and 2004, the Company has established IBNR reserves in the amount of $112 million and $113 million, respectively.

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

Revenue recognition

When the policy term ends, the primary mortgage insurance written by the Company is renewable at the insured's option through continued payment of the premium in accordance with the schedule established at the inception of the policy term. The Company has no ability to reunderwrite or reprice these policies after issuance. Premiums written under policies having single and annual premium payments 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 the monthly coverage is provided. When a policy is cancelled, all premium that is nonrefundable is immediately earned. Any refundable premium is returned to the lender and will have no effect on earned premium. Policy cancellations also lower the persistency rate which is a variable used in calculating the rate of amortization of deferred policy acquisition costs discussed below.

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

Deferred insurance policy acquisition costs

Costs associated with the acquisition of mortgage insurance policies, consisting of employee compensation and other policy issuance and underwriting expenses, are initially deferred and reported as deferred insurance policy acquisition costs ("DAC"). DAC arising from each book of business is charged against revenue in the same proportion that the underwriting profit for the period of the charge bears to the total underwriting profit over the life of the policies. The underwriting profit and the life of the policies are estimated and are reviewed quarterly and updated when necessary to reflect actual experience and any changes to key variables such as persistency or loss development. Interest is accrued on the unamortized balance of DAC.

Risk Factors

The Company's revenues and losses could be affected by the risk factors discussed below that are applicable to the Company, and the Company's income from joint ventures could be affected by the risk factors discussed below that are applicable to C-BASS and Sherman. These risk factors are an integral part of Management's Discussion and Analysis.

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. The Company is not undertaking any obligation to update any forward looking statements it may make even though these statements may be affected by events or circumstances occurring after the forward looking statements were 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 originating mortgages using piggyback structures to avoid private mortgage insurance, such as a first mortgage with an 80% loan-to-value ratio and a second mortgage with a 10%, 15% or 20% loan-to-value ratio (referred to as 80-10-10, 80-15-5 or 80-20 loans, respectively) rather than a first mortgage with a 90%, 95% or 100% 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 piggyback loans are a significant percentage of mortgage originations in which borrowers make down payments of less than 20% and that their use is primarily by borrowers with higher credit scores. During the fourth quarter of 2004, the Company introduced on a national basis a program designed to recapture business lost to these mortgage insurance avoidance products. This program accounted for 5.7% of flow new insurance written in the fourth quarter of 2005 and 6.5% of flow new insurance written for all of 2005.

Deterioration in the domestic economy or changes in the mix of business may result in more homeowners defaulting and the Company's losses increasing.

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.

Approximately 8.5% of the Company's primary risk in force is located in areas within Alabama (0.3%), Florida (4.5%), Louisiana (1.0%), Mississippi (0.6%) and Texas (2.2%) that have been declared eligible for individual and public assistance by the Federal Emergency Management Agency as a result of Hurricanes Katrina, Rita and Wilma. The effect on the Company from these hurricanes, however, will not be limited to these areas to the extent that the borrowers in areas that have not experienced wind or water damage are adversely affected due to deteriorating economic conditions attributable to these hurricanes.

The mix of business the Company writes also affects the likelihood of losses occurring. In recent years, the percentage of the Company's volume written on a flow basis that includes segments the Company views as having a higher probability of claim has continued to increase. These segments include loans with loan-to-value ("LTV") ratios over 95% (including loans with 100% LTV ratios), "FICO" credit scores below 620, limited underwriting, including limited borrower documentation, or total debt-to-income ratios of 38% or higher, as well as loans having combinations of higher risk factors.

Approximately 9% of the Company's primary risk in force written through the flow channel, and 72% of the Company's primary risk in force written through the bulk channel, consists of adjustable-rate mortgages ("ARMs"). The Company believes that during a prolonged period of rising interest rates, claims on ARMs would be substantially higher than for fixed-rate loans, although the performance of ARMs has not been tested in such an environment. In addition, the Company believes the volume of "interest-only" loans (which may also be ARMs) and other loans with negative amortization features, such as pay option ARMs, increased in 2004 and 2005. Because interest-only loans and pay option ARMs are a relatively recent development, the Company has no data on their historical performance. The Company believes claim rates on certain of these loans will be substantially higher than on comparable loans that do not have negative amortization.

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 also 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 or serviced by the lender. As discussed under "The mortgage insurance industry is subject to risk from private litigation and regulatory proceedings" below, the Company provided information to the New York Insurance Department and the Minnesota Department of Commerce about captive mortgage reinsurance arrangements. It has been publicly reported that certain other insurance departments may review or investigate such arrangements.

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 private mortgage insurance competitors include:

- PMI Mortgage Insurance Company,
- Genworth Mortgage Insurance Corporation,
- United Guaranty Residential Insurance Company,
- Radian Guaranty Inc.,
- Republic Mortgage Insurance Company,
- Triad Guaranty Insurance Corporation, and
- CMG Mortgage Insurance Company.

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

During the 1990s, the Company's year-end persistency ranged from a high of 87.4% at December 31, 1990 to a low of 68.1% at December 31, 1998. At December 31, 2005 persistency was at 61.3%, compared to the record low of 44.9% at September 30, 2003. Over the past several years, refinancing has become easier to accomplish and less costly for many consumers. Hence, even in an interest rate environment favorable to persistency improvement, the Company does not expect persistency will approach its December 31, 1990 level.

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

In general, the majority of the underwriting profit (premium revenue minus losses) that a book of mortgage insurance generates occurs in the early years of the book, with the largest portion of the underwriting profit realized in the first year. Subsequent years of a book generally result in modest underwriting profit or underwriting losses. This pattern of results occurs because relatively few of the claims that a book will ultimately experience occur in the first few years of the book, when premium revenue is highest, while subsequent years are affected by declining premium revenues, as persistency decreases due to loan prepayments, and higher losses.

If all other things were equal, a decline in new insurance written in a year that followed a number of years of higher volume could result in a lower contribution to the mortgage insurer's overall results. This effect may occur because the older books will be experiencing declines in revenue and increases in losses with a lower amount of underwriting profit on the new book available to offset these results.

Whether such a lower contribution would in fact occur depends in part on the extent of the volume decline. Even with a substantial decline in volume, there may be offsetting factors that could increase the contribution in the current year. These offsetting factors include higher persistency and a mix of business with higher average premiums, which could have the effect of increasing revenues, and improvements in the economy, which could have the effect of reducing losses. In addition, the effect on the insurer's overall results from such a lower contribution may be offset by decreases in the mortgage insurer's expenses that are unrelated to claim or default activity, including those related to lower volume.

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 the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"), each of which is a government-sponsored entity ("GSE"), 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.

The mortgage insurance industry is subject to the risk of private litigation and regulatory proceedings.

Consumers are bringing a growing number of lawsuits against home mortgage lenders and settlement service providers. In recent years, seven mortgage insurers, including MGIC, have been involved in litigation alleging violations of the antireferral fee provisions of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and the notice provisions of the Fair Credit Reporting Act, which is commonly known as FCRA. MGIC's settlement of class action litigation against it under RESPA became final in October 2003. MGIC settled the named plaintiffs' claims in litigation against it under FCRA in late December 2004 following denial of class certification in June 2004. There can be no assurance that MGIC will not be subject to future litigation under RESPA or FCRA or that the outcome of any such litigation would not have a material adverse effect on the Company. In August 2005, the United States Court of Appeals for the Ninth Circuit decided a case under FCRA to which the Company was not a party that may make it more likely that the Company will be subject to future litigation regarding when notices to borrowers are required by FCRA.

In June 2005, in response to a letter from the New York Insurance Department, the Company provided information regarding captive mortgage reinsurance arrangements and other types of arrangements in which lenders receive compensation. In February 2006, in response to an administrative subpoena from the Minnesota Department of Commerce, which regulates insurance, the Company provided information about captive mortgage reinsurance and certain other matters. In the spring of 2005, spokesmen for insurance commissioners in Colorado and North Carolina were publicly reported as saying that those commissioners are considering investigating or reviewing captive mortgage reinsurance arrangements. Insurance departments or other officials in other states may also conduct such investigations or reviews.

The antireferral fee provisions of RESPA provide that the Department of Housing and Urban Development ("HUD") as well as the insurance commissioner or attorney general of any state may bring an action to enjoin violations of these provisions of RESPA. The insurance law provisions of many states prohibit paying for the referral of insurance business and provide various mechanisms to enforce this prohibition. While the Company believes its captive reinsurance arrangements are in conformity with applicable laws and regulations, it is not possible to predict the outcome of any such reviews or investigations nor is it possible to predict their effect on the Company or the mortgage insurance industry.

Net premiums written could be adversely affected if the Department of Housing and Urban Development reproposes and adopts a regulation under the Real Estate Settlement Procedures Act that is equivalent to a proposed regulation that was withdrawn in 2004.

HUD regulations under RESPA prohibit paying lenders for the referral of settlement services, including mortgage insurance, and prohibit lenders from receiving such payments. In July 2002, HUD proposed a regulation that would exclude from these antireferral fee provisions settlement services included in a package of settlement services offered to a borrower at a guaranteed price. HUD withdrew this proposed regulation in March 2004. Under the proposed regulation, if mortgage insurance were 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, had this regulation been adopted in this form, the Company's revenues could have been adversely affected to the extent that lenders offered such packages and received value from the Company in excess of what they could have received were the antireferral fee provisions of RESPA to apply and if such state regulations were not applied to prohibit such payments.

The Company's income from joint ventures could be adversely affected by credit losses, insufficient liquidity or competition affecting those businesses.

C-BASS: C-BASS is particularly exposed to credit risk and funding risk. In addition, C-BASS's results are sensitive to its ability to purchase mortgage loans and securities on terms that it projects will meet its return targets. With respect to credit risk, a higher proportion of nonconforming mortgage originations (the types of mortgages C-BASS principally purchases) in 2005 compared to 2004 were products, such as interest-only loans to subprime borrowers, that are viewed by C-BASS as having greater credit risk. In addition, credit losses are a function of housing prices, which in certain regions have experienced rates of increase greater than historical norms and greater than growth in median incomes.

With respect to liquidity, the substantial majority of C-BASS's on-balance sheet financing for its mortgage and securities portfolio is short-term and dependent on the value of the collateral that secures this debt. While C-BASS's policies governing the management of capital at risk are intended to provide sufficient liquidity to cover an instantaneous and substantial decline in value, such policies cannot guaranty that all liquidity required will in fact be available.

Although there has been growth in the volume of nonconforming mortgage originations in recent years, volume is expected to decline in 2006. There is an increasing amount of competition to purchase nonconforming mortgages, including from real estate investment trusts and from firms that in the past acted as mortgage securities intermediaries but which are now establishing their own captive origination capacity. Decreasing credit spreads also heighten competition in the purchase of nonconforming mortgages and other securities.

Sherman: Sherman's results are sensitive to its ability to purchase receivable portfolios on terms that it projects will meet its return targets. While the volume of charged-off consumer receivables and the portion of these receivables that have been sold to third parties such as Sherman has grown in recent years, there is an increasing amount of competition to purchase such portfolios, including from new entrants to the industry, which has resulted in increases in the prices at which portfolios can be purchased.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f)). The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies of procedures may deteriorate.

The Company's management, with the participation of the Company's principal executive officer and principal financial officer, has evaluated the effectiveness of the Company's internal control over financial reporting using the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2005.

PricewaterhouseCoopers LLP, an independent registered public accounting firm that audited the Company's financial statements included in this Annual Report, has audited and issued an attestation report on management's assessment of the Company's internal control over financial reporting. Their report is included on the next page of this Annual Report.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of MGIC Investment Corporation

We have completed integrated audits of MGIC Investment Corporation and Subsidiaries' December 31, 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005 and 2004, and an audit of its December 31, 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions on MGIC Investment Corporation and Subsidiaries' December 31, 2005, 2004, and 2003 consolidated financial statements and on its internal control over financial reporting as of December 31, 2005, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity and cash flows present fairly, in all material respects, the financial position of MGIC Investment Corporation and Subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
March 8, 2006

Consolidated Statements of Operations

	2005	2004	2003
	(In thousands of dollars, except per share data)		
REVENUES:			
Premiums written:			
Direct	**$ 1,380,998**	$ 1,420,643	$ 1,482,349
Assumed	**1,075**	307	97
Ceded (note 7)	**(129,763)**	(115,533)	(117,815)
Net premiums written	**1,252,310**	1,305,417	1,364,631
(Increase) decrease in unearned premiums	**(13,618)**	24,011	1,380
Net premiums earned (note 7)	**1,238,692**	1,329,428	1,366,011
Investment income, net of expenses (note 4)	**228,854**	215,053	202,881
Realized investment gains, net (note 4)	**14,857**	17,242	36,862
Other revenue	**44,127**	50,970	79,657
Total revenues	**1,526,530**	1,612,693	1,685,411
LOSSES AND EXPENSES:			
Losses incurred, net (notes 6 and 7)	**553,530**	700,999	766,028
Underwriting and other expenses	**275,416**	278,786	302,473
Interest expense	**41,091**	41,131	41,113
Total losses and expenses	**870,037**	1,020,916	1,109,614
Income before tax and joint ventures	**656,493**	591,777	575,797
Provision for income tax (note 10)	**176,932**	159,348	146,027
Income from joint ventures, net of tax	**147,312**	120,757	64,109
Net income	**$ 626,873**	$ 553,186	$ 493,879
Earnings per share (note 11):			
Basic	**$ 6.83**	$ 5.67	$ 5.00
Diluted	**$ 6.78**	$ 5.63	$ 4.99

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

	2005	2004
	(In thousands of dollars)	
ASSETS		
Investment portfolio (note 4):		
Securities, available-for-sale, at fair value:		
Fixed maturities	**$ 5,292,942**	$ 5,413,662
Equity securities	**2,488**	5,326
Short-term investments	**190,640**	163,639
Total investment portfolio (amortized cost, 2005 – $5,366,235; 2004 – $5,388,763)	**5,486,070**	5,582,627
Cash	**4,616**	2,829
Accrued investment income	**66,369**	67,255
Reinsurance recoverable on loss reserves (note 7)	**14,787**	17,302
Prepaid reinsurance premiums (note 7)	**9,608**	6,836
Premiums receivable	**91,547**	95,396
Home office and equipment, net	**32,666**	36,382
Deferred insurance policy acquisition costs	**18,416**	27,714
Investments in joint ventures (note 8)	**481,778**	414,309
Other assets	**151,712**	130,041
Total assets	**$ 6,357,569**	$ 6,380,691
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Loss reserves (notes 6 and 7)	**$ 1,124,454**	$ 1,185,594
Unearned premiums (note 7)	**159,823**	143,433
Short- and long-term debt (note 5)	**685,163**	639,303
Income taxes payable	**62,006**	109,741
Other liabilities	**161,068**	158,981
Total liabilities	**2,192,514**	2,237,052
Contingencies (note 13)		
Shareholders' equity (note 11):		
Common stock, $1 par value, shares authorized 300,000,000; shares issued 2005 – 122,549,285; 2004 – 122,324,295 outstanding 2005 – 88,046,430; 2004 – 96,260,864	**122,549**	122,324
Paid-in capital	**280,052**	270,450
Treasury stock (shares at cost 2005 – 34,502,855; 2004 – 26,063,431)	**(1,834,434)**	(1,313,473)
Accumulated other comprehensive income – net of tax (note 2)	**77,499**	123,383
Retained earnings (note 11)	**5,519,389**	4,940,955
Total shareholders' equity	**4,165,055**	4,143,639
Total liabilities and shareholders' equity	**$ 6,357,569**	$ 6,380,691

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	Common stock	Paid-in capital	Treasury stock	Accumulated other comprehensive income (note 2)	Retained earnings	Comprehensive income
			(In thousands of dollars)			
Balance, December 31, 2002	$ 121,419	$ 233,330	$ (1,035,858)	$ 147,908	$ 3,928,393	
Net income	–	–	–	–	493,879	$ 493,879
Change in unrealized investment gains and losses, net	–	–	–	(20,948)	–	(20,948)
Unrealized gain (loss) on derivatives, net	–	–	–	2,494	–	2,494
Minimum pension liability adjustment, net	–	–	–	13,018	–	13,018
Change in members' equity	–	609	–	–	–	
Dividends declared	–	–	–	–	(11,124)	
Common stock shares issued	168	7,479	–	–	–	
Repurchase of outstanding common shares	–	–	(94,133)	–	–	
Reissuance of treasury stock	–	(1,933)	14,022	–	–	
Other	–	–	–	(1,821)	–	(1,821)
Comprehensive income	–	–	–	–	–	$ 486,622
Balance, December 31, 2003	$ 121,587	$ 239,485	$ (1,115,969)	$ 140,651	$ 4,411,148	
Net income	–	–	–	–	553,186	$ 553,186
Change in unrealized investment gains and losses, net	–	–	–	(22,228)	–	(22,228)
Unrealized gain (loss) on derivatives, net	–	–	–	3,849	–	3,849
Dividends declared	–	–	–	–	(22,032)	
Common stock shares issued	737	35,618	–	–	–	
Repurchase of outstanding common shares	–	–	(205,014)	–	–	
Reissuance of treasury stock	–	9,483	7,510	–	–	
Equity compensation	–	(14,136)	–	–	–	
Other	–	–	–	1,111	(1,347)	1,111
Comprehensive income	–	–	–	–	–	$ 535,918
Balance, December 31, 2004	$ 122,324	$ 270,450	$ (1,313,473)	$ 123,383	$ 4,940,955	
Net income	–	–	–	–	626,873	$ 626,873
Change in unrealized investment gains and losses, net (note 4)	–	–	–	(48,119)	–	(48,119)
Unrealized gain (loss) on derivatives, net (note 5)	–	–	–	1,140	–	1,140
Dividends declared	–	–	–	–	(48,439)	
Common stock shares issued	225	11,288	–	–	–	
Repurchase of outstanding common shares	–	–	(533,844)	–	–	
Reissuance of treasury stock	–	(19,038)	12,883	–	–	
Equity compensation (note 11)	–	17,352	–	–	–	
Other	–	–	–	1,095	–	1,095
Comprehensive income	–	–	–	–	–	$ 580,989
Balance, December 31, 2005	**$ 122,549**	**$ 280,052**	**$ (1,834,434)**	**$ 77,499**	**$ 5,519,389**	

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	2005	2004	2003
	(In thousands of dollars)		
Cash flows from operating activities:			
Net income	**$ 626,873**	$ 553,186	$ 493,879
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred insurance policy acquisition costs	**20,344**	26,020	29,455
Capitalized deferred insurance policy acquisition costs	**(11,046)**	(21,121)	(30,197)
Depreciation and other amortization	**18,977**	21,631	21,224
Decrease (increase) in accrued investment income	**886**	(7,667)	(1,156)
Decrease in reinsurance recoverable on loss reserves	**2,515**	772	2,971
(Increase) decrease in prepaid reinsurance premiums	**(2,772)**	692	652
Decrease (increase) in premium receivable	**3,849**	26,894	(24,539)
(Decrease) increase in loss reserves	**(61,140)**	123,806	328,607
Increase (decrease) in unearned premiums	**16,390**	(24,704)	(2,030)
Equity earnings in joint ventures	**(215,965)**	(176,499)	(91,997)
Distributions from joint ventures	**144,161**	82,300	27,450
Other	**(34,718)**	(46,150)	(67,683)
Net cash provided by operating activities	**508,354**	559,160	686,636
Cash flows from investing activities:			
Purchase of fixed maturities	**(1,592,615)**	(1,782,395)	(3,822,762)
Purchase of equity securities	**(2,802)**	–	–
Investments in joint ventures	**(12,928)**	(12,137)	(7,769)
Sale of investment in joint ventures	**15,652**	–	–
Proceeds from sale of equity securities	**10,167**	8,244	1,798
Proceeds from sale of fixed maturities	**1,355,912**	1,102,533	3,017,411
Proceeds from maturity of fixed maturities	**283,256**	286,946	351,731
Net cash provided by (used in) investing activities	**56,642**	(396,809)	(459,591)
Cash flows from financing activities:			
Dividends paid to shareholders	**(48,439)**	(22,032)	(11,124)
Proceeds from issuance of long-term debt	**297,732**	–	–
Repayment of long-term debt	**(300,000)**	–	–
Net proceeds from (repayment of) short-term debt	**42,833**	37,804	(78,873)
Proceeds from reissuance of treasury stock	**1,234**	2,633	305
Payments for repurchase of common stock	**(533,844)**	(205,014)	(94,134)
Common stock shares issued	**4,276**	29,380	4,856
Net cash used in financing activities	**(536,208)**	(157,229)	(178,970)
Net increase in cash and cash equivalents	**28,788**	5,122	48,075
Cash and cash equivalents at beginning of year	**166,468**	161,346	113,271
Cash and cash equivalents at end of year	**$ 195,256**	$ 166,468	$ 161,346

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 and to government-sponsored entities ("GSEs") to protect against loss from defaults on low-down-payment residential mortgage loans. Through certain other noninsurance subsidiaries, the Company also provides various services for the mortgage finance industry, such as contract underwriting and portfolio analysis and retention.

At December 31, 2005, 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) was approximately $170.0 billion and $44.9 billion, respectively. In addition to providing direct primary insurance coverage, the Company also insures pools of mortgage loans. The Company's direct pool risk in force at December 31, 2005 was approximately $2.9 billion.

2. *Basis of presentation and summary of significant accounting policies*

The accompanying financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America ("GAAP"). In accordance with GAAP, management is required 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 majority-owned subsidiaries. All intercompany transactions have been eliminated. The Company's 46.1% investment in Credit-Based Asset Servicing and Securitization LLC ("C-BASS") and 34.6% 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 reviews its investments in joint ventures for evidence of "other than temporary" impairments, such as an inability of the investee to sustain an earnings capacity which would justify the carrying amount of the investment. There were no "other than temporary" impairment charges for the years ending December 31, 2005, 2004 and 2003. The Company has certain other joint ventures and investments, accounted for in accordance with the equity method of accounting, of an immaterial amount. The Company's equity in the earnings of these joint ventures is shown separately, net of tax, on the statement of operations. (See note 8.)

Investments

The Company categorizes its investment portfolio according to its ability and intent to hold the investments to maturity. Investments which the Company does not have the ability and intent to hold to maturity are considered to be available-for-sale and 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. 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.)

The Company completes a quarterly review of invested assets for evidence of "other than temporary" impairments. A cost basis adjustment and realized loss will be taken on invested assets whose value decline is deemed to be "other than temporary." Additionally, for investments written down, income accruals will be stopped absent evidence that payment is likely and an assessment of the collectability of previously accrued income made. Factors used in determining investments whose value decline may be considered "other than temporary" include the following:

- Investments with a market value less than 80% of amortized costs
- For fixed income and preferred stocks, declines in credit ratings to below investment grade from appropriate rating agencies
- Other securities which are under pressure due to market constraints or event risk
- Intention of management to hold fixed-income securities to maturity

There were no "other than temporary" asset impairment charges for the years ending December 31, 2005 and 2003. In 2004, a charge of $1.3 million was recognized as an "other than temporary" asset impairment.

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 $42.8 million, $43.5 million and $42.6 million at December 31, 2005, 2004 and 2003, respectively. Depreciation expense for the years ended December 31, 2005, 2004 and 2003 was $4.6 million, $5.0 million and $4.9 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 Statement of Financial Accounting Standards ("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 reviewed quarterly and updated when necessary to reflect actual experience and any changes to key variables such as persistency or loss development.

During 2005, 2004 and 2003, the Company amortized $20.3 million, $26.0 million and $29.5 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. When a policy is cancelled, all premium that is nonrefundable is immediately earned. Any refundable premium is returned to the lender and will have no effect on earned premium. Policy cancellations also lower the persistency rate which is a variable used in calculating the rate of amortization of deferred policy acquisition costs.

Fee income of the noninsurance subsidiaries is earned and recognized as the services are provided and the customer is obligated to pay. Fee income consists primarily of contract underwriting and related fee-based services provided to lenders and is included in "Other revenue" on the statement of operations.

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 nonpurchase 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 noninterest bearing tax and loss bonds are purchased and held in an amount equal to the tax benefit attributable to such deduction. The Company accounts for these purchases as a payment of current federal income taxes.

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

Benefit plans

The Company has a noncontributory defined benefit pension plan covering substantially all employees. Retirement benefits are based on compensation and years of service. The Company recognizes these retirement benefit costs over the period during which employees render the service that qualifies them for benefits. 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 2005, 2004 and 2003. (See note 9.)

Stock-based compensation

The Company has certain stock-based compensation plans. (See note 11.) Effective January 1, 2003, the Company adopted the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, prospectively to all employee awards granted or modified on or after January 1, 2003. The adoption of SFAS No. 123 did not have a material effect on the Company's results of operations or its financial position. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period which generally corresponds to the vesting period.

Awards under the Company's plans generally vest over periods ranging from one to five years. The cost related to stock-based employee compensation included in the determination of net income for 2005, 2004 and 2003 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of SFAS No. 123. The following table illustrates the effect on net income and earnings per share if the fair value method had been applied to all outstanding and unvested awards in each period.

	Years Ended December 31,		
	2005	2004	2003
	(In thousands of dollars, expect per share data)		
Net income, as reported	$ 626,873	$ 553,186	$ 493,879
Add stock-based employee compensation expense included in reported net income, net of tax	13,017	7,656	4,146
Deduct stock-based employee compensation expense, determined under the fair value method for all awards, net of tax	(17,381)	(11,683)	(10,503)
Pro forma net income	$ 622,509	$ 549,159	$ 487,522
Earnings per share:			
Basic, as reported	$ 6.83	$ 5.67	$ 5.00
Basic, pro forma	$ 6.78	$ 5.63	$ 4.94
Diluted, as reported	$ 6.78	$ 5.63	$ 4.99
Diluted, pro forma	$ 6.73	$ 5.59	$ 4.92

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 "Prepaid reinsurance 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 plus common stock equivalents which would include stock awards and 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,		
	2005	2004	2003
	(Shares in thousands)		
Weighted-average shares – Basic	91,787	97,549	98,776
Common stock equivalents	656	696	246
Weighted-average shares – Diluted	92,443	98,245	99,022

For the years ended December 31, 2005, 2004 and 2003, 1.3 million, 0.6 million and 1.4 million shares, respectively, attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares, and therefore their inclusion would have been anti-dilutive. For the years ended December 31, 2005 and 2004, 0.4 million and 0.3 million shares, respectively, of performance stock awards have been excluded from the calculation of diluted earnings per share because the number of shares ultimately issued is contingent on performance measures established for a specific performance period.

Statement of cash flows

The Company's short-term investments consist entirely of money market funds and commercial paper with maturities of less than 90 days. For purposes of the consolidated statement of cash flows, the Company considers short-term investments to be cash equivalents. A reconciliation follows:

	Years Ended December 31,		
	2005	2004	2003
	(In thousands of dollars)		
Cash and equivalents per statement of cash flows	$ 195,256	$ 166,468	$ 161,346
Less:			
Money market funds	(190,640)	(120,646)	(137,734)
Commercial paper	–	(42,993)	–
Cash per balance sheet	$ 4,616	$ 2,829	$ 23,612

Comprehensive income

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

	Years Ended December 31, 2005	2004	2003
	(In thousands of dollars)		
Net income, as reported	$ 626,873	$ 553,186	$ 493,879
Other comprehensive loss	(45,884)	(17,268)	(7,257)
Total comprehensive income	$ 580,989	$ 535,918	$ 486,622
Other comprehensive income (loss) (net of tax);			
Change in unrealized net derivative gains and losses	$ 464	2,812	$ 1,412
Amortization of deferred losses on derivatives	676	1,037	1,082
Change in unrealized gains and losses on investments	(48,119)	(22,228)	(20,948)
Minimum pension liability adjustment	–	–	13,018
Other	1,095	1,111	(1,821)
Other comprehensive loss	$ (45,884)	$ (17,268)	$ (7,257)

At December 31, 2005, accumulated other comprehensive income of $77.5 million included $77.9 million of net unrealized gains on investments, ($0.8) million relating to derivative financial instruments and $0.4 million relating to the accumulated other comprehensive income of the Company's joint venture investment. At December 31, 2004, accumulated other comprehensive income of $123.4 million included $126.0 million of net unrealized gains on investments, ($1.9) million relating to derivative financial instruments and ($0.7) million relating to the accumulated other comprehensive loss of the Company's joint venture investment. (See notes 4 and 5.)

Recent accounting pronouncements

In December 2004 the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R, "Share-Based Payment." This statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." The fair value recognition provisions of SFAS No. 123 were voluntarily adopted by the Company in 2003 prospectively to all employee awards granted or modified on or after January 1, 2003 under SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." The adoption did not have a material effect on the Company's results of operations or its financial position. SFAS No. 123R requires that the compensation cost relating to share-based payment transactions be measured based on the fair value of the equity or liability instrument issued and be recognized in the financial statements of the company. In April 2005 the effective date of this statement was delayed. SFAS No. 123R is now effective for annual reporting periods that begin after June 15, 2005. The statement will be adopted by the Company beginning January 1, 2006 under the modified prospective method. The adoption will not have a material effect on the Company's results of operations or its financial position.

In July 2005, the FASB published an Exposure Draft of a proposed interpretation, "Accounting for Uncertain Tax Positions." The Exposure Draft seeks to reduce the significant diversity in practice associated with recognition and measurement in the accounting for income taxes. The FASB has reopened deliberations to consider comments that were received regarding the Exposure Draft. At this time, the FASB has decided that the final interpretation would apply to all tax positions accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes." When evaluating a tax position for recognition and measurement, an entity should presume that a taxing authority will examine a tax position. The interpretation will most probably adopt a benefit recognition model with a two-step approach, a more-likely-than-not threshold for recognition and derecognition, and a best estimate measurement attribute. It is expected to be finalized in the first or second quarter of 2006 with an effective date as of the start of the first annual period beginning after December 15, 2006. The Company will continue to evaluate the impact, if any, this interpretation would have on the Company's results of operations and financial position.

The proposed FASB Staff Position ("FSP") EITF Issue 03-1-a, "Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1" was issued as final in the fourth quarter of 2005. The FSP was retitled FAS 115-1 "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments" and superseded EITF 03-1 "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments." Under the guidance, it could be more likely that a decrease in the market value of certain investments in the Company's fixed-income portfolio will be required to be recognized as a realized loss in the statement of operations than under previously existing accounting standards.

Reclassifications

Certain reclassifications have been made in the accompanying financial statements to 2004 and 2003 amounts to allow for consistent financial reporting.

3. Related party transactions

The Company provided certain services to C-BASS and Sherman in 2005, 2004 and 2003 in exchange for fees. In addition, C-BASS provided certain services to the Company during 2005, 2004 and 2003 in exchange for fees. The net impact of these transactions was not material to the Company.

4. Investments

The amortized cost, gross unrealized gains and losses and fair value of the investment portfolio at December 31, 2005 and 2004 are shown below. Debt securities consist of fixed maturities and short-term investments.

December 31, 2005:	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	$ 336,658	$ 2,116	$ (2,414)	$ 336,360
Obligations of U.S. states and political subdivisions	4,630,856	133,391	(12,456)	4,751,791
Corporate debt securities	248,327	1,749	(517)	249,559
Mortgage-backed securities	145,790	235	(2,253)	143,772
Debt securities issued by foreign sovereign governments	2,100	–	–	2,100
Total debt securities	5,363,731	137,491	(17,640)	5,483,582
Equity securities	2,504	–	(16)	2,488
Total investment portfolio	$ 5,366,235	$ 137,491	$ (17,656)	$ 5,486,070

December 31, 2004:	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	$ 611,465	$ 9,131	$ (3,474)	$ 617,122
Obligations of U.S. states and political subdivisions	4,351,789	190,210	(6,309)	4,535,690
Corporate debt securities	237,667	3,813	(454)	241,026
Mortgage-backed securities	166,437	808	(215)	167,030
Debt securities issued by foreign sovereign governments	16,079	354	–	16,433
Total debt securities	5,383,437	204,316	(10,452)	5,577,301
Equity securities	5,326	–	–	5,326
Total investment portfolio	$ 5,388,763	$ 204,316	$ (10,452)	$ 5,582,627

The amortized cost and fair values of debt securities at December 31, 2005, by contractual maturity, are shown below. 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. Because most mortgage-backed securities provide for periodic payments throughout their lives, they are listed below in a separate category.

	Amortized Cost	Fair Value
	(In thousands of dollars)	
Due in one year or less	$ 503,092	$ 503,243
Due after one year through five years	818,494	825,624
Due after five years through ten years	1,120,475	1,152,664
Due after ten years	2,775,880	2,858,279
	5,217,941	5,339,810
Mortgage-backed securities	145,790	143,772
Total at December 31, 2005	$ 5,363,731	$ 5,483,582

At December 31, 2005 and 2004, fixed maturity investments had gross unrealized losses of $17.7 million and $10.5 million, respectively. For those securities in an unrealized loss position, the length of time the securities were in such a position, as measured by their month-end fair values, is as follows:

	Less Than 12 Months		12 Months or Greater		Total	
December 31, 2005	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands of dollars)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 234,175	$ 869	$ 56,991	$ 1,545	$ 291,166	$ 2,414
Obligations of U.S. states and political subdivisions	977,560	8,360	167,319	4,096	1,144,879	12,456
Corporate debt securities	2,506	31	16,612	486	19,118	517
Mortgage-backed securities	125,228	1,774	12,788	479	138,016	2,253
Equity securities	2,167	16	–	–	2,167	16
Total investment portfolio	$ 1,341,636	$ 11,050	$ 253,710	$ 6,606	$ 1,595,346	$ 17,656

	Less Than 12 Months		12 Months or Greater		Total	
December 31, 2004	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands of dollars)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 312,707	$ 2,941	$ 14,020	$ 533	$ 326,727	$ 3,474
Obligations of U.S. states and political subdivisions	517,216	5,825	33,623	484	550,839	6,309
Corporate debt securities	26,610	454	–	–	26,610	454
Mortgage-backed securities	22,081	83	18,693	132	40,774	215
Total investment portfolio	$ 878,614	$ 9,303	$ 66,336	$ 1,149	$ 944,950	$ 10,452

The unrealized losses in all categories of the Company's investments were caused by interest rate increases. Because the Company has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2005.

Net investment income is comprised of the following:

	2005	2004	2003
	(In thousands of dollars)		
Fixed maturities	$ 218,313	$ 210,555	$ 198,968
Equity securities	2,292	2,748	2,764
Short-term investments	9,564	2,844	1,996
Other	1,515	1,283	1,293
Investment income	231,684	217,430	205,021
Investment expenses	(2,830)	(2,377)	(2,140)
Net investment income	$ 228,854	$ 215,053	$ 202,881

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

	2005	2004	2003
	(In thousands of dollars)		
Net realized investment gains (losses) on sale of investments:			
Fixed maturities	$ 13,694	$ 11,827	$ 38,946
Equity securities	4,544	5,290	(701)
Joint ventures	(3,379)	125	(1,385)
Other	(2)	–	2
	$ 14,857	$ 17,242	$ 36,862
Change in net unrealized appreciation (depreciation):			
Fixed maturities	$ (74,013)	$ (34,197)	$ (32,227)
Equity securities	(16)	–	–
	$ (74,029)	$ (34,197)	$ (32,227)

The reclassification adjustment relating to the change in investment gains and losses is as follows:

	2005	2004	2003
	(In thousands of dollars)		
Unrealized holding (losses) gains arising during the period, net of tax	$ (38,381)	$ (15,112)	$ 7,178
Less: reclassification adjustment for net gains included in net income, net of tax	(9,738)	(7,116)	(28,126)
Change in unrealized investment gains and losses, net of tax	$ (48,119)	$ (22,228)	$ (20,948)

The gross realized gains and the gross realized losses on sales of securities were $28.4 million and $13.5 million, respectively, in 2005, $22.1 million and $4.9 million, respectively, in 2004 and $54.6 million and $17.7 million, respectively, in 2003.

The tax benefit related to the changes in net unrealized (depreciation) appreciation was $25.9 million, $12.0 million and $11.3 million for 2005, 2004 and 2003, respectively.

The Company had $22.8 million and $23.1 million of investments on deposit with various states at December 31, 2005 and 2004, respectively, due to regulatory requirements of those state insurance departments.

5. *Short- and long-term debt*

The Company has a $300 million commercial paper program, which is rated ‘A-1’ by Standard and Poors (“S&P”) and ‘P-1’ by Moody’s. At December 31, 2005 and 2004, the Company had $187.8 million and $139.5 million in commercial paper outstanding with a weighted average interest rate of 4.39% and 2.36%, respectively.

In March of 2005, the Company obtained a $300 million, five-year revolving credit facility, expiring in 2010. The facility replaced the previous $285 million facility that was due to expire in 2006. Under the terms of the credit facility, the Company must maintain shareholders’ equity of at least $2.25 billion and Mortgage Guaranty Insurance Corporation (“MGIC”) must maintain a risk-to-capital ratio of not more than 22:1 and maintain policyholders’ position (which includes MGIC’s statutory surplus and its contingency reserve) of not less than the amount required by Wisconsin insurance regulation. At December 31, 2005, these requirements were met. The facility will continue to be 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 $112.2 million and $145.5 million at December 31, 2005 and 2004, respectively.

The Company had $300 million, 5.375% Senior Notes due in November 2015 and $200 million, 6% Senior Notes due in March 2007 outstanding at December 31, 2005. At December 31, 2004 the Company had $300 million, 7.5% Senior Notes due in October 2005 and $200 million, 6% Senior Notes due in March 2007. In October 2005 the Company issued, in a public offering, $300 million, 5.375% Senior Notes due in 2015. Interest on the notes is payable semiannually in arrears on May 1 and November 1 of each year, beginning on May 1, 2006. The Senior Notes were rated ‘A-1’ by Moody’s, ‘A’ by S&P and ‘A+’ by Fitch. The

Company has utilized the proceeds from the sale of the notes, together with available cash, to repay the $300 million, 7.5% Senior Notes that came due October 17, 2005. At December 31, 2005 and 2004, the market value of the outstanding debt was $687.9 million and $661.3 million, respectively.

Interest payments on all long-term and short-term debt were $43.5 million, $42.1 million and $41.8 million for the years ended December 31, 2005, 2004 and 2003, respectively.

In March 2005, an outstanding swap was amended to coincide with the new credit facility. Under the terms of the swap contract, the Company pays a fixed rate of 5.07% and receives a variable 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. The cash flow swap outstanding at December 31, 2005 and 2004 is evaluated quarterly with any ineffectiveness being recorded as an expense. To date these evaluations have not resulted in any hedge ineffectiveness. Swaps are subject to credit risk to the extent the counterparty would be unable to discharge its obligations under the swap agreements.

Expense on the interest rate swaps for the years ended December 31, 2005, 2004 and 2003 of approximately $0.8 million, $3.3 million and $3.4 million, respectively, was included in interest expense. 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.

6. *Loss reserves*

As described in Note 2, the Company establishes reserves to recognize the estimated liability for losses and loss adjustment expenses related to defaults on insured mortgage loans. The establishment of loss reserves is subject to inherent uncertainty and requires significant judgment by management. The following table provides a reconciliation of beginning and ending loss reserves for each of the past three years:

	2005	2004	2003
	(In thousands of dollars)		
Reserve at beginning of year	$ 1,185,594	$ 1,061,788	$ 733,181
Less reinsurance recoverable	17,302	18,074	21,045
Net reserve at beginning of year	1,168,292	1,043,714	712,136
Losses incurred:			
Losses and LAE incurred in respect of default notices received in:			
Current year	679,697	714,450	652,231
Prior years (1)	(126,167)	(13,451)	113,797
Subtotal	553,530	700,999	766,028
Losses paid:			
Losses and LAE paid in respect of default notices received in:			
Current year	29,804	35,668	34,505
Prior years	582,351	540,753	399,945
Subtotal	612,155	576,421	434,450
Net reserve at end of year	1,109,667	1,168,292	1,043,714
Plus reinsurance recoverables	14,787	17,302	18,074
Reserve at end of year	$ 1,124,454	$ 1,185,594	$ 1,061,788

(1) 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 actual claim payments that were higher or lower than what was estimated by the Company at the end of the prior year, as well as a reestimation of amounts to be ultimately paid on defaults remaining in inventory from the end of the prior year. This reestimation is the result of management's review of current trends in default inventory, such as defaults that have resulted in a claim, the amount of the claim, the change in the relative level of defaults by geography and the change in average loan exposure.

Current year losses incurred decreased in 2005 compared to 2004 primarily due to decreases in the estimates regarding how many primary default notices will eventually result in a claim, when compared to the prior period. The primary insurance notice inventory increased from 85,487 at December 31, 2004 to 85,788 at December 31, 2005 and pool insurance notice inventory decreased from 25,500 at December 31, 2004 to 23,772 at December 31, 2005. The average primary claim paid for 2005 was $26,361 compared to $24,438 in 2004.

The development of the reserves in 2005, 2004 and 2003 is reflected in the prior year line. In 2005, the $126.2 million reduction in losses incurred related to prior years was due primarily to more favorable loss trends experienced during the year. In 2004, the $13.5 million reduction in losses incurred related to prior years was due primarily to more stable loss trends experienced during that year.

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 31, 2005 and 2004 appears in the table below.

	December 31, 2005	December 31, 2004
Total loans delinquent	85,788	85,487
Percentage of loans delinquent (default rate)	6.58%	6.05%
Flow loans delinquent	47,051	44,925
Percentage of flow loans delinquent (default rate)	4.52%	3.99%
Bulk loans delinquent	38,737	40,562
Percentage of bulk loans delinquent (default rate)	14.72%	14.06%
A-minus and subprime credit loans delinquent (1)	36,485	35,824
Percentage of A-minus and subprime credit loans delinquent (default rate)	18.30%	16.49%

(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. A-minus loans have FICO scores of 575-619, as reported to MGIC at the time a commitment to insure is issued, and subprime loans have FICO scores of less than 575.

7. *Reinsurance*

The Company cedes a portion of its business to reinsurers and records assets for reinsurance recoverable on loss reserves and prepaid reinsurance premiums. Business written between 1985 and 1993 is ceded under various reinsurance agreements with several reinsurers. The Company also cedes primary business to reinsurance subsidiaries of certain mortgage lenders, primarily under aggregate excess of loss agreements for each reinsurance period. The majority of ceded premiums relates to these agreements. In 2005, the Company entered into two separate excess of loss reinsurance agreements under which it ceded approximately $85.5 million of risk in force in the aggregate to two special purpose reinsurance companies. Additionally, certain pool polices written by the Company have been reinsured with one domestic reinsurer. The Company receives a ceding commission under certain reinsurance agreements.

The Company monitors the claims paying ability of its reinsurers and does not currently anticipate any collection problems. Generally, reinsurance recoverables on primary loss reserves and prepaid reinsurance 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:

	2005	2004	2003
		(In thousands of dollars)	
Premiums earned:			
Direct	$ 1,364,598	$ 1,445,321	$ 1,484,249
Assumed	1,064	333	227
Ceded	(126,970)	(116,226)	(118,465)
Net premiums earned	$ 1,238,692	$ 1,329,428	$ 1,366,011
Losses incurred:			
Direct	$ 558,077	$ 706,782	$ 769,531
Assumed	(100)	(358)	(163)
Ceded	(4,447)	(5,425)	(3,340)
Net losses incurred	$ 553,530	$ 700,999	$ 766,028

8. *Investments in joint ventures*

C-BASS

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 nonconforming residential mortgage loans. C-BASS's principal sources of revenues during the last three years were net interest income (including accretion on mortgage securities), servicing fees, money management fees from C-BASS CBOs and investment funds sponsored by C-BASS, and gains on securitization and liquidation of mortgage-related assets, offset by hedging 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 based on, among other things, valuations provided by financing counterparties. The ultimate value of these assets is the net present value of their future cash flows, which depends on, among other things, 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. The Company's investment in C-BASS on an equity basis at December 31, 2005 was $362.6 million.

	December 31, 2005	December 31, 2004
	($ millions)	
C-BASS Summary Balance Sheets		
Assets		
Whole loans	$ 4,638	$ 1,753
Servicing	468	444
Securities	2,054	1,450
Other	534	362
Total Assets	$ 7,694	$ 4,009
Total liabilities	$ 6,931	$ 3,409
Debts	6,434	2,648
Owners' equity	763	600

Included in total assets and total liabilities at December 31, 2004 were approximately $457 million of assets and the same amount of liabilities from securitizations that did not qualify for off-balance sheet treatment. The liabilities from these securitizations are not included in Debts in the table above. There were no such assets and liabilities at December 31, 2005.

	Year Ended December 31, 2005	2004	2003
		($ millions)	
C-BASS Summary Income Statements			
Portfolio	$ 292.2	$ 230.5	$ 154.6
Servicing	257.5	164.7	128.4
Money management	35.8	19.9	24.5
Transaction	39.4	64.0	49.3
Total revenue	624.9	479.1	356.8
Total expense	384.3	271.0	212.9
Income before tax	$ 240.6	$ 208.1	$ 143.9
Company's share of pretax income	$ 110.9	$ 97.9	$ 66.1

Sherman

Sherman is principally engaged in the business of purchasing and collecting for its own account delinquent consumer assets which are primarily unsecured. The borrowings used to finance these activities are included in Sherman's balance sheet. 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.

In March 2005, Sherman acquired the holding company for Credit One Bank ("Credit One"), formerly known as First National Bank of Marin, for a payment of cash and subordinated notes. This acquisition materially increased Sherman's consolidated assets as well as its debt and financial leverage. Credit One's operations during 2005 consisted of activities related to originating subprime credit cards. During 2005, Sherman's increases in total assets, total liabilities and debt were primarily related to the acquisition of Credit One.

In June 2005, MGIC, Radian (MGIC and Radian are collectively referred to as the "Corporate Partners") and entities (the "Management Entities") owned by the senior management ("Senior Management") of Sherman entered into a Securities Purchase Agreement and a Call Option Agreement. Under the Securities Purchase Agreement, each of MGIC and Radian agreed to sell to one of the Management Entities 6.92% of the 41.5% interest in Sherman owned by each (a total of 13.84% for both MGIC and Radian) for approximately $15.7 million, which is $1.0 million in excess of the approximate book value of the interest at April 30, 2005. Upon completion of the sale, Senior Management of Sherman owns an interest in Sherman of 30.84% and each of MGIC and Radian own interests of 34.58%. The sale closed in early August 2005. Under the Call Option Agreement, one of the Management Entities granted separate options (each an "Option") to each Corporate Partner to purchase a 6.92% interest in Sherman (a total of 13.84% under both Options). Each Option is exercisable beginning in July 2006 at the option price provided in the Call Option Agreement. If one Corporate Partner does not exercise its Option, the other Corporate Partner may exercise that Option. The Securities Purchase Agreement and Call Option Agreement were filed as exhibits to the Company's Current Report on Form 8-K filed on June 30, 2005; the description above is qualified by the terms of the actual agreements. In connection with these transactions, the payout under Sherman's annual incentive plan (which is based on a percentage of Sherman's prebonus results) was reduced effective May 1, 2005.

The Company's investment in Sherman on an equity basis at December 31, 2005 was $79.3 million.

	December 31,	
	2005	2004
	($ millions)	
Sherman Summary Balance Sheets		
Total assets	$ 979	$ 484
Total liabilities	743	245
Debt	597	143
Members' equity	236	239

	Year Ended December 31,		
	2005	2004	2003
		($ millions)	
Sherman Summary Income Statements			
Revenues from receivable portfolios	$ 855.5	$ 801.8	$ 603.3
Portfolio amortization	292.8	343.4	343.9
Revenues, net of amortization	562.7	458.4	259.4
Credit card interest income and fees	196.7	–	–
Other revenue	71.1	59.5	34.2
Total revenues	830.5	517.9	293.6
Total expenses	542.9	317.3	222.7
Income before tax	$ 287.6	$ 200.6	$ 70.9
Company's share of pretax income	$ 110.3	$ 83.3	$ 29.4

Because C-BASS and Sherman are accounted for using 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 joint ventures plus the Company's share of their comprehensive income (or minus its share of their comprehensive 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	
	2005	2004	2005	2004
	(In thousands of dollars)			
Reconciliation of projected benefit obligation:				
Benefit obligation at beginning of year	$ 156,707	$ 141,202	$ 63,586	$ 61,685
Service cost	8,838	9,137	3,414	3,459
Interest cost	9,483	8,741	3,722	3,525
Plan participants' contributions	–	–	272	220
Plan amendment (1)	404	927	–	(1,972)
Actuarial loss (gain)	3,398	(1,312)	(859)	(2,376)
Benefits paid	(2,241)	(1,988)	(1,267)	(955)
Benefit obligation at end of year	$ 176,589	$ 156,707	$ 68,868	$ 63,586
Reconciliation of fair value of plan assets:				
Fair value of plan assets at beginning of year	$ 180,104	$ 139,074	$ 29,692	$ 22,940
Adjustment	6	160	199	–
Actual return on plan assets	13,282	19,358	1,880	2,751
Employer contributions	8,127	23,500	3,812	4,736
Plan participants' contributions	–	–	272	220
Benefits paid	(2,241)	(1,988)	(1,267)	(955)
Fair value of plan assets at end of year	$ 199,278	$ 180,104	$ 34,588	$ 29,692
Balance sheet at end of year:				
Accumulated benefit obligation	$ (152,100)	$ (132,002)	N/A	N/A
Effect of salary projection	(24,489)	(24,705)	N/A	N/A
Projected benefit obligation	(176,589)	(156,707)	$ (68,868)	$ (63,586)
Fair value of plan assets	199,278	180,104	34,588	29,692
Funded status	22,689	23,397	(34,280)	(33,894)
Unrecognized net actuarial loss (gain)	25,287	21,759	13,211	14,209
Unrecognized net transition obligation	–	–	1,984	2,268
Unrecognized prior service cost	5,087	5,423	–	–
Net amount recognized	$ 53,063	$ 50,579	$ (19,085)	$ (17,417)

(1) The pension 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 postretirement medical plan has been amended for changes in coverage levels, deductibles and out-of-pocket limits.

	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
	(In thousands of dollars)			
Net amount recognized in consolidated balance sheet:				
Prepaid benefit cost	$ 53,063	$ 50,579	N/A	N/A
Accrued benefit liability	–	–	N/A	N/A
Intangible asset	–	–	N/A	N/A
Accumulated other comprehensive income	–	–	N/A	N/A
Net amount recognized	$ 53,063	$ 50,579	N/A	N/A
Reconciliation of prepaid/(accrued) benefit cost:				
Prepaid/(accrued) benefit cost at beginning of year	$ 50,579	$ 36,534	$ (17,417)	$ (15,860)
Net periodic benefit cost	(5,644)	(9,455)	(5,479)	(6,293)
Contributions	8,128	23,500	2,816	4,000
Benefits paid (net of participants' contributions)	–	–	995	736
Prepaid benefit cost at end of year	$ 53,063	$ 50,579	$ (19,085)	$ (17,417)

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

	Pension Benefits			Other Postretirement Benefits		
	2005	2004	2003	2005	2004	2003
			(In thousands of dollars)			
Service cost	$ 8,838	$ 9,137	$ 7,963	$ 3,414	$ 3,459	$ 3,135
Interest cost	9,483	8,741	7,671	3,722	3,525	3,300
Expected return on plan assets	(13,418)	(10,370)	(6,796)	(2,242)	(1,720)	(989)
Recognized net actuarial loss (gain)	–	1,246	1,950	301	499	659
Amortization of transition obligation	–	–	–	284	530	530
Amortization of prior service cost	741	701	612	–	–	–
Net periodic benefit cost	$ 5,644	$ 9,455	$ 11,400	$ 5,479	$ 6,293	$ 6,635

The following benefit payments, which reflect future service, are expected to be paid in the following fiscal years:

	Pension Benefits	Other Postretirement Benefits: Gross Benefits	Other Postretirement Benefits: Medicare Part D Subsidy	Other Postretirement Benefits: Net Benefits
		(In thousands of dollars)		
Fiscal Year				
2006	$ 2,954	$ 1,316	$ 89	$ 1,227
2007	3,533	1,562	107	1,455
2008	4,194	1,807	130	1,677
2009	5,061	2,130	155	1,975
2010	6,168	2,483	188	2,295
Years 2011–2015	49,502	18,477	1,595	16,882

Employer pension and postretirement contributions for the fiscal year ending December 31, 2006 are expected to approximate $10.3 million and $4.6 million, respectively. The ERISA minimum required pension contribution is zero.

	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
Allocation of plan assets				
Actual				
Equity securities	82%	82%	100%	100%
Debt securities	15%	15%	–	–
Real estate	3%	3%	–	–
Total	100%	100%	100%	100%
Target				
Equity securities	82%	82%	100%	100%
Debt securities	15%	15%	–	–
Real estate	3%	3%	–	–
Total	100%	100%	100%	100%

The Company's pension plan portfolio returns are expected to achieve the following objectives over each market cycle and for at least 5 years:

- Total return should exceed growth in CPI
- Achieve competitive investment results
- Provide consistent investment returns
- Exceed the actuarial return assumption of the retirement plan

The primary focus in developing asset allocation ranges for the account is the assessment of the account's investment objectives and the level of risk that is acceptable to obtain those objectives. To achieve these goals the minimum and maximum allocation ranges for fixed securities and equity securities are:

	Minimum	Maximum
Fixed	0%	30%
Equity	70%	100%
Cash equivalents	0%	10%

Investment in international oriented funds is limited to a maximum of 15% of the equity range.

The Company's postretirement plan portfolio returns are expected to achieve the following objectives over each market cycle and for at least 5 years:

- Total return should exceed growth in CPI
- Provide consistent investment returns

The primary focus in developing asset allocation ranges for the account is the assessment of the account's investment objectives and the level of risk that is acceptable to obtain those objectives. To achieve these goals the minimum and maximum allocation ranges for fixed-income securities and equity securities are:

	Minimum	Maximum
Fixed	0%	40%
Equity	60%	100%
Cash equivalents	0%	40%

Given the long-term nature of this portfolio and the lack of any immediate need for cash flow, it is anticipated that the equity investments will consist of growth stocks and will typically be at the higher end of the allocation ranges above. Investment in international oriented funds is limited to a maximum of 15% of the equity range.

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		
	2005	2004	2003	2005	2004	2003
Weighted-average interest rate assumptions						
Used to determine year-end benefit obligation:						
Discount rate	6.00%	6.25%	6.25%	6.00%	6.25%	6.25%
Rate of compensation increase	4.50%	4.50%	4.50%	N/A	N/A	N/A
Used to determine net periodic benefit cost:						
Discount rate	6.25%	6.25%	6.75%	6.25%	6.25%	6.75%
Expected return on plan assets	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Rate of compensation increase	4.50%	4.50%	4.50%	N/A	N/A	N/A

In selecting a discount rate, the Company performed a hypothetical cash flow bond matching exercise, matching the Company's expected pension plan and postretirement medical plan cash flows, respectively, against a selected portfolio of high quality corporate bonds. The modeling was performed using a bond portfolio of noncallable bonds with at least $25 million outstanding. The average yield of these hypothetical bond portfolios was used as the benchmark for determining the discount rate. In selecting the expected long-term rate of return on assets, the Company considered the average rate of earnings expected on the classes of funds invested or to be invested to provide for the benefits of these plans. This included considering the trusts' targeted asset allocation for the year and the expected returns likely to be earned over the next 20 years.

Plan assets consist of fixed maturities, equity securities and real estate. The Company is amortizing the unrecognized transition obligation for other postretirement benefits over 20 years.

For measurement purposes a 10% health care trend rate was used for 2005. In 2006, the rate is assumed to be 9.5%, decreasing to 5.0% by 2015 and remaining at this level beyond.

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	$ 1,672	$ (1,290)
Effect on postretirement benefit obligation	14,323	(11,266)

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 eligible 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. The Company recognized profit sharing expense and 401(k) savings plan expense of $5.6 million, $5.7 million and $7.7 million in 2005, 2004 and 2003, respectively.

10. Income taxes

Net deferred tax assets and liabilities as of December 31, 2005 and 2004 are as follows:

	2005	2004
	(In thousands of dollars)	
Deferred tax assets	$ 157,571	$ 150,876
Deferred tax liabilities	(75,224)	(108,692)
Net deferred tax asset	$ 82,347	$ 42,184

Management believes that all gross deferred tax assets at December 31, 2005 are fully realizable and no valuation reserve was established.

The components of the net deferred tax asset as of December 31, 2005 and 2004 are as follows:

	2005	2004
	(In thousands of dollars)	
Unearned premium reserves	$ 14,847	$ 13,220
Deferred policy acquisition costs	(6,446)	(9,700)
Loss reserves	29,254	32,485
Unrealized appreciation in investments	(41,731)	(66,438)
Statutory contingency loss reserves	(16,116)	(20,851)
Mortgage investments	32,899	54,605
Benefit plans	(6,347)	(6,844)
Deferred compensation	16,251	9,301
Investments in joint ventures	58,723	35,748
Other, net	1,013	658
Net deferred tax asset	$ 82,347	$ 42,184

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

	2005	2004	2003
	(In thousands of dollars)		
Federal:			
Current	$ 171,420	$ 158,104	$ 170,353
Deferred	3,021	(762)	(28,277)
State	2,491	2,006	3,951
Provision for income tax	$ 176,932	$ 159,348	$ 146,027

The Company paid $264.5 million, $203.2 million and $182.1 million in federal income tax in 2005, 2004 and 2003, respectively. At December 31, 2005, 2004 and 2003, the Company owned $1,625.3 million, $1,468.5 million and $1,316.9 million, respectively, of tax and loss bonds.

The reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	2005	2004	2003
Federal statutory income tax rate	35.0%	35.0%	35.0%
Tax exempt municipal bond interest	(8.4)	(8.4)	(8.2)
Mortgage investments	–	–	(1.9)
Other, net	0.4	0.3	0.5
Effective income tax rate	27.0%	26.9%	25.4%

The Internal Revenue Service ("IRS") has been conducting an examination of the federal income tax returns of the Company for 2000 and 2001. During 2005, the IRS expanded the examination to include the 2002, 2003 and 2004 taxable years. In this examination, they have summonsed documents which include communications with outside legal counsel engaged by the Company. Management believes that these documents are protected by the attorney-client privilege and has declined to waive that privilege, so it has not provided them to the IRS. The documents relate to a portfolio of investments in the residual interests of Real Estate Mortgage Investment Conduits ("REMICs"). This portfolio has been managed and maintained during years prior to, during and subsequent to the examination period. The tax returns have included the flow through of income and losses from these investments in the computation of taxable income. The IRS has indicated that they do not believe that the Company has established sufficient tax basis in the REMIC residual interests to deduct some portion of the flow through losses from income. To date, they have not provided a detailed explanation of their position or the calculation of the dollar amount of any potential adjustment. The Company will contest any such proposal to increase taxable income and believes that income taxes related to these years have been properly provided for in the financial statements.

11. *Shareholders' equity and dividend restrictions*

Dividends

The Company's insurance subsidiaries are subject to statutory regulations as to maintenance of policyholders' surplus and payment of dividends. The maximum amount of dividends that the insurance subsidiaries may pay in any twelve-month period without regulatory approval by the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") is the lesser of adjusted statutory net income or 10% of statutory policyholders' surplus as of the preceding calendar year end. Adjusted statutory net income is defined for this purpose to be the greater of statutory net income, net of realized investment gains, for the calendar year preceding the date of the dividend or statutory net income, net of realized investment gains, for the three calendar years preceding the date of the dividend less dividends paid within the first two of the preceding three calendar years. As a result of extraordinary dividends paid, MGIC cannot currently pay any dividends without regulatory approval. The other insurance subsidiaries of the Company can pay $1.8 million of dividends to the Company without such regulatory approval.

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

In 2005, 2004 and 2003, the Company paid dividends of $48.4 million, $22.0 million and $11.1 million, respectively, or $0.525 per share in 2005, $0.225 per share in 2004 and $0.1125 per share in 2003.

Accounting Principles

The accounting 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. Changes in contingency loss reserves impact the statutory statement of operations. Contingency loss reserves are not reflected as liabilities under GAAP and changes in contingency loss reserves do not impact GAAP operations.

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 fair value, 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 nonadmitted assets, are charged directly against statutory surplus. Such assets are reflected on the GAAP financial statements.

Under statutory accounting practices, the Company's share of the net income or loss of its investments in joint ventures is credited directly to statutory surplus. Under GAAP, income from joint ventures is shown separately, net of tax, on the statement of operations.

The statutory net income, policyholders' surplus and the contingency reserve liability of the insurance subsidiaries (excluding the noninsurance companies), as well as the dividends paid by MGIC to the Company, are as follows:

Year Ended December 31,	Net Income	Policyholders' Surplus	Contingency Reserve	Dividends paid by MGIC to the Company
		(In thousands of dollars)		
2005	$ 316,908	$ 1,678,566	$ 4,662,652	$ 552,200
2004	179,623	1,840,084	4,234,157	162,900
2003	286,473	1,699,295	3,800,265	232,023

Stock incentive plans

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 maximum number of shares covered by awards under the 2002 plan is the total of 7.1 million shares plus 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 5.9 million shares. Both plans provide for the award of stock options with maximum terms of 10 years and for the grant of restricted stock or restricted stock units, 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.

A summary of option activity in the stock incentive plans during 2003, 2004 and 2005 is as follows:

	Weighted Average Exercise Price	Shares Subject to Option
Outstanding, December 31, 2002	$ 49.42	3,587,559
Granted	43.70	606,000
Exercised	30.15	(168,780)
Forfeited or expired	55.08	(121,880)
Outstanding, December 31, 2003	49.19	3,902,899
Granted	68.20	612,000
Exercised	43.69	(787,678)
Forfeited or expired	54.94	(191,800)
Outstanding, December 31, 2004	53.39	3,535,421
Granted	–	–
Exercised	42.92	(254,490)
Forfeited or expired	62.56	(6,200)
Outstanding, December 31, 2005	$ 54.19	3,274,731

The exercise price of the options granted in 2003 and 2004 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.

Information about restricted stock or restricted stock units granted during 2003, 2004 and 2005 is as follows:

	Year Ended December 31, 2005	2004	2003
Shares or units granted	495,919	274,869	298,674
Weighted average grant date fair market value	$ 64.21	$ 68.08	$ 43.44

For the year ended December 31, 2005, approximately 144 thousand shares of restricted stock became vested and approximately 1 thousand shares of restricted stock were forfeited. At December 31, 2005, 4,988,341 shares were available for future grant under the 2002 stock incentive plan. Of the shares available for future grant, 4,915,510 are available for restricted stock awards.

For purposes of determining the pro forma net income disclosure in Note 2, the fair value of these options was estimated at grant date using the binomial option pricing model for the 2004 options and the Black-Scholes model for the 2003 and prior options with the following weighted average assumptions for each year:

	Grants Issued in Year Ended December 31, 2004	2003
Risk free interest rate	3.27%	2.91%
Expected life	5.50 years	4.87 years
Expected volatility	30.20%	29.40%
Expected dividend yield	0.25%	0.25%
Fair value of each option	$21.68	$13.12

The following is a summary of stock options outstanding at December 31, 2005:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Shares	Remaining Average Life (yrs.)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$33.81–$47.31	1,559,031	4.4	$ 43.36	911,061	$ 42.50
$53.70–$68.63	1,715,700	6.3	$ 64.03	893,250	$ 62.55
Total	3,274,731	5.4	$ 54.19	1,804,311	$ 52.42

At December 31, 2004 and 2003, option shares of 1,465,301 and 1,754,929 were exercisable at an average exercise price of $49.47 and $45.88, respectively. The Company also granted an immaterial amount of equity instruments other than options and restricted stock during 2003, 2004 and 2005.

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 20% 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 acquirer) 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 six years. Generally, all rental payments are fixed.

Total rental expense under operating leases was $7.6 million, $8.0 million and $8.2 million in 2005, 2004 and 2003, respectively.

At December 31, 2005, minimum future operating lease payments are as follows (in thousands of dollars):

2006	$ 5,169
2007	4,470
2008	2,428
2009	921
2010 and thereafter	129
Total	$ 13,117

13. Litigation and contingencies

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.

Consumers are bringing a growing number of lawsuits against home mortgage lenders and settlement service providers. In recent years, seven mortgage insurers, including MGIC, have been involved in litigation alleging violations of the antireferral fee provisions of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and the notice provisions of the Fair Credit Reporting Act, which is commonly known as FCRA. MGIC's settlement of class action litigation against it under RESPA became final in October 2003. MGIC settled the named plaintiffs' claims in litigation against it under FCRA in late December 2004 following denial of class certification in June 2004. There can be no assurance that MGIC will not be subject to future litigation under RESPA or FCRA or that the outcome of any such litigation would not have a material adverse effect on the Company. In August 2005, the United States Court of Appeals for the Ninth Circuit decided a case under FCRA to which the Company was not a party that may make it more likely that the Company will be subject to future litigation regarding when notices to borrowers are required by FCRA.

In June 2005, in response to a letter from the New York Insurance Department, the Company provided information regarding captive mortgage reinsurance arrangements and other types of arrangements in which lenders receive compensation. In February 2006, in response to an administrative subpoena from the Minnesota Department of Commerce, (the "MDC"), which regulates insurance, the company provided the MDC with information about captive mortgage reinsurance and certain other matters. In the spring of 2005, spokesmen for insurance commissioners in Colorado and North Carolina were publicly reported as saying that those commissioners are considering investigating or reviewing captive mortgage reinsurance arrangements. Insurance departments or other officials in other states may also conduct such investigations or reviews. The antireferral fee provisions of RESPA provide that the Department of Housing and Urban Development ("HUD") as well as the insurance commissioner or attorney general of any state may bring an action to enjoin violations of these provisions of RESPA. The insurance law provisions of many states prohibit paying for the referral of insurance business and provide various mechanisms to enforce this prohibition. While the Company believes its captive reinsurance arrangements are in conformity with applicable laws and regulations, it is not possible to predict the outcome of any such reviews or investigations nor is it possible to predict their effect on the Company or the mortgage insurance industry.

Under its contract underwriting agreements, the Company may be required to provide certain remedies to its customers if certain standards relating to the quality of the Company's underwriting work are not met. The cost of remedies provided by the Company to customers for failing to meet these standards has not been material to the Company's financial position or results of operations for the years ended December 31, 2005, 2004 and 2003.

See Note 10 for a description of federal income tax contingencies.

14. Unaudited quarterly financial data

2005	Quarter First	Quarter Second	Quarter Third	Quarter Fourth	2005 Year
	(In thousands of dollars, except per share data)				
Net premiums written	$ 312,239	$ 309,220	$ 314,178	$ 316,673	$ 1,252,310
Net premiums earned	316,079	311,633	305,841	305,139	1,238,692
Investment income, net of expenses	57,003	57,178	57,338	57,335	228,854
Losses incurred, net	98,866	136,915	146,197	171,552	553,530
Underwriting and other expenses	67,895	68,059	69,695	69,767	275,416
Net income	182,013	174,357	142,382	128,121	626,873
Earnings per share (a):					
Basic	1.91	1.88	1.56	1.45	6.83
Diluted	1.90	1.87	1.55	1.44	6.78

2004	Quarter First	Quarter Second	Quarter Third	Quarter Fourth	2004 Year
	(In thousands of dollars, except per share data)				
Net premiums written	$ 329,062	$ 319,126	$ 320,803	$ 336,426	$ 1,305,417
Net premiums earned	341,516	331,128	324,224	332,560	1,329,428
Investment income, net of expenses	53,141	52,314	54,187	55,411	215,053
Losses incurred, net	190,677	154,073	169,802	186,447	700,999
Underwriting and other expenses	67,314	72,723	68,782	69,967	278,786
Net income	130,073	154,524	134,069	134,520	553,186
Earnings per share (a):					
Basic	1.32	1.57	1.37	1.40	5.67
Diluted	1.31	1.56	1.36	1.39	5.63

(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.

15. *Condensed consolidating financial statements*

The following condensed financial information sets forth, on a consolidating basis, the balance sheet, statement of operations, and statement of cash flows information for MGIC Investment Corporation ("Parent Company"), which represents the Company's investments in all of its subsidiaries under the equity method, Mortgage Guaranty Insurance Corporation and Subsidiaries ("MGIC Consolidated"), and all other subsidiaries of the Company ("Other") on a combined basis. The eliminations column represents entries eliminating investments in subsidiaries, intercompany balances, and intercompany revenues and expenses.

Condensed consolidating balance sheet

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
			(In thousands of dollars)		
At December 31, 2005:					
Assets					
Total investments	$ 2,779	$ 5,219,521	$ 263,770	$ –	$ 5,486,070
Cash	2	4,324	290	–	4,616
Reinsurance recoverables on loss reserves	–	78,097	36	(63,346)	14,787
Prepaid reinsurance premiums	–	17,521	3	(7,916)	9,608
Deferred insurance policy acquisition costs	–	18,416	–	–	18,416
Investments in subsidiaries/joint ventures	4,842,932	481,778	–	(4,842,932)	481,778
Other assets	13,542	356,624	28,274	(56,146)	342,294
Total assets	**$ 4,859,255**	**$ 6,176,281**	**$ 292,373**	**$ (4,970,340)**	**$ 6,357,569**
Liabilities and shareholders' equity					
Liabilities:					
Loss reserves	$ –	$ 1,124,454	$ 63,346	$ (63,346)	$ 1,124,454
Unearned premiums	–	159,823	7,916	(7,916)	159,823
Short- and long-term debt	685,124	9,364	–	(9,325)	685,163
Other liabilities	9,076	232,109	13,435	(31,546)	223,074
Total liabilities	694,200	1,525,750	84,697	(112,133)	2,192,514
Total shareholders' equity	4,165,055	4,650,531	207,676	(4,858,207)	4,165,055
Total liabilities and shareholders' equity	**$ 4,859,255**	**$ 6,176,281**	**$ 292,373**	**$ (4,970,340)**	**$ 6,357,569**

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
			(In thousands of dollars)		
At December 31, 2004:					
Assets					
Total investments	$ 18,355	$ 5,315,382	$ 248,890	$ –	$ 5,582,627
Cash	–	2,505	324	–	2,829
Reinsurance recoverables on loss reserves	–	84,916	67	(67,681)	17,302
Prepaid reinsurance premiums	–	8,312	4	(1,480)	6,836
Deferred insurance policy acquisition costs	–	27,714	–	–	27,714
Investments in subsidiaries/joint ventures	4,767,631	414,309	–	(4,767,631)	414,309
Other assets	11,381	353,202	22,488	(57,997)	329,074
Total assets	**$ 4,797,367**	**$ 6,206,340**	**$ 271,773**	**$ (4,894,789)**	**$ 6,380,691**
Liabilities and shareholders' equity					
Liabilities:					
Loss reserves	$ –	$ 1,185,594	$ 67,681	$ (67,681)	$ 1,185,594
Unearned premiums	–	143,433	1,480	(1,480)	143,433
Short- and long-term debt	639,263	8,847	–	(8,807)	639,303
Other liabilities	14,465	266,682	15,189	(27,614)	268,722
Total liabilities	653,728	1,604,556	84,350	(105,582)	2,237,052
Total shareholders' equity	4,143,639	4,601,784	187,423	(4,789,207)	4,143,639
Total liabilities and shareholders' equity	**$ 4,797,367**	**$ 6,206,340**	**$ 271,773**	**$ (4,894,789)**	**$ 6,380,691**

Condensed consolidating statement of operations

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
			(In thousands of dollars)		
Year Ended December 31, 2005:					
Revenues:					
Net premiums written	$ –	$ 1,177,862	$ 74,702	$ (254)	$ 1,252,310
Net premiums earned	–	1,170,681	68,265	(254)	1,238,692
Equity in undistributed net income of subsidiaries	100,261	–	–	(100,261)	–
Dividends received from subsidiaries	552,200	–	–	(552,200)	–
Investment income, net of expenses	2,465	216,780	10,033	(424)	228,854
Realized investment gains (losses), net	–	15,017	(160)	–	14,857
Other revenue	–	1,794	42,333	–	44,127
Total revenues	654,926	1,404,272	120,471	(653,139)	1,526,530
Losses and expenses:					
Losses incurred, net	–	523,535	29,995	–	553,530
Underwriting and other expenses	278	191,061	84,376	(299)	275,416
Interest expense	41,091	424	–	(424)	41,091
Total losses and expenses	41,369	715,020	114,371	(723)	870,037
Income before tax and joint ventures	613,557	689,252	6,100	(652,416)	656,493
Provision (credit) for income tax	(13,316)	190,718	(185)	(285)	176,932
Income from joint ventures, net of tax	–	147,312	–	–	147,312
Net income	**$ 626,873**	**$ 645,846**	**$ 6,285**	**$ (652,131)**	**$ 626,873**

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
			(In thousands of dollars)		
Year Ended December 31, 2004:					
Revenues:					
Net premiums written	$ –	$ 1,232,791	$ 72,978	$ (352)	$ 1,305,417
Net premiums earned	–	1,256,141	73,639	(352)	1,329,428
Equity in undistributed net income of subsidiaries	416,385	–	–	(416,385)	–
Dividends received from subsidiaries	162,900	–	–	(162,900)	–
Investment income, net of expenses	1,240	205,650	8,667	(504)	215,053
Realized investment gains, net	4	16,853	322	63	17,242
Other revenue	–	4,984	45,986	–	50,970
Total revenues	580,529	1,483,628	128,614	(580,078)	1,612,693
Losses and expenses:					
Losses incurred, net	–	664,228	36,771	–	700,999
Underwriting and other expenses	272	191,214	87,697	(397)	278,786
Interest expense	41,124	509	–	(502)	41,131
Total losses and expenses	41,396	855,951	124,468	(899)	1,020,916
Income before tax and joint ventures	539,133	627,677	4,146	(579,179)	591,777
Provision (credit) for income tax	(14,053)	173,799	(1,065)	667	159,348
Income from joint ventures, net of tax	–	120,757	–	–	120,757
Net income	**$ 553,186**	**$ 574,635**	**$ 5,211**	**$ (579,846)**	**$ 553,186**

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
			(In thousands of dollars)		
Year Ended December 31, 2003:					
Revenues:					
Net premiums written	$ –	$ 1,283,006	$ 82,121	$ (496)	$ 1,364,631
Net premiums earned	–	1,284,081	82,426	(496)	1,366,011
Equity in undistributed net income of subsidiaries	288,305	–	–	(288,305)	–
Dividends received from subsidiaries	232,023	–	–	(232,023)	–
Investment income, net of expenses	645	194,591	8,022	(377)	202,881
Realized investment gains, net	–	34,939	1,811	112	36,862
Other revenue	–	8,505	71,152	–	79,657
Total revenues	520,973	1,522,116	163,411	(521,089)	1,685,411
Losses and expenses:					
Losses incurred, net	–	706,337	59,691	–	766,028
Underwriting and other expenses	228	196,898	105,888	(541)	302,473
Interest expense	41,107	383	–	(377)	41,113
Total losses and expenses	41,335	903,618	165,579	(918)	1,109,614
Income before tax and joint ventures	479,638	618,498	(2,168)	(520,171)	575,797
Provision (credit) for income tax	(14,241)	162,731	(2,551)	88	146,027
Income from joint ventures, net of tax	–	64,109	–	–	64,109
Net income	**$ 493,879**	**$ 519,876**	**$ 383**	**$ (520,259)**	**$ 493,879**

Condensed consolidating statement of cash flows

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
			(In thousands of dollars)		
Year Ended December 31, 2005:					
Net cash from operating activities	$ 536,734[1]	$ 520,348	$ 19,582	$ (568,310)	$ 508,354
Net cash (used in) from investing activities	(15,889)	74,631	(18,210)	16,110	56,642
Net cash used in financing activities	(536,208)	(552,200)	–	552,200	(536,208)
Net (decrease) increase in cash	**$ (15,363)**	**$ 42,779**	**$ 1,372**	**$ –**	**$ 28,788**

[1] *Includes dividends received from subsidiaries of $552,200.*

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
			(In thousands of dollars)		
Year Ended December 31, 2004:					
Net cash from operating activities	$ 161,437[1]	$ 543,228	$ 32,594	$ (178,099)	$ 559,160
Net cash used in investing activities	(6,860)	(379,806)	(25,342)	15,199	(396,809)
Net cash used in financing activities	(157,229)	(162,900)	–	162,900	(157,229)
Net (decrease) increase in cash	**$ (2,652)**	**$ 522**	**$ 7,252**	**$ –**	**$ 5,122**

[1] *Includes dividends received from subsidiaries of $162,900.*

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
			(In thousands of dollars)		
Year Ended December 31, 2003:					
Net cash from operating activities	$ 216,201[1]	$ 655,771	$ 47,383	$ (232,719)	$ 686,636
Net cash used in investing activities	(19,185)	(402,837)	(48,542)	10,973	(459,591)
Net cash used in financing activities	(178,970)	(221,746)	–	221,746	(178,970)
Net (decrease) increase in cash	**$ 18,046**	**$ 31,188**	**$ (1,159)**	**$ –**	**$ 48,075**

[1] *Includes dividends received from subsidiaries of $232,023.*

16. Subsequent events

On January 10, 2006, MGIC acquired Myers Internet, Inc., a provider of web-based point of sale solutions for mortgage originators and real estate agents. The Company does not believe that the acquisition will have a material impact on future results of operations or financial position of the Company.

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
Chairman 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
Executive Vice President and Chief Financial Officer
Sun Microsystems, Inc.
Santa Clara, CA

William A. McIntosh
Former Executive Committee Member and Managing Director
Salomon Brothers Inc
New York, NY
An investment banking firm

Leslie M. Muma
Consultant
Fiserv, Inc.
Brookfield, WI
A financial industry automation products and services company

Officers

MGIC Investment Corporation

Chairman and Chief Executive Officer
Curt S. Culver

President and Chief Operating Officer
Patrick Sinks

Executive Vice President
J. Michael Lauer
Chief Financial Officer

Senior Vice Presidents
James A. Karpowicz
Chief Investment Officer and Treasurer

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

Mortgage Guaranty Insurance Corporation

Chairman and Chief Executive Officer
Curt S. Culver

President and Chief Operating Officer
Patrick Sinks

Executive Vice Presidents
J. Michael Lauer
Chief Financial Officer

Lawrence J. Pierzchalski
Risk Management

Senior Vice Presidents
James A. Karpowicz
Chief Investment Officer and Treasurer

Joseph J. Komanecki
Controller and Chief Accounting Officer

Jeffrey H. Lane
General Counsel and Secretary

Michael G. Meade
Information Services and Chief Information Officer

Steven T. Snodgrass
Capital Markets

Cheryl L. Webb
Field Operations

Martin F. Wood
International Business Development

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

Thomas A. Drew
Claims

Sandra K. Dunst
Capital Markets Operations

Edward G. Durant
Analytic Services

Henry W. Duvall, Jr.
Sales Manager

Timothy J. Edwards
Capital Markets Sales

Carla A. Gallas
Field Operations

David A. Greco
Credit Policy

Frank E. Hilliard
Field Operations

Steven F. Himebauch
National Accounts

James J. Hughes
Managing Director

W. Thomas Hughes
Managing Director

Malcom T. Hurst
Sales

Mark J. Krauter
National Accounts

Robin D. Mallory
Managing Director

Mark E. Marple
Mortgage Banking Strategies

Salvatore A. Miosi
Marketing

Ronald L. Morrow
Customer Services

Lisa M. Pendergast
Assistant Treasurer

Charlotte L. Reed
Information Services

Eric L. Rice
Sales

John R. Schroeder
Structured Transactions

Dan D. Stilwell
Assistant General Counsel and Assistant Secretary

James R. Stirling
Information Services

Thomas B. Theobald
National Accounts

Kurt J. Thomas
Human Resources

Steven M. Thompson
Bulk Transactions

Kathleen E. Valenti
Claims Administration

Bernhard W. Verhoeven
Risk Management

E. Stephen White
Managing Director

John S. Wiseman
Managing Director

Jerry L. Wormmeester
National Accounts

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 11, 2006 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 for the year ended December 31, 2005, filed with the Securities and Exchange Commission, are available without charge to shareholders on request from:

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

The Annual Report on Form 10-K referred to above includes as exhibits certifications from the Company's Chief Executive Officer and Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act. Following the 2005 Annual Meeting of Shareholders, the Company's Chief Executive Officer submitted a Written Affirmation to the New York Stock Exchange that he was not aware of any violation by the Company of the corporate governance listing standards of the Exchange.

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 February 15, 2006, 87,490,806 shares were outstanding. The following table sets forth for 2004 and 2005 by quarter the high and low sales prices of the Common Stock on the New York Stock Exchange.

	2004		2005	
Quarters	High	Low	High	Low
1st	$ 70.80	$ 56.20	$ 70.00	$ 59.98
2nd	76.99	63.90	66.48	56.93
3rd	78.95	62.42	70.02	60.56
4th	69.94	60.00	67.75	56.70

In 2004 and 2005 the Company declared and paid the following cash dividends:

	2004	2005
Quarters		
1st	$ .0375	$ .0750
2nd	.0375	.1500
3rd	.0750	.1500
4th	.0750	.1500
	$ .2250	$ .5250

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 February 10, 2006, the number of shareholders of record was 170. In addition, there are more than 200,000 beneficial owners of shares held by brokers and fiduciaries.

MGIC INVESTMENT CORPORATION

MGIC Investment Corporation
MGIC Plaza, Milwaukee, Wisconsin 53202