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**FINANCIAL  
SUPPLEMENT**

**SECOND QUARTER 2010**

# DELPHI FINANCIAL GROUP, INC.

## Financial Supplement

### Second Quarter 2010

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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](http://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 July 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 net income attributable to shareholders excluding after-tax realized investment gains and losses, losses on redemptions of senior notes and junior subordinated deferrable interest debentures and results from discontinued operations, as applicable. The Company believes that because these excluded items arise from events that are largely within management's discretion and whose fluctuations can distort comparisons between periods, a measure excluding their impact is useful in analyzing the Company's operating trends. Investment gains or losses are realized based on management's decision to dispose of an investment, and investment losses are realized based on management's judgment that a decline in the market value of an investment is other than temporary. Redemptions of senior notes and junior subordinated deferrable interest debentures occur based on management's decision to effect these redemptions. Discontinued operations result from management's decision to exit or sell a particular business. Thus, these excluded items 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 their effects. For these reasons, management uses the measure of operating earnings to assess performance and make operating plans and decisions, and the Company believes that analysts and investors typically utilize measures of this type as one element of their evaluations of insurers' financial performance. However, gains or losses from the excluded items, particularly as to investments, can occur frequently and should not be considered as nonrecurring items. Further, operating earnings should not be considered a substitute for net income attributable to shareholders, 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 captions in other companies' financial statements. For reconciliations of the respective operating earnings amounts to the corresponding net income attributable to shareholders amounts for the indicated periods, see the table captioned "Non-GAAP Financial Measures – Reconciliation to GAAP" which follows. 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 attributable to shareholders), 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.

**DELPHI FINANCIAL GROUP, INC.**  
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**Second Quarter 2010**

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<u>Table of Contents</u>	<u>Page</u>
Selected Financial Highlights .....	1
Quarterly Historical Operating Results by Product Category.....	2
Consolidated Statements of Income:	
Group Employee Benefit Products .....	3
Asset Accumulation Products .....	4
Total Operations .....	5
Consolidated Balance Sheets .....	6
Consolidated Statements of Cash Flows.....	7
Analysis of Cost of Business Acquired.....	8
Investment Portfolio Data .....	9
Reconciliation to GAAP.....	10

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

<u>For period ended attributable to shareholders:</u>	<u>Three Months Ended</u>		<u>Six Months Ended</u>		<u>Year Ended</u>	
	<u>06/30/2010</u>	<u>06/30/2009</u>	<u>06/30/2010</u>	<u>06/30/2009</u>	<u>12/31/2009</u>	<u>12/31/2008</u>
Operating earnings <sup>(A)</sup>	\$ 46,107	\$ 54,864	\$ 93,589	\$ 93,647	\$ 195,007	\$ 94,387
Per common share, assuming dilution <sup>(A)</sup>	0.83	1.09	1.68	1.90	3.76	1.93
Weighted average shares outstanding (diluted)	55,765	50,343	55,611	49,233	51,811	48,963
Annualized operating return on beginning shareholders' equity <sup>(A)</sup>	13.0%	25.5%	13.8%	22.8%	23.8%	8.3%
<u>At period ended:</u>			<u>06/30/2010</u>		<u>12/31/2009</u>	<u>12/31/2008</u>
Assets			\$ 7,285,884		\$ 6,921,375	\$ 5,953,873
Corporate debt <sup>(B)</sup>			388,750		365,750	350,750
Junior subordinated debentures			175,000		175,000	175,000
Shareholders' equity			1,498,970		1,359,019	820,579
Diluted book value per share of common stock <sup>(C)</sup>			\$ 26.74		\$ 24.42	\$ 17.05
Diluted book value per share of common stock before accumulated other comprehensive income (loss) <sup>(A)</sup>			26.16		25.02	24.27
Corporate debt to total capitalization ratio <sup>(D)</sup>			18.8%		19.3%	26.1%
Corporate debt to total capitalization ratio before accumulated other comprehensive income (loss) <sup>(A)</sup>			19.2%		18.9%	20.7%

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

<sup>(B)</sup> Corporate debt as of 06/30/2010 consists of Senior Notes of \$250.0 million and \$138.8 million due in 2020 and 2033, respectively. Corporate debt as of 12/31/2009 and 12/31/2008 consist of \$143.8 million of Senior Notes due in 2033 and outstanding borrowings under the Company's revolving credit facility.

<sup>(C)</sup> 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 \$1,542.8 million, \$1,395.3 million and \$831.2 million as of 06/30/2010, 12/31/2009 and 12/31/2008, respectively. The number of outstanding shares, as so increased, was 57.7 million, 57.1 million and 48.7 million as of 06/30/2010, 12/31/2009 and 12/31/2008, respectively.

<sup>(D)</sup> The corporate debt to total capitalization ratio is calculated by dividing corporate debt by the sum of corporate debt, junior subordinated debentures and shareholders' equity.

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

	06/30/2010	03/31/2010	12/31/2009	09/30/2009	06/30/2009	03/31/2009	12/31/2008	09/30/2008
Premium and fee income:								
Group employee benefit products	\$ 340,072	\$ 335,174	\$ 335,010	\$ 332,136	\$ 341,396	\$ 346,125	\$ 345,307	\$ 334,606
Asset accumulation products	474	359	510	244	368	519	461	445
Other	12,020	12,230	12,745	10,230	10,681	11,077	11,030	9,977
Total premium and fee income	<u>352,566</u>	<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>
Net investment income:								
Group employee benefit products	46,800	51,117	44,648	53,673	55,140	35,396	11,938	7,372
Asset accumulation products	30,016	31,238	28,487	32,531	35,096	26,982	8,962	10,073
Other	1,418	1,695	1,492	2,478	1,787	477	1,456	1,962
Total investment income	<u>78,234</u>	<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>
Benefits and expenses:								
Group employee benefit products	318,029	315,459	312,094	311,131	317,765	322,686	321,943	308,999
Asset accumulation products	19,174	21,185	22,233	18,983	21,797	19,463	17,057	16,764
Other	20,429	21,307	17,101	20,522	21,507	19,583	12,815	18,103
Total benefits and expenses	<u>357,632</u>	<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>
Operating income (loss) attributable to shareholders:								
Group employee benefit products	68,843	70,832	67,564	74,678	78,771	58,835	35,302	32,979
Asset accumulation products	11,316	10,412	6,764	13,792	13,667	8,038	(7,634)	(6,246)
Other	(6,991)	(7,382)	(2,864)	(7,814)	(9,039)	(8,029)	(329)	(6,164)
	<u>73,168</u>	<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>
Net realized investment losses	(13,874)	(15,106)	(47,614)	(50,459)	(27,471)	(21,999)	(28,502)	(33,740)
Loss on redemption of senior notes and junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries	(212)	-	-	-	-	-	-	(598)
Operating income (loss) attributable to shareholders	<u>\$ 59,082</u>	<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>

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

	Three Months Ended		Six Months Ended		Year Ended	
	06/30/2010	06/30/2009	06/30/2010	06/30/2009	12/31/2009	12/31/2008
Revenue:						
Premium income:						
Core products:						
Disability, principally long-term	\$ 136,674	\$ 140,777	\$ 271,101	\$ 287,170	\$ 560,361	\$ 572,630
Life	95,928	100,653	193,848	204,310	393,173	402,928
Excess workers' compensation	70,827	69,008	138,832	136,820	277,485	264,244
Assumed workers' compensation and casualty reinsurance <sup>(A)</sup>	11,947	8,476	23,364	15,086	34,168	22,369
Limited benefit health insurance	10,096	7,683	19,990	15,034	31,987	24,698
Accident and dental	12,257	12,774	23,927	25,178	49,029	45,507
	<u>337,729</u>	<u>339,371</u>	<u>671,062</u>	<u>683,598</u>	<u>1,346,203</u>	<u>1,332,376</u>
Non-core products	2,343	2,025	4,184	3,923	8,464	10,647
	<u>340,072</u>	<u>341,396</u>	<u>675,246</u>	<u>687,521</u>	<u>1,354,667</u>	<u>1,343,023</u>
Net investment income	46,800	55,140	97,917	90,536	188,857	71,230
	<u>386,872</u>	<u>396,536</u>	<u>773,163</u>	<u>778,057</u>	<u>1,543,524</u>	<u>1,414,253</u>
Benefits and expenses:						
Benefits, claims and interest credited to policyholders	229,721	235,700	459,572	475,909	927,875	933,215
Commissions	25,100	23,296	48,229	46,919	95,953	90,642
Amortization of cost of business acquired	23,851	22,832	46,279	43,997	90,792	81,961
Other operating expenses	39,357	35,937	79,408	73,626	149,056	132,362
	<u>318,029</u>	<u>317,765</u>	<u>633,488</u>	<u>640,451</u>	<u>1,263,676</u>	<u>1,238,180</u>
Operating income (loss) attributable to shareholders:	<u>\$ 68,843</u>	<u>\$ 78,771</u>	<u>\$ 139,675</u>	<u>\$ 137,606</u>	<u>\$ 279,848</u>	<u>\$ 176,073</u>
Production (new annualized gross premium):						
Core products:						
Disability, principally long-term <sup>(B)</sup>	\$ 23,718	\$ 24,150	\$ 40,606	\$ 44,492	\$ 109,409	\$ 134,215
Life	19,728	11,346	32,664	23,145	70,526	94,681
Excess workers' compensation	6,302	10,204	19,689	25,329	45,251	25,832
Assumed workers' compensation and casualty reinsurance <sup>(A)</sup>	3,385	1,808	8,468	8,702	17,226	12,103
Limited benefit health insurance	3,089	3,358	9,187	9,504	20,141	12,530
Accident and dental	5,985	6,736	10,073	15,063	30,282	34,415
	<u>62,207</u>	<u>57,602</u>	<u>120,687</u>	<u>126,235</u>	<u>292,835</u>	<u>313,776</u>
Non-core products	2,007	2,126	3,445	3,712	6,468	10,260
Total production	<u>\$ 64,214</u>	<u>\$ 59,728</u>	<u>\$ 124,132</u>	<u>\$ 129,947</u>	<u>\$ 299,303</u>	<u>\$ 324,036</u>
Loss ratio (percent of total premium)	67.6%	69.0%	68.1%	69.2%	68.5%	69.5%
Expense ratio (percent of total premium)	25.9%	24.1%	25.7%	24.0%	24.8%	22.7%
Combined ratio (loss and expense ratio)	93.5%	93.1%	93.8%	93.2%	93.3%	92.2%
Persistency ratio:						
Disability, principally long-term					81.4%	83.1%
Life					81.2%	84.6%
Travel accident and other					81.4%	87.8%
Renewal ratio:						
Excess workers' compensation					92.6%	93.1%
Assumed workers' compensation and casualty reinsurance					91.4%	80.2%

<sup>(A)</sup> 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.

<sup>(B)</sup> 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.

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

	Three Months Ended		Six Months Ended		Year Ended	
	06/30/2010	06/30/2009	06/30/2010	06/30/2009	12/31/2009	12/31/2008
Revenue:						
Premium and fee income	\$ 474	\$ 368	\$ 833	\$ 887	\$ 1,641	\$ 1,918
Net investment income	30,016	35,096	61,254	62,078	123,097	57,923
	<u>30,490</u>	<u>35,464</u>	<u>62,087</u>	<u>62,965</u>	<u>124,738</u>	<u>59,841</u>
Benefits and expenses:						
Benefits, claims and interest credited to policyholders	14,476	15,757	30,400	30,937	61,422	55,285
Commissions	386	402	437	456	1,576	809
Amortization of cost of business acquired	2,316	3,352	5,458	5,480	10,614	(1,550)
Other operating expenses	1,996	2,286	4,064	4,387	8,864	8,427
	<u>19,174</u>	<u>21,797</u>	<u>40,359</u>	<u>41,260</u>	<u>82,476</u>	<u>62,971</u>
Operating income (loss) attributable to shareholders	<u>\$ 11,316</u>	<u>\$ 13,667</u>	<u>\$ 21,728</u>	<u>\$ 21,705</u>	<u>\$ 42,262</u>	<u>\$ (3,130)</u>
Sales	\$ 78,038	\$ 114,977	\$ 116,821	\$ 174,650	\$ 248,595	\$ 245,117
Funds under management (at end of period)			\$ 1,501,662	\$ 1,406,232	\$ 1,425,442	\$ 1,327,502

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

	Three Months Ended		Six Months Ended	
	06/30/2010	06/30/2009	06/30/2010	06/30/2009
Revenue:				
Premium and fee income	\$ 352,566	\$ 352,445	\$ 700,329	\$ 710,166
Net investment income	78,234	92,023	162,284	154,878
Net realized investment losses:				
Total other than temporary impairment losses	(21,659)	(45,628)	(48,932)	(63,236)
Portion of other than temporary impairment losses recognized in other comprehensive income	826	20,719	5,101	20,719
Net impairment losses recognized in earnings	(20,833)	(24,909)	(43,831)	(42,517)
Other net realized investment gains (losses)	6,959	(2,562)	14,851	(6,953)
Net realized investment losses	(13,874)	(27,471)	(28,980)	(49,470)
Loss on redemption of senior notes	(212)	-	(212)	-
Total revenue	416,714	416,997	833,421	815,574
Benefits and expenses:				
Benefits, claims and interest credited to policyholders	244,687	251,807	491,008	507,405
Commissions and expenses	112,937	109,142	224,502	215,281
	357,624	360,949	715,510	722,686
Operating income	59,090	56,048	117,911	92,888
Interest expense:				
Corporate debt	8,264	3,876	15,587	7,861
Junior subordinated debentures	3,248	3,241	6,489	6,481
Income tax expense	10,619	11,804	21,148	16,940
Net income	36,959	37,127	74,687	61,606
Less: Net income attributable to noncontrolling interest	8	120	73	115
Net income attributable to shareholders	\$ 36,951	\$ 37,007	\$ 74,614	\$ 61,491
Basic results per share of common stock				
Net income attributable to shareholders	\$ 0.67	\$ 0.74	\$ 1.35	\$ 1.25
Weighted average shares outstanding	55,287	50,148	55,224	49,091
Diluted results per share of common stock:				
Net income attributable to shareholders	\$ 0.66	\$ 0.74	\$ 1.34	\$ 1.25
Weighted average shares outstanding	55,765	50,343	55,611	49,233
Dividends paid per share of common stock	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.20

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

	<u>06/30/2010</u>	<u>12/31/2009</u>
Asset:		
Investments:		
Fixed maturity securities, available for sale	\$ 5,326,173	\$ 4,875,681
Short-term investments	351,093	406,782
Other investments	<u>423,303</u>	<u>466,855</u>
	6,100,569	5,749,318
Cash	67,885	65,464
Cost of business acquired	238,480	250,311
Reinsurance receivables	360,439	355,030
Goodwill	93,929	93,929
Other assets	311,050	293,835
Assets held in separate account	<u>113,532</u>	<u>113,488</u>
Total assets	<u>\$ 7,285,884</u>	<u>\$ 6,921,375</u>
Liabilities and Equity:		
Policy liabilities and accruals	\$ 2,879,074	\$ 2,803,189
Policyholder account balances	1,529,744	1,454,114
Corporate debt	388,750	365,750
Junior subordinated debentures	175,000	175,000
Other liabilities and policyholder funds	699,432	647,269
Liabilities related to separate account	<u>113,532</u>	<u>113,488</u>
Total liabilities	5,785,532	5,558,810
Equity:		
Class A Common Stock	562	560
Class B Common Stock	60	60
Additional paid-in capital	671,064	661,895
Accumulated other comprehensive income (loss)	33,264	(33,956)
Retained earnings	991,266	927,706
Treasury stock, at cost	<u>(197,246)</u>	<u>(197,246)</u>
Total shareholders' equity	1,498,970	1,359,019
Noncontrolling interest	<u>1,382</u>	<u>3,546</u>
Total equity	<u>1,500,352</u>	<u>1,362,565</u>
Total liabilities and equity	<u>\$ 7,285,884</u>	<u>\$ 6,921,375</u>

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

	Six Months Ended	
	06/30/2010	06/30/2009
Operating activities:		
Net income attributable to shareholders	\$ 74,614	\$ 61,491
Adjustments to reconcile net income attributable to shareholders to net cash provided by operating activities:		
Change in policy liabilities and policyholder accounts	84,646	137,172
Net change in reinsurance receivables and payables	(11,574)	(6,663)
Amortization, principally the cost of business acquired and investments	42,450	24,842
Deferred costs of business acquired	(57,386)	(64,079)
Net realized losses on investments	28,980	49,470
Net change in federal income taxes	(3,622)	5,228
Other	(25,398)	(15,428)
Net cash provided by operating activities	132,710	192,033
Investing activities:		
Purchases of investments and loans made	(936,660)	(668,972)
Sales of investments and receipts from repayment of loans	494,984	130,226
Maturities of investments	176,718	446,734
Net change in short-term investments	55,689	(225,154)
Change in deposit in separate account	(2,965)	4,845
Net cash used by investing activities	(212,234)	(312,321)
Financing activities:		
Deposits to policyholder accounts	122,809	180,624
Withdrawals from policyholder accounts	(54,905)	(102,969)
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)
Redemption of senior notes	(5,000)	-
Proceeds from issuance of common stock	-	51,017
Cash dividends paid on common stock	(11,054)	(10,922)
Other financing activities	2,095	2,895
Net cash provided by financing activities	81,945	135,645
Increase in cash	2,421	15,357
Cash at beginning of period	65,464	63,837
Cash at end of period	\$ 67,885	\$ 79,194

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

	Group Employee Benefit Products	Asset Accumulation Products <sup>(A)</sup>	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 <sup>(B)</sup>	(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	49,042	8,344	57,386
Amortized	(46,279)	(5,458)	(51,737)
Equity adjustment	-	(17,480)	(17,480)
Balance as of June 30, 2010	<u>\$ 159,097</u>	<u>\$ 79,383</u>	<u>\$ 238,480</u>

<sup>(A)</sup> 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.

<sup>(B)</sup> 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 June 30, 2010**  
**(Dollars in Thousands)**

The following table contains information, as of June 30, 2010, regarding the portions of the Company's investments in non-agency residential mortgage-backed securities represented by securities whose underlying mortgage loans are categorized as prime, Alt-A and subprime, respectively, and the distributions of the securities within these categories by the years in which they were issued (vintages) and the highest of their ratings from Standard & Poor's, Moody's and Fitch. All dollar amounts in this table are based upon the fair values of these securities as of June 30, 2010.

Non-Agency Prime Residential Mortgage Backed Securities - Fair Value						
Vintage	AAA	AA	A	BBB	BB and	Total
					Below <sup>(A)</sup>	
2001 and prior	\$ 2,348	\$ -	\$ -	\$ -	\$ 76	\$ 2,424
2002	8,823	1,692	3,365	-	696	14,576
2003	90,744	2,190	3,682	9,000	9,919	115,535
2004	44,753	1,346	-	2,060	9,634	57,793
2005	5,822	2,303	1,778	18,544	51,518	79,965
2006	15,060	503	-	-	27,703	43,266
2007	-	-	-	-	87,025	87,025
2008	1,103	-	-	599	-	1,702
<b>Total</b>	<b>\$ 168,653</b>	<b>\$ 8,034</b>	<b>\$ 8,825</b>	<b>\$ 30,203</b>	<b>\$ 186,571</b>	<b>\$ 402,286</b>

<sup>(A)</sup>The securities enumerated in this column include securities having a total of \$162.7 million in fair value that have received the equivalent of an investment grade rating from the National Association of Insurance Commissioners (the "NAIC") under the process initiated by the NAIC in 2009 which takes into account, among other things, the discounts at which the Company originally purchased the securities and modeling of the potential losses with respect to the securities' underlying loans.

Alt-A Residential Mortgage Backed Securities - Fair Value						
Vintage	AAA	AA	A	BBB	BB and	Total
					Below <sup>(B)</sup>	
2001 and prior	\$ -	\$ -	\$ -	\$ 2,023	\$ -	\$ 2,023
2002	383	1,999	-	-	-	2,382
2003	45,257	-	-	-	3,126	48,383
2004	19,885	920	145	706	1,939	23,595
2005	2,565	16,139	-	1,137	38,939	58,780
2006	11,072	31	6,212	9,000	65,542	91,857
2007	346	-	-	9	111,208	111,563
<b>Total</b>	<b>\$ 79,508</b>	<b>\$ 19,089</b>	<b>\$ 6,357</b>	<b>\$ 12,875</b>	<b>\$ 220,754</b>	<b>\$ 338,583</b>

<sup>(B)</sup>The securities enumerated in this column include securities having a total of \$188.4 million in fair value that have received the equivalent of an investment grade rating from the NAIC under the process initiated by the NAIC in 2009 which takes into account, among other things, the discounts at which the Company originally purchased the securities and modeling of the potential losses with respect to the securities' underlying loans.

Sub-Prime Residential Mortgage Backed Securities - Fair Value						
Vintage	AAA	AA	A	BBB	BB and	Total
					Below <sup>(C)</sup>	
2003	\$ 9,583	\$ -	\$ -	\$ -	\$ -	\$ 9,583
2004	13,201	-	808	3,578	835	18,422
2005	8,071	16,844	472	-	-	25,387
2006	-	-	-	3,345	78	3,423
2007	-	-	-	-	391	391
<b>Total</b>	<b>\$ 30,855</b>	<b>\$ 16,844</b>	<b>\$ 1,280</b>	<b>\$ 6,923</b>	<b>\$ 1,304</b>	<b>\$ 57,206</b>

<sup>(C)</sup>The securities enumerated in this column include securities having a total of \$0.6 million in fair value that have received the equivalent of an investment grade rating from the NAIC under the process initiated by the NAIC in 2009 which takes into account, among other things, the discounts at which the Company originally purchased the securities and modeling of the potential losses with respect to the securities' underlying loans.

Commercial Mortgage Backed Securities - Fair Value						
Vintage	AAA	AA	A	BBB	BB and	Total
					Below	
2001 and prior	\$ 4,116	\$ 4,582	\$ 4,087	\$ -	\$ -	\$ 12,785
2002	3,635	534	-	2,376	3,414	9,959
2003	337	-	-	-	-	337
2004	534	-	-	-	-	534
2005	-	-	-	-	101	101
2006	2,323	-	-	-	126	2,449
2007	1,118	-	-	-	1,983	3,101
2008	1,694	-	-	701	156	2,551
2009	2,321	-	-	-	-	2,321
<b>Total</b>	<b>\$ 16,078</b>	<b>\$ 5,116</b>	<b>\$ 4,087</b>	<b>\$ 3,077</b>	<b>\$ 5,780</b>	<b>\$ 34,138</b>

Municipal Securities - Underlying Issuer Rating - Fair Value							
	AAA	AA	A	BBB	BB and	Not	Total
					Below	Rated <sup>(D)</sup>	
Insured	\$ 433,019	\$ 429,570	\$ 248,270	\$ 33,201	\$ 9,433	\$ 67,000	\$1,220,493
Uninsured	180,427	302,307	225,993	31,387	793	880	741,787
<b>Total</b>	<b>\$ 613,446</b>	<b>\$ 731,877</b>	<b>\$ 474,263</b>	<b>\$ 64,588</b>	<b>\$ 10,226</b>	<b>\$ 67,880</b>	<b>\$1,962,280</b>

<sup>(D)</sup>Includes \$45,077 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)

<b>Income Statement Data</b>	<u>Three Months Ended</u>		<u>Six Months Ended</u>		<u>Year Ended</u>	
	<u>06/30/2010</u>	<u>06/30/2009</u>	<u>06/30/2010</u>	<u>06/30/2009</u>	<u>12/31/2009</u>	<u>12/31/2008</u>
<b>Operating earnings</b>	\$ 46,107	\$ 54,864	\$ 93,589	\$ 93,647	\$ 195,007	\$ 94,387
Net realized investment losses <sup>(A)</sup>	(9,018)	(17,857)	(18,837)	(32,156)	(95,903)	(57,315)
Loss on redemption of senior notes <sup>(B)</sup>	(138)	-	(138)	-	-	(389)
<b>Net income attributable to shareholders (GAAP measure)</b>	<u>\$ 36,951</u>	<u>\$ 37,007</u>	<u>\$ 74,614</u>	<u>\$ 61,491</u>	<u>\$ 99,104</u>	<u>\$ 36,683</u>
<b>Diluted results per share of common stock attributable to shareholders:</b>						
<b>Operating earnings</b>	\$ 0.83	\$ 1.09	\$ 1.68	\$ 1.90	\$ 3.76	\$ 1.93
Net realized investment losses <sup>(A)</sup>	(0.17)	(0.35)	(0.34)	(0.65)	(1.85)	(1.17)
Loss on redemption of senior notes <sup>(B)</sup>	(0.00)	-	(0.00)	-	-	(0.01)
<b>Net income attributable to shareholders (GAAP measure)</b>	<u>\$ 0.66</u>	<u>\$ 0.74</u>	<u>\$ 1.34</u>	<u>\$ 1.25</u>	<u>\$ 1.91</u>	<u>\$ 0.75</u>
<b>Annualized operating return on beginning shareholders' equity</b>	13.0%	25.5%	13.8%	22.8%	23.8%	8.3%
<b>Annualized net income return on beginning shareholders' equity (GAAP measure)</b>	10.4%	17.3%	11.0%	15.0%	12.1%	3.4%

<sup>(A)</sup> Net of an income tax benefit of \$4.9 million, \$9.6 million, \$10.1 million, \$17.3 million, \$51.6 million and \$30.9 million, or \$0.09 per diluted share, \$0.19 per diluted share, \$0.18 per diluted share, \$0.35 per diluted share, \$1.00 per diluted share and \$0.63 per diluted share for the three and six months ended 06/30/2010 and 06/30/2009, and the full year ended 12/31/2009 and 12/31/2008, respectively. The tax effect is calculated using the Company's statutory tax rate of 35%.

<sup>(B)</sup> Net of an income tax benefit of \$0.07 million or \$0.00 per diluted share for the three and six months ended 06/30/2010 and \$0.2 million or \$0.00 per diluted share for the full year ended 12/31/2008, respectively. The tax effect is calculated using the Company's statutory tax rate of 35%.

**Balance Sheet Data**

	<u>06/30/2010</u>	<u>12/31/2009</u>	<u>12/31/2008</u>
<b>Shareholders' equity, excluding accumulated other comprehensive income (loss)</b>	\$ 1,465,706	\$ 1,392,975	\$ 1,172,289
Add: Accumulated other comprehensive income (loss)	33,264	(33,956)	(351,710)
<b>Shareholders' equity (GAAP measure)</b>	<u>\$ 1,498,970</u>	<u>\$ 1,359,019</u>	<u>\$ 820,579</u>
<b>Diluted book value per share of common stock, excluding accumulated other comprehensive income (loss)</b>	\$ 26.16	\$ 25.02	\$ 24.27
Add: Accumulated other comprehensive income (loss)	0.58	(0.60)	(7.22)
<b>Diluted book value per share of common stock (GAAP measure)</b>	<u>\$ 26.74</u>	<u>\$ 24.42</u>	<u>\$ 17.05</u>
<b>Corporate debt to total capitalization ratio, excluding accumulated other comprehensive income (loss)</b>	19.2%	18.9%	20.7%
<b>Corporate debt to total capitalization ratio (GAAP measure)</b>	18.8%	19.3%	26.1%