



**FINANCIAL
SUPPLEMENT**

FIRST QUARTER 2010

DELPHI FINANCIAL GROUP, INC.

Financial Supplement

First Quarter 2010

Delphi Financial Group, Inc. ("Delphi") is an integrated employee benefit services company. Delphi is a leader in managing all aspects of employee absence to enhance the productivity of its clients and provides the related group insurance coverages: long-term and short-term disability, life, excess workers' compensation for self-insured employers, large casualty programs including large deductible workers' compensation, travel accident, dental and limited benefit health insurance. Delphi's asset accumulation business emphasizes individual fixed annuity products. Delphi's common stock is listed on the New York Stock Exchange under the symbol DFG and its corporate website address is www.delphifin.com.

This report is for informational purposes only. It should be read in conjunction with documents filed by Delphi with the Securities and Exchange Commission, including the most recent Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and earnings press releases furnished on Form 8-K. The interim financial statements and related data included herein are unaudited. This report is dated April 27, 2010. Information contained in this report may not be accurate after such date. Delphi disclaims any duty to update this information after such date.

In addition to financial measures presented in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), Delphi also uses certain non-GAAP financial measures to analyze and report its financial results. These non-GAAP financial measures are not a substitute for GAAP financial measures and may not be calculated in the same manner as similarly titled captions in other companies' financial statements. Management believes these non-GAAP financial measures are informative when analyzing the trends relating to Delphi's insurance operations. Management uses these non-GAAP financial measures to assess performance and make operating plans and decisions, and believes that these measures enhance the understanding of Delphi's results by enhancing focus on the financial performance of Delphi's insurance operations.

Operating earnings, which is a non-GAAP financial measure, consist of income from continuing operations excluding after-tax realized investment gains and losses, and losses on redemptions of junior subordinated deferrable interest debentures, as applicable. The Company believes that because realized investment gains and losses, redemptions of junior subordinated deferrable interest debentures and discontinued operations arise from events that, to a significant extent, are within management's discretion and can fluctuate significantly, thus distorting comparisons between periods, a measure excluding their impacts is useful in analyzing the Company's operating trends. Investment gains or losses may be realized based on management's decision to dispose of an investment, and investment losses may be realized based on management's judgment that a decline in the market value of an investment is other than temporary. Redemptions of junior subordinated deferrable interest debentures occur based on management's decision to exercise its ability to redeem the outstanding debentures. Discontinued operations occur based on management's decision to exit or sell a particular business. Thus, realized investment gains and losses, losses on redemptions of junior subordinated deferrable interest debentures and results from discontinued operations are not reflective of the Company's ongoing earnings capacity, and trends in the earnings of the Company's underlying insurance operations can be more clearly identified without the effects of these items. For these reasons, management uses the measure of operating earnings to assess performance, including, in certain cases, in connection with the performance goals under its incentive compensation plans, and to make operating plans and decisions. The Company believes that analysts and investors typically utilize measures of this type as one element of their evaluations of the financial performance of insurers. However, gains and losses of these types, particularly as to investments, occur regularly and should not be considered as non-recurring items. Further, operating earnings should not be considered a substitute for net income, the most directly comparable GAAP measure, as an indication of the Company's overall financial performance and may not be calculated in the same manner as similarly titled measures utilized by other companies. All per share amounts are on a diluted basis.

Annualized operating return on beginning equity, which is a non-GAAP financial measure, is based on operating earnings, as defined in the preceding paragraph (rather than the most directly comparable GAAP measure, net income), divided by beginning shareholders' equity. For the reasons that Delphi believes that the calculation of this non-GAAP measure based upon operating earnings is useful, see such paragraph.

For purposes of the calculations of diluted book value per share before accumulated other comprehensive income and loss and the corporate debt to total capitalization ratio before accumulated other comprehensive income and loss, which are non-GAAP financial measures, the effect of accumulated other comprehensive income and loss is excluded from shareholders' equity. Delphi believes that, because accumulated other comprehensive income and loss fluctuates from period to period primarily due to changes in the value of its assets resulting from fluctuations in interest rates and other market conditions, while the values of its liabilities are not similarly marked to market in determining diluted book value per share and corporate debt to total capitalization ratio (the most directly comparable GAAP measures), these non-GAAP measures are useful in analyzing Delphi's operating trends and capital structure.

Reconciliations of each of the non-GAAP measures discussed above to their most directly comparable GAAP measures are contained in the table captioned "Non-GAAP Financial Measures – Reconciliation to GAAP" on page 10.

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Financial Supplement
First Quarter 2010

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DELPHI FINANCIAL GROUP, INC.
Selected Financial Highlights
(Dollars In Thousands, Except Per Share Data)

| <u>For period ended:</u> | <u>Three Months Ended</u> | | <u>Year Ended</u> | | |
|---|---------------------------|-------------------|-------------------|-------------------|-------------------|
| | <u>03/31/2010</u> | <u>03/31/2009</u> | <u>12/31/2009</u> | <u>12/31/2008</u> | <u>12/31/2007</u> |
| Operating earnings ^(A) | \$ 47,482 | \$ 38,783 | \$ 195,007 | \$ 94,387 | \$ 167,170 |
| Per common share, assuming dilution ^(A) | 0.86 | 0.81 | 3.76 | 1.93 | 3.24 |
| Weighted average shares outstanding (diluted) | 55,457 | 48,123 | 51,811 | 48,963 | 51,579 |
| Annualized operating return on beginning shareholders' equity ^(A) | 14.0% | 18.9% | 23.8% | 8.3% | 15.3% |
| <u>At period ended:</u> | | <u>03/31/2010</u> | <u>12/31/2009</u> | <u>12/31/2008</u> | <u>12/31/2007</u> |
| Assets | | \$ 7,144,471 | \$ 6,921,375 | \$ 5,953,873 | \$ 6,094,810 |
| Corporate debt ^(B) | | 393,750 | 365,750 | 350,750 | 217,750 |
| Junior subordinated debentures | | 175,000 | 175,000 | 175,000 | 175,000 |
| Junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries | | - | - | - | 20,619 |
| Shareholders' equity | | 1,419,851 | 1,359,019 | 820,579 | 1,141,390 |
| Diluted book value per share of common stock ^(C) | | \$ 25.40 | \$ 24.42 | \$ 17.05 | \$ 23.28 |
| Diluted book value per share of common stock before accumulated other comprehensive loss ^(A) | | 25.59 | 25.02 | 24.27 | 24.07 |
| Corporate debt to total capitalization ratio ^(D) | | 19.8% | 19.3% | 26.1% | 14.0% |
| Corporate debt to total capitalization ratio before accumulated other comprehensive loss ^(A) | | 19.7% | 18.9% | 20.7% | 13.6% |

^(A) Please see page 10 for reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures.

^(B) Corporate debt as of 03/31/2010 consists of Senior Notes of \$250.0 million and \$143.8 million due in 2020 and 2033, respectively. Corporate debt as of 12/31/2009, 12/31/2008 and 12/31/2007 consist of \$143.8 million of Senior Notes due in 2033 and outstanding borrowings under the Company's revolving credit facility.

^(C) Diluted book value per share is calculated by dividing shareholders' equity, as increased by the proceeds and tax benefit from the assumed exercise of outstanding in-the-money stock options and the tax benefit from the assumed issuance of the shares underlying outstanding deferred share awards, by the number of total shares outstanding, increased by shares issued as result of such assumed option exercises and deferred share issuances. Shareholders' equity, as so increased, was \$1,465.5 million, \$1,395.3 million, \$831.2 million and \$1,253.7 million as of 03/31/2010, 12/31/2009, 12/31/2008 and 12/31/2007, respectively. The number of outstanding shares, as so increased, was 57.7 million, 57.1 million, 48.7 million and 53.9 million as of 03/31/2010, 12/31/2009, 12/31/2008 and 12/31/2007, respectively.

^(D) The corporate debt to total capitalization ratio is calculated by dividing corporate debt by the sum of corporate debt, junior subordinated debentures, junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries, and shareholders' equity.

DELPHI FINANCIAL GROUP, INC.
Quarterly Historical Operating Results by Product Category
(Dollars in Thousands)

| | 03/31/2010 | 12/31/2009 | 09/30/2009 | 06/30/2009 | 03/31/2009 | 12/31/2008 | 09/30/2008 | 06/30/2008 |
|---|------------------|------------------|------------------|------------------|------------------|-------------------|--------------------|------------------|
| Premium and fee income: | | | | | | | | |
| Group employee benefit products | \$ 335,174 | \$ 335,010 | \$ 332,136 | \$ 341,396 | \$ 346,125 | \$ 345,307 | \$ 334,606 | \$ 330,585 |
| Asset accumulation products | 359 | 510 | 244 | 368 | 519 | 461 | 445 | 421 |
| Other | 12,230 | 12,745 | 10,230 | 10,681 | 11,077 | 11,030 | 9,977 | 9,768 |
| Total premium and fee income | <u>347,763</u> | <u>348,265</u> | <u>342,610</u> | <u>352,445</u> | <u>357,721</u> | <u>356,798</u> | <u>345,028</u> | <u>340,774</u> |
| Net investment income: | | | | | | | | |
| Group employee benefit products | 51,117 | 44,648 | 53,673 | 55,140 | 35,396 | 11,938 | 7,372 | 36,364 |
| Asset accumulation products | 31,238 | 28,487 | 32,531 | 35,096 | 26,982 | 8,962 | 10,073 | 22,963 |
| Other | 1,695 | 1,492 | 2,478 | 1,787 | 477 | 1,456 | 1,962 | 1,423 |
| Total investment income | <u>84,050</u> | <u>74,627</u> | <u>88,682</u> | <u>92,023</u> | <u>62,855</u> | <u>22,356</u> | <u>19,407</u> | <u>60,750</u> |
| Benefits and expenses: | | | | | | | | |
| Group employee benefit products | 315,459 | 312,094 | 311,131 | 317,765 | 322,686 | 321,943 | 308,999 | 303,607 |
| Asset accumulation products | 21,185 | 22,233 | 18,983 | 21,797 | 19,463 | 17,057 | 16,764 | 16,685 |
| Other | 21,307 | 17,101 | 20,522 | 21,507 | 19,583 | 12,815 | 18,103 | 18,146 |
| Total benefits and expenses | <u>357,951</u> | <u>351,428</u> | <u>350,636</u> | <u>361,069</u> | <u>361,732</u> | <u>351,815</u> | <u>343,866</u> | <u>338,438</u> |
| Operating income (loss): | | | | | | | | |
| Group employee benefit products | 70,832 | 67,564 | 74,678 | 78,771 | 58,835 | 35,302 | 32,979 | 63,342 |
| Asset accumulation products | 10,412 | 6,764 | 13,792 | 13,667 | 8,038 | (7,634) | (6,246) | 6,699 |
| Other | (7,382) | (2,864) | (7,814) | (9,039) | (8,029) | (329) | (6,164) | (6,955) |
| | <u>73,862</u> | <u>71,464</u> | <u>80,656</u> | <u>83,399</u> | <u>58,844</u> | <u>27,339</u> | <u>20,569</u> | <u>63,086</u> |
| Net realized investment losses | (15,106) | (47,614) | (50,459) | (27,471) | (21,999) | (28,502) | (33,740) | (19,499) |
| Loss on redemption of junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries | - | - | - | - | - | - | (598) | - |
| Operating income (loss) | <u>\$ 58,756</u> | <u>\$ 23,850</u> | <u>\$ 30,197</u> | <u>\$ 55,928</u> | <u>\$ 36,845</u> | <u>\$ (1,163)</u> | <u>\$ (13,769)</u> | <u>\$ 43,587</u> |

DELPHI FINANCIAL GROUP, INC.
Consolidated Statements of Income
Group Employee Benefit Products
(Dollars in Thousands)

| | Three Months Ended | | Year Ended | | |
|---|--------------------|------------------|-------------------|-------------------|-------------------|
| | 03/31/2010 | 03/31/2009 | 12/31/2009 | 12/31/2008 | 12/31/2007 |
| Revenue: | | | | | |
| Premium income: | | | | | |
| Core products: | | | | | |
| Disability, principally long-term Life | \$ 134,427 | \$ 146,393 | \$ 560,361 | \$ 572,630 | \$ 527,500 |
| Excess workers' compensation | 97,920 | 103,657 | 393,173 | 402,928 | 364,771 |
| Assumed workers' compensation and casualty reinsurance ^(A) | 68,005 | 67,812 | 277,485 | 264,244 | 276,252 |
| Limited benefit health insurance | 11,417 | 6,610 | 34,168 | 22,369 | 17,614 |
| Accident and dental | 9,894 | 7,351 | 31,987 | 24,698 | 16,276 |
| | <u>11,670</u> | <u>12,404</u> | <u>49,029</u> | <u>45,507</u> | <u>43,135</u> |
| Non-core products | 333,333 | 344,227 | 1,346,203 | 1,332,376 | 1,245,548 |
| | <u>1,841</u> | <u>1,898</u> | <u>8,464</u> | <u>10,647</u> | <u>22,044</u> |
| | <u>335,174</u> | <u>346,125</u> | <u>1,354,667</u> | <u>1,343,023</u> | <u>1,267,592</u> |
| Net investment income | 51,117 | 35,396 | 188,857 | 71,230 | 163,701 |
| | <u>386,291</u> | <u>381,521</u> | <u>1,543,524</u> | <u>1,414,253</u> | <u>1,431,293</u> |
| Benefits and expenses: | | | | | |
| Benefits, claims and interest credited to policyholders | 229,851 | 240,209 | 927,875 | 933,215 | 890,918 |
| Commissions | 23,129 | 23,623 | 95,953 | 90,642 | 85,861 |
| Amortization of cost of business acquired | 22,428 | 21,165 | 90,792 | 81,961 | 72,725 |
| Other operating expenses | 40,051 | 37,689 | 149,056 | 132,362 | 122,302 |
| | <u>315,459</u> | <u>322,686</u> | <u>1,263,676</u> | <u>1,238,180</u> | <u>1,171,806</u> |
| Operating income | <u>\$ 70,832</u> | <u>\$ 58,835</u> | <u>\$ 279,848</u> | <u>\$ 176,073</u> | <u>\$ 259,487</u> |
| Production (new annualized gross premium): | | | | | |
| Core products: | | | | | |
| Disability, principally long-term ^(B) | \$ 16,888 | \$ 20,342 | \$ 109,409 | \$ 134,215 | \$ 135,375 |
| Life | 12,936 | 11,799 | 70,526 | 94,681 | 87,210 |
| Excess workers' compensation ^(C) | 13,388 | 15,125 | 45,251 | 25,832 | 30,092 |
| Assumed workers' compensation and casualty reinsurance ^(A) | 5,082 | 6,894 | 17,226 | 12,103 | 6,742 |
| Limited benefit health insurance | 6,098 | 6,146 | 20,141 | 12,530 | 17,779 |
| Accident and dental | 4,088 | 8,327 | 30,282 | 34,415 | 25,883 |
| | <u>58,480</u> | <u>68,633</u> | <u>292,835</u> | <u>313,776</u> | <u>303,081</u> |
| Non-core products | 1,438 | 1,586 | 6,468 | 10,260 | 9,825 |
| Total production | <u>\$ 59,918</u> | <u>\$ 70,219</u> | <u>\$ 299,303</u> | <u>\$ 324,036</u> | <u>\$ 312,906</u> |
| Loss ratio (percent of total premium) | 68.6% | 69.4% | 68.5% | 69.5% | 70.3% |
| Expense ratio (percent of total premium) | 25.5% | 23.8% | 24.8% | 22.7% | 22.1% |
| Combined ratio (loss and expense ratio) | 94.1% | 93.2% | 93.3% | 92.2% | 92.4% |
| Persistency ratio: | | | | | |
| Disability, principally long-term | | | 81.4% | 83.1% | 84.9% |
| Life | | | 81.2% | 84.6% | 84.4% |
| Travel accident and other | | | 81.4% | 87.8% | 87.0% |
| Renewal ratio: | | | | | |
| Excess workers' compensation | | | 92.6% | 93.1% | 87.6% |
| Assumed workers' compensation and casualty reinsurance | | | 91.4% | 80.2% | 95.2% |
| ^(A) Beginning with the three months ended 09/30/2009, this product is included in the Company's core products. Accordingly, to assist in comparability with prior periods, this product has also been included in core products for prior periods. Effective 12/31/2009, production for this product is determined by reference to the inception of a reinsurance assumed arrangement with a third party with which the Company previously had no such arrangements. Production for this product was previously determined by reference to the effectuation of a reinsurance assumed treaty with a third party, whether or not other reinsurance assumed arrangements were already in place with such third party. | | | | | |
| ^(B) Beginning with the three months ended 09/30/2009, production from the Company's turnkey disability product is included in disability production. Accordingly, to assist in comparability with prior periods, production from the turnkey disability product has also been included in disability production for prior periods. | | | | | |
| ^(C) Total excess workers' compensation production per above, less production from ERC renewal rights agreement | \$ 13,388 | \$ 15,125 | \$ 45,251 | \$ 25,832 | \$ 30,092 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,383</u> |
| Total production excluding ERC renewal rights agreement | <u>\$ 13,388</u> | <u>\$ 15,125</u> | <u>\$ 45,251</u> | <u>\$ 25,832</u> | <u>\$ 26,709</u> |

DELPHI FINANCIAL GROUP, INC.
Consolidated Statements of Income
Asset Accumulation Products
(Dollars in Thousands)

| | Three Months Ended | | Year Ended | | |
|---|--------------------|-----------------|------------------|-------------------|------------------|
| | 03/31/2010 | 03/31/2009 | 12/31/2009 | 12/31/2008 | 12/31/2007 |
| Revenue: | | | | | |
| Premium and fee income | \$ 359 | \$ 519 | \$ 1,641 | \$ 1,918 | \$ 2,666 |
| Net investment income | 31,238 | 26,982 | 123,097 | 57,923 | 98,477 |
| | <u>31,597</u> | <u>27,501</u> | <u>124,738</u> | <u>59,841</u> | <u>101,143</u> |
| Benefits and expenses: | | | | | |
| Benefits, claims and interest credited to policyholders | 15,924 | 15,180 | 61,422 | 55,285 | 52,814 |
| Commissions | 51 | 54 | 1,576 | 809 | 494 |
| Amortization of cost of business acquired | 3,142 | 2,128 | 10,614 | (1,550) | 8,497 |
| Other operating expenses | 2,068 | 2,101 | 8,864 | 8,427 | 7,827 |
| | <u>21,185</u> | <u>19,463</u> | <u>82,476</u> | <u>62,971</u> | <u>69,632</u> |
| Operating income (loss) | <u>\$ 10,412</u> | <u>\$ 8,038</u> | <u>\$ 42,262</u> | <u>\$ (3,130)</u> | <u>\$ 31,511</u> |
| | | | | | |
| Sales | \$ 38,783 | \$ 59,673 | \$ 248,595 | \$ 245,117 | \$ 107,145 |
| Funds under management (at end of period) | \$1,440,864 | \$ 1,318,141 | \$ 1,425,442 | \$ 1,327,502 | \$ 1,053,221 |

DELPHI FINANCIAL GROUP, INC.
Consolidated Statements of Income
Total Operations
(Dollars in Thousands, Except Per Share Data)

| | Three Months Ended | |
|---|--------------------|------------|
| | 03/31/2010 | 03/31/2009 |
| Revenue: | | |
| Premium and fee income | \$ 347,763 | \$ 357,721 |
| Net investment income | 84,050 | 62,855 |
| Net realized investment losses: | | |
| Total other than temporary impairment losses | (27,273) | (17,608) |
| Portion of other than temporary impairment losses recognized in other comprehensive income | 4,275 | - |
| Net impairment losses recognized in earnings | (22,998) | (17,608) |
| Other net realized investment gains (losses) | 7,892 | (4,391) |
| Net realized investment losses | (15,106) | (21,999) |
| Total revenue | 416,707 | 398,577 |
| Benefits and expenses: | | |
| Benefits, claims and interest credited to policyholders | 246,321 | 255,598 |
| Commissions and expenses | 111,630 | 106,134 |
| | 357,951 | 361,732 |
| Operating income | 58,756 | 36,845 |
| Interest expense: | | |
| Corporate debt | 7,323 | 3,985 |
| Junior subordinated debentures | 3,241 | 3,240 |
| Income tax expense | 10,529 | 5,136 |
| Net income | \$ 37,663 | \$ 24,484 |
| Basic results per share of common stock: | | |
| Net income | \$ 0.68 | \$ 0.51 |
| Weighted average shares outstanding | 55,160 | 48,034 |
| Diluted results per share of common stock: | | |
| Net income | \$ 0.68 | \$ 0.51 |
| Weighted average shares outstanding | 55,457 | 48,123 |
| Dividends paid per share of common stock | \$ 0.10 | \$ 0.10 |

DELPHI FINANCIAL GROUP, INC.
Summarized Consolidated Balance Sheets
(Dollars In Thousands)

| | <u>03/31/2010</u> | <u>12/31/2009</u> |
|---|---------------------|---------------------|
| Assets: | | |
| Investments: | | |
| Fixed maturity securities, available for sale | \$ 5,107,812 | \$ 4,875,681 |
| Short-term investments | 420,292 | 406,782 |
| Other investments | <u>441,613</u> | <u>466,855</u> |
| | 5,969,717 | 5,749,318 |
| Cash | 61,783 | 65,464 |
| Cost of business acquired | 238,437 | 250,311 |
| Reinsurance receivables | 360,429 | 355,030 |
| Goodwill | 93,929 | 93,929 |
| Other assets | 304,899 | 293,835 |
| Assets held in separate account | <u>115,277</u> | <u>113,488</u> |
| Total assets | <u>\$ 7,144,471</u> | <u>\$ 6,921,375</u> |
| Liabilities and Equity: | | |
| Policy liabilities and accruals | \$ 2,858,603 | \$ 2,803,189 |
| Policyholder account balances | 1,469,397 | 1,454,114 |
| Corporate debt | 393,750 | 365,750 |
| Junior subordinated debentures | 175,000 | 175,000 |
| Other liabilities and policyholder funds | 711,035 | 647,269 |
| Liabilities related to separate account | <u>115,277</u> | <u>113,488</u> |
| Total liabilities | <u>5,723,062</u> | <u>5,558,810</u> |
| Equity: | | |
| Class A Common Stock | 561 | 560 |
| Class B Common Stock | 60 | 60 |
| Additional paid-in capital | 667,727 | 661,895 |
| Accumulated other comprehensive loss | (11,096) | (33,956) |
| Retained earnings | 959,845 | 927,706 |
| Treasury stock, at cost | <u>(197,246)</u> | <u>(197,246)</u> |
| Total shareholders' equity | 1,419,851 | 1,359,019 |
| Noncontrolling interest | <u>1,558</u> | <u>3,546</u> |
| Total equity | <u>1,421,409</u> | <u>1,362,565</u> |
| Total liabilities and equity | <u>\$ 7,144,471</u> | <u>\$ 6,921,375</u> |

DELPHI FINANCIAL GROUP, INC.
Consolidated Statements of Cash Flows
(Dollars In Thousands)

| | Three Months Ended | |
|--|--------------------|------------|
| | 03/31/2010 | 03/31/2009 |
| Operating activities: | | |
| Net income | \$ 37,663 | \$ 24,484 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Change in policy liabilities and policyholder accounts | 94,640 | 99,523 |
| Net change in reinsurance receivables and payables | (7,428) | (7,086) |
| Amortization, principally the cost of business acquired and investments | 15,413 | 13,543 |
| Deferred costs of business acquired | (30,901) | (34,392) |
| Net realized losses on investments | 15,106 | 21,999 |
| Net change in federal income tax asset/liability | 9,755 | 4,114 |
| Other | (32,743) | (30,969) |
| Net cash provided by operating activities | 101,505 | 91,216 |
| Investing activities: | | |
| Purchases of investments and loans made | (435,672) | (207,901) |
| Sales of investments and receipts from repayment of loans | 165,711 | 77,696 |
| Maturities of investments | 139,323 | 261,307 |
| Net change in short-term investments | (13,510) | (207,968) |
| Change in deposit in separate account | - | 4,845 |
| Net cash used by investing activities | (144,148) | (72,021) |
| Financing activities: | | |
| Deposits to policyholder accounts | 40,332 | 61,681 |
| Withdrawals from policyholder accounts | (26,138) | (70,938) |
| Proceeds from issuance of 2020 Senior Notes | 250,000 | - |
| Borrowings under revolving credit facility | - | 17,000 |
| Principal payments under revolving credit facility | (222,000) | (2,000) |
| Cash dividends paid on common stock | (5,524) | (5,302) |
| Other financing activities | 2,292 | 816 |
| Net cash provided by financing activities | 38,962 | 1,257 |
| (Decrease) increase in cash | (3,681) | 20,452 |
| Cash at beginning of period | 65,464 | 63,837 |
| Cash at end of period | \$ 61,783 | \$ 84,289 |

DELPHI FINANCIAL GROUP, INC.
Analysis of Cost of Business Acquired
(Dollars in Thousands)

| | Group Employee Benefit Products | Asset Accumulation Products ^(A) | Total |
|---|--|--|-------------------|
| Balance as of December 31, 2005 | \$ 187,541 | \$ 60,597 | \$ 248,138 |
| Deferred | 92,449 | 7,811 | 100,260 |
| Amortized | (70,560) | (10,208) | (80,768) |
| Equity adjustment | - | 290 | 290 |
| Balance as of December 31, 2006 | 209,430 | 58,490 | 267,920 |
| Cumulative effect adjustment ^(B) | (127,004) | - | (127,004) |
| Balance as of January 1, 2007 | 82,426 | 58,490 | 140,916 |
| Deferred | 101,284 | 7,290 | 108,574 |
| Amortized | (72,725) | (8,497) | (81,222) |
| Equity adjustment | - | 6,162 | 6,162 |
| Balance as of December 31, 2007 | 110,985 | 63,445 | 174,430 |
| Deferred | 110,675 | 13,854 | 124,529 |
| Amortized | (81,961) | 1,550 | (80,411) |
| Equity adjustment | - | 46,229 | 46,229 |
| Balance as of December 31, 2008 | 139,699 | 125,078 | 264,777 |
| Deferred | 107,427 | 15,725 | 123,152 |
| Amortized | (90,792) | (10,614) | (101,406) |
| Equity adjustment | - | (36,212) | (36,212) |
| Balance as of December 31, 2009 | 156,334 | 93,977 | 250,311 |
| Deferred | 27,780 | 3,121 | 30,901 |
| Amortized | (22,428) | (3,142) | (25,570) |
| Equity adjustment | - | (17,205) | (17,205) |
| Balance as of March 31, 2010 | <u>\$ 161,686</u> | <u>\$ 76,751</u> | <u>\$ 238,437</u> |

^(A) The equity adjustment reflects increases or decreases in cost of business acquired in relation to changes in unrealized gains or losses on fixed maturity securities available for sale, which are reported as a separate component of equity.

^(B) The cumulative effect adjustment represents the decrease in cost of business acquired as a result of the Company's adoption of certain provision of Accounting Standards Codification Subtopic 944-30, "Financial Services - Insurance - Acquisition Costs." This adjustment also resulted in a corresponding decrease to beginning retained earnings of \$82.6 million, net of the related tax benefit of \$44.4 million.

DELPHI FINANCIAL GROUP, INC.
Certain Investment Portfolio Data
As of March 31, 2010
(Dollars in Thousands)

| Sub-Prime Residential Mortgage Backed Securities - Carrying Value | | | | | | | | |
|---|------------------|------------------|-----------------|-----------------|---------------|-------------------------------|------------------|---------------|
| Vintage | Aaa | Aa | A | Baa | Ba | B and Below ^(A) | Total | % of Total |
| 2001 & Prior | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | 0% |
| 2002 | - | - | - | - | - | - | - | 0% |
| 2003 | 9,281 | - | - | - | - | - | 9,281 | 16% |
| 2004 | 13,940 | - | 828 | 3,925 | 677 | 52 | 19,422 | 34% |
| 2005 | 8,150 | 15,911 | 471 | - | - | - | 24,532 | 43% |
| 2006 | - | 77 | - | 3,624 | - | 59 | 3,760 | 7% |
| 2007 | - | - | - | - | - | 270 | 270 | 0% |
| 2008 | - | - | - | - | - | - | - | 0% |
| 2009 | - | - | - | - | - | - | - | 0% |
| 2010 | - | - | - | - | - | - | - | 0% |
| Total | \$ 31,371 | \$ 15,988 | \$ 1,299 | \$ 7,549 | \$ 677 | \$ 381 | \$ 57,265 | 100% |
| % of Total | 55% | 28% | 2% | 13% | 1% | 1% | 100% | |

| Alt-A Residential Mortgage Backed Securities - Carrying Value | | | | | | | | |
|---|------------------|------------------|-----------------|------------------|-----------------|-------------------------------|-------------------|---------------|
| Vintage | Aaa | Aa | A | Baa | Ba | B and Below ^(B) | Total | % of Total |
| 2001 & Prior | \$ 2,033 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,033 | 1% |
| 2002 | 395 | - | - | - | - | - | 395 | 0% |
| 2003 | 44,414 | - | - | - | - | 3,795 | 48,209 | 15% |
| 2004 | 15,913 | 930 | 138 | 852 | 16 | 1,968 | 19,817 | 6% |
| 2005 | 2,663 | 15,951 | - | 1,090 | 114 | 37,932 | 57,750 | 17% |
| 2006 | 11,859 | 32 | 6,950 | 9,168 | 1,225 | 67,170 | 96,404 | 29% |
| 2007 | - | - | - | 9 | - | 106,542 | 106,551 | 32% |
| 2008 | - | - | - | - | - | - | - | 0% |
| 2009 | - | - | - | - | - | - | - | 0% |
| 2010 | - | - | - | - | - | - | - | 0% |
| Total | \$ 77,277 | \$ 16,913 | \$ 7,088 | \$ 11,119 | \$ 1,355 | \$ 217,407 | \$ 331,159 | 100% |
| % of Total | 24% | 5% | 2% | 3% | 0% | 66% | 100% | |

| Commercial Mortgage Backed Securities - Carrying Value | | | | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|---------------|
| Vintage | Aaa | Aa | A | Baa | Ba | B and Below | Total | % of Total |
| 2001 & Prior | \$ 3,734 | \$ 4,678 | \$ 3,960 | \$ - | \$ - | \$ - | \$ 12,372 | 47% |
| 2002 | 3,612 | 516 | - | 2,184 | 2,916 | - | 9,228 | 35% |
| 2003 | - | - | - | - | - | - | - | 0% |
| 2004 | - | - | - | - | - | - | - | 0% |
| 2005 | - | - | - | - | - | 115 | 115 | 0% |
| 2006 | - | - | - | - | - | 129 | 129 | 0% |
| 2007 | - | - | - | - | 928 | 1,075 | 2,003 | 8% |
| 2008 | 1,553 | - | - | 652 | - | 244 | 2,449 | 9% |
| 2009 | - | - | - | - | - | - | - | 0% |
| 2010 | - | - | - | - | - | - | - | 0% |
| Total | \$ 8,899 | \$ 5,194 | \$ 3,960 | \$ 2,836 | \$ 3,844 | \$ 1,563 | \$ 26,296 | 100% |
| % of Total | 34% | 20% | 15% | 11% | 15% | 5% | 100% | |

| Municipal Securities - Underlying Issuer Rating - Carrying Value | | | | | | | | |
|--|-------------------|-------------------|-------------------|------------------|------------------|-----------------------------|---------------------|---------------|
| | Aaa | Aa | A | Baa | Ba and Below | Not Rated ^(C) | Total | % of Total |
| Insured | \$ 408,767 | \$ 390,495 | \$ 291,698 | \$ 36,487 | \$ 8,669 | \$ 84,689 | \$ 1,220,805 | 64% |
| Uninsured | 135,284 | 280,744 | 216,928 | 42,096 | 1,554 | - | 676,606 | 36% |
| Total | \$ 544,051 | \$ 671,239 | \$ 508,626 | \$ 78,583 | \$ 10,223 | \$ 84,689 | \$ 1,897,411 | 100% |
| % of Total | 29% | 35% | 27% | 4% | 1% | 4% | 100% | |

^(A) Includes \$310 of securities with an NAIC designation of 1 or 2.

^(B) Includes \$190,178 of securities with an NAIC designation of 1 or 2.

^(C) Includes \$61,930 of securities to which an investment grade rating has been assigned by an NRSRO but whose issuers are not rated by any NRSRO.

DELPHI FINANCIAL GROUP, INC.
Non-GAAP Financial Measures
Reconciliation to GAAP
(Dollars In Thousands, Except Per Share Data)

| Income Statement Data | Three Months Ended | | Year Ended | | |
|--|--------------------|------------------|------------------|------------------|-------------------|
| | 03/31/2010 | 03/31/2009 | 12/31/2009 | 12/31/2008 | 12/31/2007 |
| Operating earnings | \$ 47,482 | \$ 38,783 | \$ 195,007 | \$ 94,387 | \$ 167,170 |
| Net realized investment losses ^(A) | (9,819) | (14,299) | (95,903) | (57,315) | (1,233) |
| Loss on redemption of junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries ^(B) | - | - | - | (389) | (1,425) |
| Net income (GAAP measure) | <u>\$ 37,663</u> | <u>\$ 24,484</u> | <u>\$ 99,104</u> | <u>\$ 36,683</u> | <u>\$ 164,512</u> |
| Diluted results per share of common stock: | | | | | |
| Operating earnings | \$ 0.86 | \$ 0.81 | \$ 3.76 | \$ 1.93 | \$ 3.24 |
| Net realized investment losses ^(A) | (0.18) | (0.30) | (1.85) | (1.17) | (0.02) |
| Loss on redemption of junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries ^(B) | - | - | - | (0.01) | (0.03) |
| Net income (GAAP measure) | <u>\$ 0.68</u> | <u>\$ 0.51</u> | <u>\$ 1.91</u> | <u>\$ 0.75</u> | <u>\$ 3.19</u> |
| Annualized operating return on beginning shareholders' equity | 14.0% | 18.9% | 23.8% | 8.3% | 15.3% |
| Annualized net income return on beginning shareholders' equity (GAAP measure) | 11.1% | 11.9% | 12.1% | 3.2% | 15.1% |

(A) Net of an income tax benefit of \$5.3 million, \$7.7 million, \$51.6 million, \$30.9 million and \$0.7 million, or \$0.10 per diluted share, \$0.16 per diluted share, \$1.00 per diluted share, \$0.63 per diluted share and \$0.01 per diluted share for the three months ended 03/31/2010 and 03/31/2009, and the full year ended 12/31/2009, 12/31/2008 and 12/31/2007, respectively. The tax effect is calculated using the Company's statutory tax rate of 35%.

(B) Net of an income tax benefit of \$0.2 million and \$0.8 million, or \$0.00 per diluted share and \$0.01 per diluted share for the full year ended 12/31/2008 and 12/31/2007, respectively. The tax effect is calculated using the Company's statutory tax rate of 35%.

| Balance Sheet Data | 03/31/10 | 12/31/2009 | 12/31/2008 | 12/31/2007 |
|---|---------------------|---------------------|-------------------|---------------------|
| Shareholders' equity, excluding accumulated other comprehensive loss | \$ 1,430,947 | \$ 1,392,975 | \$ 1,172,289 | \$ 1,183,887 |
| Add: Accumulated other comprehensive loss | (11,096) | (33,956) | (351,710) | (42,497) |
| Shareholders' equity (GAAP measure) | <u>\$ 1,419,851</u> | <u>\$ 1,359,019</u> | <u>\$ 820,579</u> | <u>\$ 1,141,390</u> |
| Diluted book value per share of common stock, excluding accumulated other comprehensive loss | \$ 25.59 | \$ 25.02 | \$ 24.27 | \$ 24.07 |
| Add: Accumulated other comprehensive loss | (0.19) | (0.60) | (7.22) | (0.79) |
| Diluted book value per share of common stock (GAAP measure) | <u>\$ 25.40</u> | <u>\$ 24.42</u> | <u>\$ 17.05</u> | <u>\$ 23.28</u> |
| Corporate debt to total capitalization ratio, excluding accumulated other comprehensive loss | | 19.7% | 18.9% | 20.7% |
| Corporate debt to total capitalization ratio (GAAP measure) | | 19.8% | 19.3% | 26.1% |