

**IMPORTANT NOTE:** On January 1, 2011, the Company adopted FASB Accounting Standards Update No. 2010-26 on a retrospective basis. As a result, certain financial information for prior periods was restated, including various items of information contained in this historical report. Accordingly, readers of this report should refer to the Company's Financial Supplement for the first quarter of 2011, which is available on the Company's website at [www.delphifin.com/financial/stats.html](http://www.delphifin.com/financial/stats.html), for such items of information, as restated, since this report has not been updated or revised in any manner to reflect the impacts of such restatement.

---

***DELPHI***  
Financial Group, Inc.

**3**

---

**FINANCIAL  
SUPPLEMENT**

**THIRD QUARTER 2010**

**DELPHI FINANCIAL GROUP, INC.**  
**Financial Supplement**  
**Third 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](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 October 26, 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 early retirement 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. Early retirement of senior notes and junior subordinated deferrable interest debentures occurs based on management’s decision to redeem or repurchase these notes and debentures. 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 measures utilized by other companies. For reconciliations of the respective operating earnings amounts to the corresponding net income 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.**  
**Financial Supplement**  
**Third Quarter 2010**

---

<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)

	Three Months Ended		Nine Months Ended		Year Ended	
	09/30/2010	09/30/2009	09/30/2010	09/30/2009	12/31/2009	12/31/2008
For period ended attributable to shareholders:						
Operating earnings <sup>(A)</sup>	\$ 47,806	\$ 53,621	\$ 141,395	\$ 147,268	\$ 195,007	\$ 94,387
Per common share, assuming dilution <sup>(A)</sup>	0.86	1.00	2.54	2.91	3.76	1.93
Weighted average shares outstanding (diluted)	55,800	53,385	55,674	50,617	51,811	48,963
Annualized operating return on beginning shareholders' equity <sup>(A)</sup>	12.8%	20.4%	13.9%	23.9%	23.8%	8.3%
At period ended:						
Assets						
Corporate debt <sup>(B)</sup>			\$ 7,793,784	\$ 6,921,375	\$ 5,953,873	
Junior subordinated debentures			368,750	175,000	175,000	350,750
Shareholders' equity			1,648,292	1,359,019	1,359,019	820,579
Diluted book value per share of common stock <sup>(C)</sup>			\$ 29.28	\$ 24.42	\$ 17.05	
Diluted book value per share of common stock before accumulated other comprehensive income (loss) <sup>(A)</sup>			26.89	16.8%	25.02	24.27
Corporate debt to total capitalization ratio <sup>(D)</sup>				18.0%	19.3%	26.1%
Corporate debt to total capitalization ratio before accumulated other comprehensive income (loss) <sup>(A)</sup>					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 09/30/2010 consists of Senior Notes of \$250.0 million and \$68.8 million due in 2020 and 2033, respectively, and outstanding borrowings under the Company's revolving credit facility. 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 \$1,692.4 million, \$1,395.3 million and \$831.2 million as of 09/30/2010, 12/31/2009 and 12/31/2008, respectively. The number of outstanding shares, as so increased, was 57.8 million, 57.1 million and 48.7 million as of 09/30/2010, 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)

	09/30/2010	06/30/2010	03/31/2010	12/31/2009	09/30/2009	06/30/2009	03/31/2009	12/31/2008
Premium and fee income:								
Group employee benefit products	\$ 344,625	\$ 340,072	\$ 335,174	\$ 335,010	\$ 332,136	\$ 341,396	\$ 346,125	\$ 345,307
Asset accumulation products	641	474	359	510	244	368	519	461
Other	11,753	12,020	12,230	12,745	10,230	10,681	11,077	11,030
Total premium and fee income	<u>357,019</u>	<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>
Net investment income:								
Group employee benefit products	55,351	46,800	51,117	44,648	53,673	55,140	35,396	11,938
Asset accumulation products	31,379	30,016	31,238	28,487	32,531	35,096	26,982	8,962
Other	156	1,418	1,695	1,492	2,478	1,787	477	1,456
Total investment income	<u>86,886</u>	<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>
Benefits and expenses:								
Group employee benefit products	326,905	318,029	315,459	312,094	311,131	317,765	322,686	321,943
Asset accumulation products	21,424	19,174	21,185	22,233	18,983	21,797	19,463	17,057
Other	19,865	20,429	21,307	17,101	20,522	21,507	19,583	12,815
Total benefits and expenses	<u>368,194</u>	<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>
Operating income (loss) attributable to shareholders:								
Group employee benefit products	73,071	68,843	70,832	67,564	74,678	78,771	58,835	35,302
Asset accumulation products	10,596	11,316	10,412	6,764	13,792	13,667	8,038	(7,634)
Other	(7,956)	(6,991)	(7,382)	(2,864)	(7,814)	(9,039)	(8,029)	(329)
	<u>75,711</u>	<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>
Net realized investment gains (losses)	1,192	(13,874)	(15,106)	(47,614)	(50,459)	(27,471)	(21,999)	(28,502)
Loss on early retirement of senior notes	(3,760)	(212)	-	-	-	-	-	-
Operating income (loss) attributable to shareholders	<u>\$ 73,143</u>	<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>

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

	Three Months Ended		Nine Months Ended		Year Ended	
	09/30/2010	09/30/2009	09/30/2010	09/30/2009	12/31/2009	12/31/2008
Revenue:						
Premium income:						
Core products:						
Disability, principally long-term	\$ 135,088	\$ 135,640	\$ 406,189	\$ 422,810	\$ 560,361	\$ 572,630
Life	97,933	95,822	291,781	300,132	393,173	402,928
Excess workers' compensation	74,448	68,713	213,280	205,533	277,485	264,244
Assumed workers' compensation and casualty reinsurance	13,407	10,354	36,771	25,440	34,168	22,369
Limited benefit health insurance	10,221	8,226	30,211	23,260	31,987	24,698
Accident and dental	10,469	11,085	34,396	36,263	49,029	45,507
	<u>341,566</u>	<u>329,840</u>	<u>1,012,628</u>	<u>1,013,438</u>	<u>1,346,203</u>	<u>1,332,376</u>
Non-core products	3,059	2,296	7,243	6,219	8,464	10,647
	<u>344,625</u>	<u>332,136</u>	<u>1,019,871</u>	<u>1,019,657</u>	<u>1,354,667</u>	<u>1,343,023</u>
Net investment income	55,351	53,673	153,268	144,209	188,857	71,230
	<u>399,976</u>	<u>385,809</u>	<u>1,173,139</u>	<u>1,163,866</u>	<u>1,543,524</u>	<u>1,414,253</u>
Benefits and expenses:						
Benefits, claims and interest credited to policyholders	234,625	226,371	694,197	702,280	927,875	933,215
Commissions	25,405	22,888	73,634	69,807	95,953	90,642
Amortization of cost of business acquired	27,069	24,685	73,348	68,682	90,792	81,961
Other operating expenses	39,806	37,187	119,214	110,813	149,056	132,362
	<u>326,905</u>	<u>311,131</u>	<u>960,393</u>	<u>951,582</u>	<u>1,263,676</u>	<u>1,238,180</u>
Operating income attributable to shareholders:	<u>\$ 73,071</u>	<u>\$ 74,678</u>	<u>\$ 212,746</u>	<u>\$ 212,284</u>	<u>\$ 279,848</u>	<u>\$ 176,073</u>
Production (new annualized gross premium):						
Core products:						
Disability, principally long-term	\$ 23,122	\$ 24,696	\$ 63,728	\$ 69,188	\$ 109,409	\$ 134,215
Life	17,918	10,928	50,582	34,073	70,526	94,681
Excess workers' compensation	19,307	15,674	38,996	41,003	45,251	25,832
Assumed workers' compensation and casualty reinsurance <sup>(A)</sup>	3,729	7,664	12,197	16,366	17,226	12,103
Limited benefit health insurance	2,586	6,889	11,773	16,393	20,141	12,530
Accident and dental	5,466	6,242	15,539	21,305	30,282	34,415
	<u>72,128</u>	<u>72,093</u>	<u>192,815</u>	<u>198,328</u>	<u>292,835</u>	<u>313,776</u>
Non-core products	2,292	1,381	5,737	5,093	6,468	10,260
Total production	<u>\$ 74,420</u>	<u>\$ 73,474</u>	<u>\$ 198,552</u>	<u>\$ 203,421</u>	<u>\$ 299,303</u>	<u>\$ 324,036</u>
Loss ratio (percent of total premium)	68.1%	68.2%	68.1%	68.9%	68.5%	69.5%
Expense ratio (percent of total premium)	26.8%	25.5%	26.1%	24.4%	24.8%	22.7%
Combined ratio (loss and expense ratio)	94.9%	93.7%	94.2%	93.3%	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> 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. Accordingly, prior period numbers were restated.

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

	Three Months Ended		Nine Months Ended		Year Ended	
	09/30/2010	09/30/2009	09/30/2010	09/30/2009	12/31/2009	12/31/2008
Revenue:						
Premium and fee income	\$ 641	\$ 244	\$ 1,474	\$ 1,131	\$ 1,641	\$ 1,918
Net investment income	31,379	32,531	92,633	94,609	123,097	57,923
	<u>32,020</u>	<u>32,775</u>	<u>94,107</u>	<u>95,740</u>	<u>124,738</u>	<u>59,841</u>
Benefits and expenses:						
Benefits, claims and interest credited to policyholders	15,981	14,245	46,381	45,182	61,422	55,285
Commissions	384	395	821	851	1,576	809
Amortization of cost of business acquired	3,055	2,055	8,513	7,535	10,614	(1,550)
Other operating expenses	2,004	2,288	6,068	6,675	8,864	8,427
	<u>21,424</u>	<u>18,983</u>	<u>61,783</u>	<u>60,243</u>	<u>82,476</u>	<u>62,971</u>
Operating income (loss) attributable to shareholders	<u>\$ 10,596</u>	<u>\$ 13,792</u>	<u>\$ 32,324</u>	<u>\$ 35,497</u>	<u>\$ 42,262</u>	<u>\$ (3,130)</u>
Sales	\$ 153,625	\$ 57,527	\$ 270,446	\$ 232,177	\$ 248,595	\$ 245,117
Funds under management (at end of period)			\$ 1,634,252	\$ 1,423,487	\$ 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		Nine Months Ended	
	09/30/2010	09/30/2009	09/30/2010	09/30/2009
Revenue:				
Premium and fee income	\$ 357,019	\$ 342,610	\$ 1,057,348	\$ 1,052,776
Net investment income	86,886	88,682	249,170	243,560
Net realized investment gains (losses):				
Total other than temporary impairment losses	(13,886)	(73,771)	(62,818)	(137,007)
Portion of other than temporary impairment losses recognized in other comprehensive income	7,498	21,748	12,599	42,467
Net impairment losses recognized in earnings	(6,388)	(52,023)	(50,219)	(94,540)
Other net realized investment gains (losses)	7,580	1,564	22,431	(5,389)
Net realized investment gains (losses)	1,192	(50,459)	(27,788)	(99,929)
Loss on early retirement of senior notes	(3,760)	-	(3,972)	-
Total revenue	<u>441,337</u>	<u>380,833</u>	<u>1,274,758</u>	<u>1,196,407</u>
Benefits and expenses:				
Benefits, claims and interest credited to policyholders	250,594	240,956	741,602	748,361
Commissions and expenses	117,558	109,569	342,060	324,850
	<u>368,152</u>	<u>350,525</u>	<u>1,083,662</u>	<u>1,073,211</u>
Operating income	73,185	30,308	191,096	123,196
Interest expense:				
Corporate debt	7,783	3,806	23,370	11,667
Junior subordinated debentures	3,241	3,247	9,730	9,728
Income tax expense	15,982	2,321	37,130	19,261
Net income	46,179	20,934	120,866	82,540
Less: Net income attributable to noncontrolling interest	42	111	115	226
Net income attributable to shareholders	<u>\$ 46,137</u>	<u>\$ 20,823</u>	<u>\$ 120,751</u>	<u>\$ 82,314</u>
Basic results per share of common stock				
Net income attributable to shareholders	\$ 0.83	\$ 0.39	\$ 2.18	\$ 1.63
Weighted average shares outstanding	55,404	52,947	55,284	50,376
Diluted results per share of common stock:				
Net income attributable to shareholders	\$ 0.83	\$ 0.39	\$ 2.17	\$ 1.63
Weighted average shares outstanding	55,800	53,385	55,674	50,617
Dividends paid per share of common stock	\$ 0.11	\$ 0.10	\$ 0.31	\$ 0.30

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

	<u>09/30/2010</u>	<u>12/31/2009</u>
Asset:		
Investments:		
Fixed maturity securities, available for sale	\$ 5,724,161	\$ 4,875,681
Short-term investments	360,415	406,782
Other investments	<u>476,436</u>	<u>466,855</u>
	6,561,012	5,749,318
Cash	77,248	65,464
Cost of business acquired	246,002	250,311
Reinsurance receivables	362,481	355,030
Goodwill	93,929	93,929
Other assets	335,791	293,835
Assets held in separate account	<u>117,321</u>	<u>113,488</u>
Total assets	<u>\$ 7,793,784</u>	<u>\$ 6,921,375</u>
Liabilities and Equity:		
Policy liabilities and accruals	\$ 2,912,062	\$ 2,803,189
Policyholder account balances	1,662,176	1,454,114
Corporate debt	368,750	365,750
Junior subordinated debentures	175,000	175,000
Other liabilities and policyholder funds	908,761	647,269
Liabilities related to separate account	<u>117,321</u>	<u>113,488</u>
Total liabilities	<u>6,144,070</u>	<u>5,558,810</u>
Equity:		
Class A Common Stock	563	560
Class B Common Stock	60	60
Additional paid-in capital	675,428	661,895
Accumulated other comprehensive income (loss)	138,180	(33,956)
Retained earnings	1,031,307	927,706
Treasury stock, at cost	<u>(197,246)</u>	<u>(197,246)</u>
Total shareholders' equity	1,648,292	1,359,019
Noncontrolling interest	<u>1,422</u>	<u>3,546</u>
Total equity	<u>1,649,714</u>	<u>1,362,565</u>
Total liabilities and equity	<u>\$ 7,793,784</u>	<u>\$ 6,921,375</u>

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

	Nine Months Ended	
	09/30/2010	09/30/2009
Operating activities:		
Net income attributable to shareholders	\$ 120,751	\$ 82,314
Adjustments to reconcile net income attributable to shareholders to net cash provided by operating activities:		
Change in policy liabilities and policyholder accounts	180,506	225,538
Net change in reinsurance receivables and payables	(9,657)	(4,613)
Amortization, principally the cost of business acquired and investments	65,264	38,295
Deferred costs of business acquired	(101,002)	(97,936)
Net realized losses on investments	27,788	99,929
Net change in federal income taxes	12,197	6,632
Other	(42,849)	(14,101)
Net cash provided by operating activities	252,998	336,058
Investing activities:		
Purchases of investments and loans made	(1,599,851)	(1,206,214)
Sales of investments and receipts from repayment of loans	1,057,614	177,957
Maturities of investments	70,801	637,166
Net change in short-term investments	46,367	(171,162)
Change in deposit in separate account	-	4,845
Net cash used by investing activities	(425,069)	(557,408)
Financing activities:		
Deposits to policyholder accounts	277,854	242,614
Withdrawals from policyholder accounts	(82,832)	(131,337)
Proceeds from issuance of 2020 Senior Notes	250,000	-
Borrowings under revolving credit facility	50,000	17,000
Principal payments under revolving credit facility	(222,000)	(2,000)
Early retirement of senior notes	(75,000)	-
Proceeds from issuance of common stock	-	121,121
Cash dividends paid on common stock	(17,150)	(14,767)
Other financing activities	2,983	7,151
Net cash provided by financing activities	183,855	239,782
Increase in cash	11,784	18,432
Cash at beginning of period	65,464	63,837
Cash at end of period	\$ 77,248	\$ 82,269

**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	83,253	17,749	101,002
Amortized	(73,348)	(8,513)	(81,861)
Equity adjustment	-	(23,450)	(23,450)
Balance as of September 30, 2010	<u>\$ 166,239</u>	<u>\$ 79,763</u>	<u>\$ 246,002</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 September 30, 2010**  
**(Dollars in Thousands)**

The following table contains information, as of September 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 September 30, 2010.

Vintage	Non-Agency Prime Residential Mortgage Backed Securities - Fair Value					Total
	AAA	AA	A	BBB	BB and Below <sup>(A)</sup>	
2001 and prior	\$ 2,254	\$ -	\$ -	\$ -	\$ -	\$ 2,254
2002	8,519	1,505	2,591	-	498	13,113
2003	85,508	2,133	2,949	7,159	5,956	103,705
2004	44,680	1,110	-	1,633	5,329	52,752
2005	11,332	6,215	1,784	18,667	56,995	94,993
2006	14,979	678	-	-	27,058	42,715
2007	-	-	-	-	85,408	85,408
2008	954	-	-	-	671	1,625
Total	\$ 168,226	\$ 11,641	\$ 7,324	\$ 27,459	\$ 181,915	\$ 396,565

<sup>(A)</sup> The securities enumerated in this column include securities having a total of \$169.5 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.

Vintage	Non-Agency Alt-A Residential Mortgage Backed Securities - Fair Value					Total
	AAA	AA	A	BBB	BB and Below <sup>(B)</sup>	
2001 and prior	\$ -	\$ -	\$ -	\$ 1,911	\$ -	\$ 1,911
2002	269	1,882	-	-	-	2,151
2003	49,381	-	-	-	1,960	51,341
2004	19,336	2,242	139	202	1,708	23,627
2005	2,434	17,394	-	1,122	40,157	61,107
2006	10,363	31	5,437	9,084	77,625	102,540
2007	332	-	-	9	125,133	125,474
Total	\$ 82,115	\$ 21,549	\$ 5,576	\$ 12,328	\$ 246,583	\$ 368,151

<sup>(B)</sup> The securities enumerated in this column include securities having a total of \$195.5 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.

Vintage	Non-Agency Sub-Prime Residential Mortgage Backed Securities - Fair Value					Total
	AAA	AA	A	BBB	BB and Below <sup>(C)</sup>	
2003	\$ 9,500	\$ 1,341	\$ -	\$ -	\$ -	\$ 10,841
2004	12,671	-	519	2,903	484	16,577
2005	12,639	17,871	546	-	-	31,056
2006	-	-	-	2,475	1,066	3,541
2007	-	-	-	-	1,423	1,423
Total	\$ 34,810	\$ 19,212	\$ 1,065	\$ 5,378	\$ 2,973	\$ 63,438

<sup>(C)</sup> The securities enumerated in this column include securities having a total of \$2.7 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.

Vintage	Commercial Mortgage Backed Securities - Fair Value					Total
	AAA	AA	A	BBB	BB and Below	
2001 and prior	\$ 3,845	\$ 4,527	\$ 3,911	\$ -	\$ -	\$ 12,283
2002	4,202	550	-	2,386	2,653	9,791
2003	344	-	-	-	-	344
2004	548	-	-	-	-	548
2005	973	-	-	-	56	1,029
2006	5,875	-	-	-	81	5,956
2007	-	-	-	-	756	756
2008	1,249	-	-	384	153	1,786
2009	-	-	-	-	-	-
Total	\$ 17,036	\$ 5,077	\$ 3,911	\$ 2,770	\$ 3,699	\$ 32,493

	Municipal Securities - Underlying Rating - Fair Value						
	AAA	AA	A	BBB	BB and Below	Not Rated <sup>(D)</sup>	Total
Agency Collateral	\$ 448,093	\$ -	\$ -	\$ -	\$ -	\$ -	448,093
Insured	42,593	431,107	242,827	41,182	7,081	48,290	813,080
Uninsured	217,649	367,768	241,576	31,843	2,246	704	861,786
Total	\$ 708,335	\$ 798,875	\$ 484,403	\$ 73,025	\$ 9,327	\$ 48,994	\$2,122,959

<sup>(D)</sup> Includes \$27,651 of securities to which an investment grade rating has been assigned by a nationally recognized statistical rating organization but whose issuers are not rated by any such organization.

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

<u>Income Statement Data</u>	Three Months Ended		Nine Months Ended		Year Ended	
	09/30/2010	09/30/2009	09/30/2010	09/30/2009	12/31/2009	12/31/2008
<b>Operating earnings</b>	\$ 47,806	\$ 53,621	\$ 141,395	\$ 147,268	\$ 195,007	\$ 94,387
Net realized investment gains (losses) <sup>(A)</sup>	775	(32,798)	(18,062)	(64,954)	(95,903)	(57,315)
Loss on early retirement of senior notes and junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries <sup>(B)</sup>	(2,444)	-	(2,582)	-	-	(389)
<b>Net income attributable to shareholders (GAAP measure)</b>	<u>\$ 46,137</u>	<u>\$ 20,823</u>	<u>\$ 120,751</u>	<u>\$ 82,314</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>	\$ 0.86	\$ 1.00	\$ 2.54	\$ 2.91	\$ 3.76	\$ 1.93
Net realized investment gains (losses) <sup>(A)</sup>	0.01	(0.61)	(0.32)	(1.28)	(1.85)	(1.17)
Loss on early retirement of senior notes and junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries <sup>(B)</sup>	(0.04)	-	(0.05)	-	-	(0.01)
<b>Net income attributable to shareholders (GAAP measure)</b>	<u>\$ 0.83</u>	<u>\$ 0.39</u>	<u>\$ 2.17</u>	<u>\$ 1.63</u>	<u>\$ 1.91</u>	<u>\$ 0.75</u>
<b>Annualized operating return on beginning shareholders' equity</b>	12.8%	20.4%	13.9%	23.9%	23.8%	8.3%
<b>Annualized net income return on beginning shareholders' equity (GAAP measure)</b>	12.3%	7.9%	11.8%	13.4%	12.1%	3.4%

<sup>(A)</sup> Net of an income tax expense (benefit) of \$0.4 million, \$(17.7) million, \$(9.7) million, \$(35.0) million, \$(51.6) million and \$(30.9) million, or \$0.01 per diluted share, \$(0.33) per diluted share, \$(0.17) per diluted share, \$(0.69) per diluted share, \$(1.00) per diluted share and \$(0.63) per diluted share for the three and nine months ended 09/30/2010 and 09/30/2009, 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 \$1.3 million or \$0.02 per diluted share and \$1.4 million or \$0.02 per diluted share for the three and nine months ended 09/30/2010 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%.

<u>Balance Sheet Data</u>	09/30/2010	12/31/2009	12/31/2008
<b>Shareholders' equity, excluding accumulated other comprehensive income (loss)</b>	\$ 1,510,112	\$ 1,392,975	\$ 1,172,289
Add: Accumulated other comprehensive income (loss)	138,180	(33,956)	(351,710)
<b>Shareholders' equity (GAAP measure)</b>	<u>\$ 1,648,292</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>	\$ 26.89	\$ 25.02	\$ 24.27
Add: Accumulated other comprehensive income (loss)	2.39	(0.60)	(7.22)
<b>Diluted book value per share of common stock (GAAP measure)</b>	<u>\$ 29.28</u>	<u>\$ 24.42</u>	<u>\$ 17.05</u>
<b>Corporate debt to total capitalization ratio, excluding accumulated other comprehensive income (loss)</b>	18.0%	18.9%	20.7%
<b>Corporate debt to total capitalization ratio (GAAP measure)</b>	16.8%	19.3%	26.1%