

DELPHI

Financial Group, Inc.

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**Financial
Supplement**

Third Quarter 2011

DELPHI FINANCIAL GROUP, INC.
Financial Supplement
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Delphi Financial Group, Inc. ("Delphi") is a financial service company focused on specialty insurance and insurance-related business. 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 October 25, 2011. 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.

On January 1, 2011, Delphi adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2010-26, "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts" on a retrospective basis. ASU 2010-26 provides guidance limiting the extent to which an insurer may capitalize costs incurred in the acquisition of an insurance contract. The guidance provides that, in order to be capitalized, such costs must be incremental and directly related to the acquisition of a new or renewal insurance contract. Insurers may only capitalize costs related to successful efforts in attaining a contract and advertising costs may only be capitalized if certain direct response advertising criteria are met. As a result of its adoption of ASU 2010-26, Delphi recognized an after-tax charge resulting from the cumulative adjustment to its beginning retained earnings balance at January 1, 2009 of \$52.1 million, net of the related tax benefit. In addition, as discussed in further detail below, Delphi's adoption of ASU 2010-26 resulted in the restatement of certain financial information for prior periods. For purposes of convenient reference, the term "ASU 2010-26 Restatement" is used below to refer to this restatement.

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 results from discontinued operations, as applicable. Delphi 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 Delphi'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 occurs based on management's decision to redeem or repurchase these notes. Discontinued operations result from management's decision to exit or sell a particular business. Thus, these excluded items are not reflective of Delphi's ongoing earnings capacity, and trends in the earnings of Delphi'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 Delphi 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 Delphi's overall financial performance and may not be calculated in the same manner as similarly titled measures utilized by other companies.

Annualized operating return on beginning shareholders' 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.

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 11.

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

<u>For period ended attributable to shareholders:</u>	<u>Three Months Ended</u>		<u>Nine Months Ended</u>		<u>Year Ended</u>	
	<u>09/30/11</u>	<u>09/30/10</u>	<u>09/30/11</u>	<u>09/30/10</u>	<u>12/31/10</u>	<u>12/31/09</u>
Operating earnings ^{(A) (B)}	\$ 44,286	\$ 46,477	\$ 144,489	\$ 136,630	\$ 190,713	\$ 187,080
Per common share, assuming dilution ^{(A) (B)}	0.79	0.83	2.55	2.45	3.42	3.61
Weighted average shares outstanding (diluted)	56,405	55,800	56,669	55,674	55,750	51,811
Annualized operating return on beginning shareholders' equity ^{(A) (B)}	10.6%	13.0%	12.6%	14.0%	14.7%	24.3%
<u>At period ended:</u>				<u>09/30/11</u>	<u>12/31/10</u>	<u>12/31/09</u>
Assets ^(C)				\$ 8,537,174	\$ 7,661,549	\$ 6,829,065
Corporate debt ^(D)				375,000	375,000	365,750
Junior subordinated debentures				175,000	175,000	175,000
Shareholders' equity ^(B)				1,720,829	1,530,496	1,299,018
Diluted book value per share of common stock ^(E)				\$ 30.31	\$ 27.09	\$ 23.37
Corporate debt to total capitalization ratio ^(F)				16.5%	18.0%	19.9%

^(A) See page 11 for reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures.

^(B) See page 11 for descriptions of changes to financial information for prior periods resulting from the ASU 2010-26 Restatement.

^(C) The ASU 2010-26 Restatement resulted in a decrease in the total assets of the Company by \$98.8 million and \$93.2 million at 12/31/10 and 12/31/09, respectively.

^(D) Corporate debt as of 09/30/11 and 12/31/10 consists of Senior Notes of \$250.0 million due in 2020 and outstanding borrowings under the Company's bank credit facility. Corporate debt as of 12/31/09 consist of \$143.8 million of Senior Notes due in 2033 and outstanding borrowings under the Company's bank credit facility.

^(E) 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 \$1,760.0 million, \$1,625.0 million and \$1,335.3 million as of 09/30/11, 12/31/10 and 12/31/09, respectively. The number of outstanding shares, as so increased, was 58.1 million, 60.0 million and 57.1 million as of 09/30/11, 12/31/10 and 12/31/09, respectively. The ASU 2010-26 Restatement resulted in a decrease in diluted book value per share of common stock both before and after accumulated other comprehensive income (loss) by \$1.07 per diluted share and \$1.05 per diluted share for the full years ended 12/31/10 and 12/31/09, respectively.

^(F) 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. The ASU 2010-26 Restatement resulted in an increase in corporate debt to total capitalization ratio by 0.5% and 0.6% for the full years ended 12/31/10 and 12/31/09, respectively.

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

	<u>09/30/11</u>	<u>06/30/11</u>	<u>03/31/11</u>	<u>12/31/10</u>	<u>09/30/10</u>	<u>06/30/10</u>	<u>03/31/10</u>	<u>12/31/09</u>
Premium and fee income:								
Group employee benefit products	\$ 384,431	\$ 371,254	\$ 362,473	\$ 348,636	\$ 344,625	\$ 340,072	\$ 335,174	\$ 335,010
Asset accumulation products	718	652	858	530	641	474	359	510
Other	<u>13,470</u>	<u>13,106</u>	<u>13,068</u>	<u>13,048</u>	<u>11,753</u>	<u>12,020</u>	<u>12,230</u>	<u>12,745</u>
Total premium and fee income	<u>398,619</u>	<u>385,012</u>	<u>376,399</u>	<u>362,214</u>	<u>357,019</u>	<u>352,566</u>	<u>347,763</u>	<u>348,265</u>
Net investment income:								
Group employee benefit products	48,539	50,033	58,820	63,662	55,351	46,800	51,117	44,648
Asset accumulation products	31,299	32,510	33,254	37,224	31,379	30,016	31,238	28,487
Other	<u>264</u>	<u>648</u>	<u>220</u>	<u>1,171</u>	<u>156</u>	<u>1,418</u>	<u>1,695</u>	<u>1,492</u>
Total investment income	<u>80,102</u>	<u>83,191</u>	<u>92,294</u>	<u>102,057</u>	<u>86,886</u>	<u>78,234</u>	<u>84,050</u>	<u>74,627</u>
Benefits and expenses:								
Group employee benefit products ^(A)	368,771	348,205	345,215	336,463	328,950	321,552	317,223	313,632
Asset accumulation products	22,810	23,534	24,409	22,661	21,424	19,174	21,185	22,233
Other	<u>23,610</u>	<u>22,561</u>	<u>21,079</u>	<u>24,412</u>	<u>19,823</u>	<u>20,421</u>	<u>21,242</u>	<u>17,047</u>
Total benefits and expenses	<u>415,191</u>	<u>394,300</u>	<u>390,703</u>	<u>383,536</u>	<u>370,197</u>	<u>361,147</u>	<u>359,650</u>	<u>352,912</u>
Operating income (loss) attributable to shareholders:								
Group employee benefit products ^(A)	64,199	73,082	76,078	75,835	71,026	65,320	69,068	66,026
Asset accumulation products	9,207	9,628	9,703	15,093	10,596	11,316	10,412	6,764
Other	<u>(9,876)</u>	<u>(8,807)</u>	<u>(7,791)</u>	<u>(10,193)</u>	<u>(7,914)</u>	<u>(6,983)</u>	<u>(7,317)</u>	<u>(2,810)</u>
	<u>63,530</u>	<u>73,903</u>	<u>77,990</u>	<u>80,735</u>	<u>73,708</u>	<u>69,653</u>	<u>72,163</u>	<u>69,980</u>
Net realized investment (losses) gains	(5,002)	1,123	(1,972)	1,913	1,192	(13,874)	(15,106)	(47,614)
Loss on early retirement of senior notes	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,694)</u>	<u>(3,760)</u>	<u>(212)</u>	<u>-</u>	<u>-</u>
Operating income	<u>58,528</u>	<u>75,026</u>	<u>76,018</u>	<u>78,954</u>	<u>71,140</u>	<u>55,567</u>	<u>57,057</u>	<u>22,366</u>
Less: noncontrolling interest	<u>200</u>	<u>582</u>	<u>147</u>	<u>1,061</u>	<u>42</u>	<u>8</u>	<u>65</u>	<u>54</u>
Operating income attributable to shareholders ^(A)	<u>\$ 58,328</u>	<u>\$ 74,444</u>	<u>\$ 75,871</u>	<u>\$ 77,893</u>	<u>\$ 71,098</u>	<u>\$ 55,559</u>	<u>\$ 56,992</u>	<u>\$ 22,312</u>

(A) The ASU 2010-26 Restatement resulted in a (decrease) increase in benefits and expenses, with a corresponding (decrease) increase in operating income attributable to shareholders of \$(815), \$2,045, \$3,523, \$1,764 and \$1,538 for the three month periods ended 12/31/10, 09/30/10, 06/30/10, 03/31/10 and 12/31/09.

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>		<u>Year Ended</u>	
	<u>09/30/11</u>	<u>09/30/10</u>	<u>09/30/11</u>	<u>09/30/10</u>	<u>12/31/10</u>	<u>12/31/09</u>
Revenue:						
Premium income:						
Core products:						
Disability, principally long-term	\$ 147,595	\$ 135,088	\$ 430,932	\$ 406,189	\$ 542,386	\$ 560,361
Life	104,994	97,933	312,548	291,781	388,247	393,173
Excess workers' compensation	87,132	74,448	241,049	213,280	289,548	277,485
Workers' compensation and casualty treaty reinsurance ^(A)	18,812	13,407	53,545	36,771	51,538	34,168
Limited benefit health insurance	9,745	10,221	31,168	30,211	40,772	31,987
Accident and dental	11,340	10,469	36,258	34,396	46,307	49,029
	<u>379,618</u>	<u>341,566</u>	<u>1,105,500</u>	<u>1,012,628</u>	<u>1,358,798</u>	<u>1,346,203</u>
Non-core products	4,813	3,059	12,658	7,243	9,709	8,464
	<u>384,431</u>	<u>344,625</u>	<u>1,118,158</u>	<u>1,019,871</u>	<u>1,368,507</u>	<u>1,354,667</u>
Net investment income	48,539	55,351	157,392	153,268	216,930	188,857
	<u>432,970</u>	<u>399,976</u>	<u>1,275,550</u>	<u>1,173,139</u>	<u>1,585,437</u>	<u>1,543,524</u>
Benefits and expenses:						
Benefits, claims and interest credited to policyholders	271,871	234,625	778,545	694,197	940,291	927,875
Commissions	25,840	25,405	75,148	73,634	98,317	95,953
Amortization of cost of business acquired ^(B)	18,641	17,007	50,364	45,460	61,048	56,221
Other operating expenses ^(B)	52,419	51,913	158,134	154,434	204,532	195,823
	<u>368,771</u>	<u>328,950</u>	<u>1,062,191</u>	<u>967,725</u>	<u>1,304,188</u>	<u>1,275,872</u>
Operating income attributable to shareholders: ^(B)	<u>\$ 64,199</u>	<u>\$ 71,026</u>	<u>\$ 213,359</u>	<u>\$ 205,414</u>	<u>\$ 281,249</u>	<u>\$ 267,652</u>
Production (new annualized gross premium):						
Core products:						
Disability, principally long-term	\$ 27,889	\$ 23,122	\$ 80,347	\$ 63,728	\$ 108,302	\$ 109,409
Life	18,578	17,918	49,050	50,582	90,626	70,526
Excess workers' compensation	29,542	19,307	61,006	38,996	47,434	45,251
Workers' compensation and casualty treaty reinsurance ^(A)	6,741	3,729	18,811	12,197	14,606	17,226
Limited benefit health insurance	1,320	2,586	10,711	11,773	13,324	20,141
Accident and dental	5,549	5,466	17,668	15,539	26,611	30,282
	<u>89,619</u>	<u>72,128</u>	<u>237,593</u>	<u>192,815</u>	<u>300,903</u>	<u>292,835</u>
Non-core products	2,304	2,292	10,645	5,737	8,055	6,468
Total production	<u>\$ 91,923</u>	<u>\$ 74,420</u>	<u>\$ 248,238</u>	<u>\$ 198,552</u>	<u>\$ 308,958</u>	<u>\$ 299,303</u>
Loss ratio (percent of total premium)	70.7%	68.1%	69.6%	68.1%	68.7%	68.5%
Expense ratio (percent of total premium) ^(B)	25.2%	27.4%	25.4%	26.8%	26.6%	25.7%
Combined ratio (loss and expense ratio) ^(B)	95.9%	95.5%	95.0%	94.9%	95.3%	94.2%
Persistency ratio:						
Disability, principally long-term					81.2%	81.4%
Life					82.0%	81.2%
Travel accident and other					73.1%	81.4%
Renewal ratio:						
Excess workers' compensation					94.8%	92.6%
Workers' compensation and casualty treaty reinsurance ^(A)					91.3%	91.4%

^(A) Previously referred to as "Assumed workers' compensation and casualty reinsurance."

^(B) The ASU 2010-26 Restatement resulted in the following adjustments to prior periods: The amortization of cost of business acquired was reduced by \$10,062 and \$27,888 for the three and nine months ended 09/30/10 and \$38,414 and \$34,571 for the years ended 12/31/10 and 12/31/09, respectively. Other operating expenses were increased by \$12,107 and \$35,220 for the three and nine months ended 09/30/10 and \$44,931 and \$46,767 for the years ended 12/31/10 and 12/31/09, respectively. Operating income attributable to shareholders was reduced by \$2,045 and \$7,332 for the three and nine months ended 09/30/10 and \$6,517 and \$12,196 for the years ended 12/31/10 and 12/31/09, respectively. The expense ratio was increased by 0.6% and 0.7% for the three and nine months ended 09/30/10 and 0.5% and 0.9% for the years ended 12/31/10 and 12/31/09, respectively. The combined ratio was increased by 0.6% and 0.7% for the three and nine months ended 09/30/10 and 0.5% and 0.9% for the years ended 12/31/10 and 12/31/09, respectively.

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>		<u>Year Ended</u>	
	<u>09/30/11</u>	<u>09/30/10</u>	<u>09/30/11</u>	<u>09/30/10</u>	<u>12/31/10</u>	<u>12/31/09</u>
Revenue:						
Premium and fee income	\$ 718	\$ 641	\$ 2,228	\$ 1,474	\$ 2,004	\$ 1,641
Net investment income	<u>31,299</u>	<u>31,379</u>	<u>97,063</u>	<u>92,633</u>	<u>129,857</u>	<u>123,097</u>
	<u>32,017</u>	<u>32,020</u>	<u>99,291</u>	<u>94,107</u>	<u>131,861</u>	<u>124,738</u>
Benefits and expenses:						
Benefits, claims and interest credited to policyholders	17,595	15,981	54,576	46,381	63,448	61,422
Commissions	377	384	807	821	1,532	1,576
Amortization of cost of business acquired	2,777	3,055	9,040	8,513	11,406	10,614
Other operating expenses	<u>2,061</u>	<u>2,004</u>	<u>6,330</u>	<u>6,068</u>	<u>8,058</u>	<u>8,864</u>
	<u>22,810</u>	<u>21,424</u>	<u>70,753</u>	<u>61,783</u>	<u>84,444</u>	<u>82,476</u>
Operating income attributable to shareholders	<u>\$ 9,207</u>	<u>\$ 10,596</u>	<u>\$ 28,538</u>	<u>\$ 32,324</u>	<u>\$ 47,417</u>	<u>\$ 42,262</u>
Sales	\$ 175,586	\$ 153,625	\$ 422,153	\$ 270,446	\$ 377,358	\$ 248,595
Funds under management (at end of period)			\$ 2,002,822	\$ 1,634,252	\$ 1,725,785	\$ 1,425,442

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>09/30/11</u>	<u>09/30/10</u>	<u>09/30/11</u>	<u>09/30/10</u>
Revenue:				
Premium and fee income	\$ 398,619	\$ 357,019	\$ 1,160,030	\$ 1,057,348
Net investment income	80,102	86,886	255,587	249,170
Net realized investment (losses) gains:				
Total other than temporary impairment losses	(11,969)	(13,886)	(27,283)	(62,818)
Portion of other than temporary impairment losses recognized in other comprehensive income	<u>2,617</u>	<u>7,498</u>	<u>3,570</u>	<u>12,599</u>
Net impairment losses recognized in earnings	(9,352)	(6,388)	(23,713)	(50,219)
Other net realized investment gains	<u>4,350</u>	<u>7,580</u>	<u>17,862</u>	<u>22,431</u>
Net realized investment (losses) gains	(5,002)	1,192	(5,851)	(27,788)
Loss on early retirement of senior notes	-	(3,760)	-	(3,972)
Total revenue	<u>473,719</u>	<u>441,337</u>	<u>1,409,766</u>	<u>1,274,758</u>
Benefits and expenses:				
Benefits, claims and interest credited to policyholders	290,033	250,594	834,461	741,602
Commissions and expenses ^(A)	<u>125,158</u>	<u>119,603</u>	<u>365,733</u>	<u>349,392</u>
	<u>415,191</u>	<u>370,197</u>	<u>1,200,194</u>	<u>1,090,994</u>
Operating income ^(A)	58,528	71,140	209,572	183,764
Interest expense:				
Corporate debt	6,049	7,783	18,066	23,370
Junior subordinated debentures	3,249	3,241	9,739	9,730
Income tax expense ^(A)	<u>7,995</u>	<u>15,266</u>	<u>40,152</u>	<u>34,563</u>
Net income ^(A)	41,235	44,850	141,615	116,101
Less: Net income attributable to noncontrolling interest	<u>200</u>	<u>42</u>	<u>929</u>	<u>115</u>
Net income attributable to shareholders ^(A)	<u>\$ 41,035</u>	<u>\$ 44,808</u>	<u>\$ 140,686</u>	<u>\$ 115,986</u>
Basic results per share of common stock ^(A)				
Net income attributable to shareholders	\$ 0.73	\$ 0.81	\$ 2.51	\$ 2.10
Weighted average shares outstanding	56,004	55,404	56,006	55,284
Diluted results per share of common stock: ^(A)				
Net income attributable to shareholders	\$ 0.73	\$ 0.80	\$ 2.48	\$ 2.08
Weighted average shares outstanding	56,405	55,800	56,669	55,674
Dividends paid per share of common stock	\$ 0.12	\$ 0.11	\$ 0.35	\$ 0.31

^(A) For the three and nine months ended 09/30/10, the ASU 2010-26 Restatement resulted in an increase to commissions and expenses of \$2,045 and \$7,332, a reduction to operating income of \$2,045 and \$7,332 and a reduction to income tax expenses of \$716 and \$2,567, respectively. In addition, the ASU 2010-26 Restatement resulted in a reduction in both net income and net income attributable to shareholders of \$1,329 and \$4,765 or \$0.02 and \$0.08 per share on a basic basis or \$0.03 and \$0.09 per share on a diluted basis for the three and nine months ended 09/30/10, respectively.

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

	<u>09/30/11</u>	<u>12/31/10</u>
Assets:		
Investments:		
Fixed maturity securities, available for sale	\$ 6,373,799	\$ 5,717,090
Short-term investments	201,529	334,215
Other investments	<u>760,874</u>	<u>498,678</u>
	7,336,202	6,549,983
Cash	91,055	72,806
Cost of business acquired ^{(A)(1)}	159,322	149,325
Reinsurance receivables	367,628	360,255
Premiums receivable	186,179	130,111
Accrued investment income	70,071	60,831
Goodwill	93,929	93,929
Other assets	117,745	120,635
Assets held in separate account	<u>115,043</u>	<u>123,674</u>
Total assets ^{(A)(2)}	<u>\$ 8,537,174</u>	<u>\$ 7,661,549</u>
Liabilities and Equity:		
Policy liabilities and accruals	\$ 3,149,860	\$ 2,970,389
Policyholder account balances	2,030,328	1,753,744
Corporate debt	375,000	375,000
Junior subordinated debentures	175,000	175,000
Other liabilities and policyholder funds ^{(A)(3)}	963,785	728,612
Liabilities related to separate account	<u>115,043</u>	<u>123,674</u>
Total liabilities	<u>6,809,016</u>	<u>6,126,419</u>
Equity:		
Class A Common Stock	568	565
Class B Common Stock	60	60
Additional paid-in capital	697,751	682,816
Accumulated other comprehensive income	94,939	30,932
Retained earnings ^{(A)(4)}	1,134,442	1,013,369
Treasury stock, at cost	<u>(206,931)</u>	<u>(197,246)</u>
Total shareholders' equity ^{(A)(4)}	1,720,829	1,530,496
Noncontrolling interest	<u>7,329</u>	<u>4,634</u>
Total equity ^{(A)(4)}	<u>1,728,158</u>	<u>1,535,130</u>
Total liabilities and equity ^{(A)(2)}	<u>\$ 8,537,174</u>	<u>\$ 7,661,549</u>

(A) See page 8, Note A for a description of the Company's adoption of ASU 2010-26 on a retrospective basis effective 01/01/11.

(1) ASU 2010-26 Restatement resulted in a decrease of \$98.8 million in the balance of cost of business acquired at 12/31/10.

(2) ASU 2010-26 Restatement resulted in decreases of \$98.8 million in both total assets and total liabilities and equity at 12/31/10.

(3) ASU 2010-26 Restatement resulted in a decrease of \$34.6 million in the balance of other liabilities and policyholder funds at 12/31/10.

(4) ASU 2010-26 Restatement resulted in a decrease of \$64.2 million in the balances of retained earnings and total equity at 12/31/10.

DELPHI FINANCIAL GROUP, INC.
Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	Nine Months Ended	
	09/30/11	09/30/10
Operating activities:		
Net income attributable to shareholders ^(A)	\$ 140,686	\$ 115,986
Adjustments to reconcile net income attributable to shareholders to net cash provided by operating activities:		
Change in policy liabilities and policyholder accounts	268,982	180,506
Net change in reinsurance receivables and payables	(9,007)	(9,657)
Net change in premiums receivable	(56,068)	(30,045)
Amortization, principally the cost of business acquired and investments ^(A)	29,819	37,376
Deferred costs of business acquired ^(A)	(78,908)	(65,782)
Net realized losses on investments	5,851	27,788
Net change in federal income taxes ^(A)	26,145	9,630
Other	(3,754)	(12,804)
Net cash provided by operating activities	323,746	252,998
Investing activities:		
Purchases of investments and loans made	(2,416,481)	(1,599,851)
Sales of investments and receipts from repayment of loans	1,429,610	1,057,614
Maturities of investments	308,805	70,801
Net change in short-term investments	132,686	46,367
Net cash used by investing activities	(545,380)	(425,069)
Financing activities:		
Deposits to policyholder accounts	433,239	277,854
Withdrawals from policyholder accounts	(169,258)	(82,832)
Proceeds from issuance of 2020 Senior Notes	-	250,000
Borrowings under revolving bank credit facility	-	50,000
Principal payments under bank credit facility	-	(222,000)
Early retirement of senior notes	-	(75,000)
Acquisition of treasury stock	(9,685)	-
Cash dividends paid on common stock	(19,613)	(17,150)
Other financing activities	5,200	2,983
Net cash provided by financing activities	239,883	183,855
Increase in cash	18,249	11,784
Cash at beginning of year	72,806	65,464
Cash at end of period	\$ 91,055	\$ 77,248

(A) The ASU 2010-26 Restatement resulted in the following adjustments for the nine months ended 09/30/10: Net income attributable to shareholders was reduced by \$4,765; amortization of the cost of business acquired was reduced by \$27,888, deferred costs of business acquired were reduced by \$35,220 and the change in federal income tax asset/liability was reduced by \$2,567. The restatement did not have any net impact to operating cash flows.

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

	Group Employee Benefit Products ^(A)	Asset Accumulation Products ^(B)	Total
Balance as of December 31, 2008	\$ 139,699	\$ 125,078	\$ 264,777
Cumulative effect adjustment ^(A)	(80,114)	-	(80,114)
Balance as of January 01, 2009	59,585	125,078	184,663
Deferred	60,660	15,725	76,385
Amortized	(56,221)	(10,614)	(66,835)
Equity adjustment	-	(36,212)	(36,212)
Balance as of December 31, 2009	64,024	93,977	158,001
Deferred	64,204	24,604	88,808
Amortized	(61,048)	(11,406)	(72,454)
Equity adjustment	-	(25,030)	(25,030)
Balance as of December 31, 2010	67,180	82,145	149,325
Deferred	55,279	23,629	78,908
Amortized	(50,364)	(9,040)	(59,404)
Equity adjustment	-	(9,507)	(9,507)
Balance as of September 30, 2011	<u>\$ 72,095</u>	<u>\$ 87,227</u>	<u>\$ 159,322</u>

(A) The cumulative effect adjustment represents the decrease in cost of business acquired as a result of the retrospective adoption of the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2010-26, "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts." ASU 2010-26 provides guidance limiting the extent to which an insurer may capitalize costs incurred in the acquisition of an insurance contract. The guidance provides that, in order to be capitalized, such costs must be incremental and directly related to the acquisition of a new or renewal insurance contract. Insurers may only capitalize costs related to successful efforts in attaining a contract and advertising costs may only be capitalized if certain direct response advertising criteria are met. This adjustment also resulted in a corresponding decrease to beginning retained earnings of \$52.1 million, net of the related tax benefit of \$28.0 million.

(B) 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.

DELPHI FINANCIAL GROUP, INC.
 Certain Investment Portfolio Data
 As of September 30, 2011
 (Dollars in Thousands)
 (Unaudited)

Composition of Investment Portfolio

	<u>09/30/11</u>	<u>% Total</u>	<u>12/31/10</u>	<u>% Total</u>	<u>09/30/10</u>	<u>% Total</u>
Government/agency securities	\$ 153,505	2.1%	\$ 383,444	5.9%	\$ 330,905	5.0%
Municipal securities	2,499,332	34.1%	2,106,330	32.2%	2,122,959	32.4%
Mortgage-backed securities	1,600,503	21.8%	1,522,413	23.2%	1,670,789	25.5%
Corporate and other securities	<u>2,120,459</u>	<u>28.9%</u>	<u>1,704,903</u>	<u>26.0%</u>	<u>1,599,508</u>	<u>24.4%</u>
Total fixed maturity securities, available for sale	6,373,799	86.9%	5,717,090	87.3%	5,724,161	87.3%
Short-term investments	201,529	2.7%	334,215	5.1%	360,415	5.5%
LPs, LLCs and trading account securities	305,011	4.2%	286,105	4.4%	296,515	4.5%
Other investments	<u>455,863</u>	<u>6.2%</u>	<u>212,573</u>	<u>3.2%</u>	<u>179,921</u>	<u>2.7%</u>
Total Investments	<u>\$ 7,336,202</u>	<u>100.0%</u>	<u>\$ 6,549,983</u>	<u>100.0%</u>	<u>\$ 6,561,012</u>	<u>100.0%</u>

Municipal Securities - Underlying Rating - Fair Value

	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB and Below</u>	<u>Not Rated ^(A)</u>	<u>Total</u>
Agency Collateral	\$ 475,106	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 475,106
Insured	32,388	441,539	280,440	46,540	6,840	54,086	861,833
Uninsured	<u>257,189</u>	<u>532,974</u>	<u>311,809</u>	<u>51,253</u>	<u>5,713</u>	<u>3,455</u>	<u>1,162,393</u>
Total	<u>\$ 764,683</u>	<u>\$ 974,513</u>	<u>\$ 592,249</u>	<u>\$ 97,793</u>	<u>\$ 12,553</u>	<u>\$ 57,541</u>	<u>\$ 2,499,332</u>

(A) Includes \$34,567 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.
 Certain Investment Portfolio Data
 As of September 30, 2011
 (Dollars in Thousands)
 (Unaudited)

The following table contains information, as of September 30, 2011, 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 and Fitch. All dollar amounts in this table are based upon the fair values of these securities as of September 30, 2011.

Non-Agency Prime Residential Mortgage-Backed Securities - Fair Value						
Vintage	AAA	AA	A	BBB	BB and Below ^(A)	Total
2001 and prior	\$ 1,706	\$ -	\$ -	\$ -	\$ -	\$ 1,706
2002	5,619	-	2,514	-	1,406	9,539
2003	63,395	1,407	-	3,593	10,920	79,315
2004	16,406	15,577	-	10,404	6,105	48,492
2005	10,952	5,661	1,453	17,017	87,164	122,247
2006	14,372	-	-	-	26,250	40,622
2007	4,637	-	-	-	88,951	93,588
2008	729	-	-	-	445	1,174
Total	\$ 117,816	\$ 22,645	\$ 3,967	\$ 31,014	\$ 221,241	\$ 396,683

^(A) The securities enumerated in this column include securities having a total of \$182.1 million in fair value that have received the equivalent of an investment grade rating from the National Association of Insurance Commissioners (the "NAIC") under its process 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.

Non-Agency Alt-A Residential Mortgage-Backed Securities - Fair Value						
Vintage	AAA	AA	A	BBB	BB and Below ^(B)	Total
2001 and prior	\$ -	\$ -	\$ -	\$ 1,561	\$ -	\$ 1,561
2002	183	1,512	-	-	-	1,695
2003	42,676	-	-	-	971	43,647
2004	18,927	1,834	1,341	-	1,732	23,834
2005	6,497	17,057	-	-	64,499	88,053
2006	9,928	-	50	7,676	73,117	90,771
2007	252	-	-	-	127,474	127,726
2010	-	-	3,879	-	-	3,879
Total	\$ 78,463	\$ 20,403	\$ 5,270	\$ 9,237	\$ 267,793	\$ 381,166

^(B) The securities enumerated in this column include securities having a total of \$203.5 million in fair value that have received the equivalent of an investment grade rating from the NAIC under its process 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.

Non-Agency Sub-Prime Residential Mortgage-Backed Securities - Fair Value						
Vintage	AAA	AA	A	BBB	BB and Below ^(C)	Total
2003	\$ 9,943	\$ -	\$ 1,010	\$ -	\$ -	\$ 10,953
2004	9,344	-	-	-	3,260	12,604
2005	11,339	-	-	-	21,030	32,369
2006	-	-	-	1,072	737	1,809
2007	-	-	-	-	953	953
Total	\$ 30,626	\$ -	\$ 1,010	\$ 1,072	\$ 25,980	\$ 58,688

^(C) The securities enumerated in this column include securities having a total of \$23.3 million in fair value that have received the equivalent of an investment grade rating from the NAIC under its process 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 Below	Total
2001 and prior	\$ 3,964	\$ 7,406	\$ -	\$ 584	\$ -	\$ 11,954
2002	9,926	540	-	1,254	4,578	16,298
2003	1,657	-	-	-	-	1,657
2004	529	-	2,173	-	-	2,702
2005	3,246	-	3,414	1,893	84	8,637
2006	16,295	683	-	-	76	17,054
2007	6,349	-	973	-	142	7,464
2008	1,169	-	-	-	315	1,484
2011	1,229	-	-	-	-	1,229
Total	\$ 44,364	\$ 8,629	\$ 6,560	\$ 3,731	\$ 5,195	\$ 68,479

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>		<u>Year Ended</u>	
	<u>09/30/11</u>	<u>09/30/10</u>	<u>09/30/11</u>	<u>09/30/10</u>	<u>12/31/10</u>	<u>12/31/09</u>
<u>Income Statement Data</u>						
Operating earnings ^{(A)(1)}	\$ 44,286	\$ 46,477	\$ 144,489	\$ 136,630	\$ 190,713	\$ 187,080
Net realized investment (losses) gains ^(B)	(3,251)	775	(3,803)	(18,062)	(16,819)	(95,903)
Loss on early retirement of senior notes ^(C)	-	(2,444)	-	(2,582)	(4,983)	-
Net income attributable to shareholders (GAAP measure) ^(A)	<u>\$ 41,035</u>	<u>\$ 44,808</u>	<u>\$ 140,686</u>	<u>\$ 115,986</u>	<u>\$ 168,911</u>	<u>\$ 91,177</u>
Diluted results per share of common stock attributable to shareholders:						
Operating earnings ^{(A)(1)}	\$ 0.79	\$ 0.83	\$ 2.55	\$ 2.45	\$ 3.42	\$ 3.61
Net realized investment (losses) gains ^(B)	(0.06)	0.01	(0.07)	(0.32)	(0.30)	(1.85)
Loss on early retirement of senior notes ^(C)	-	(0.04)	-	(0.05)	(0.09)	-
Net income attributable to shareholders (GAAP measure)	<u>\$ 0.73</u>	<u>\$ 0.80</u>	<u>\$ 2.48</u>	<u>\$ 2.08</u>	<u>\$ 3.03</u>	<u>\$ 1.76</u>
Annualized operating return on beginning shareholders' equity ^{(A)(2)}	10.6%	13.0%	12.6%	14.0%	14.7%	24.3%
Annualized net income return on beginning shareholders' equity (GAAP measure) ^{(A)(3)}	9.8%	12.5%	12.3%	11.9%	13.0%	11.9%

^(B) Net of an income tax benefit (expense) of \$1.8 million, \$(0.4) million, \$2.0 million, \$9.7 million, \$9.1 million and \$51.6 million, or \$0.03 per diluted share, \$(0.01) per diluted share, \$0.04 per diluted share, \$0.17 per diluted share, \$0.16 per diluted share and \$1.00 per diluted share for the three and nine months ended 09/30/11 and 09/30/10, and the full year ended 12/31/10 and 12/31/09, respectively. The tax effect is calculated using the Company's statutory tax rate of 35%.

^(C) Net of an income tax benefit of \$1.3 million, \$1.4 million or \$0.02 per diluted share and \$0.02 per diluted share for the three and nine months ended 09/30/10 and \$2.7 million or \$0.05 per diluted share for the full year ended 12/31/10, respectively. The tax effect is calculated using the Company's statutory tax rate of 35%.

Balance Sheet Data

	<u>09/30/11</u>	<u>12/31/10</u>	<u>12/31/09</u>
Shareholders' equity, excluding accumulated other comprehensive income (loss) ^{(A)(4)}	\$ 1,625,890	\$ 1,499,564	\$ 1,332,974
Add: Accumulated other comprehensive income (loss)	94,939	30,932	(33,956)
Shareholders' equity (GAAP measure) ⁽⁴⁾	<u>\$ 1,720,829</u>	<u>\$ 1,530,496</u>	<u>\$ 1,299,018</u>

^(A) Effective 01/01/11, the Company adopted ASU 2010-26 on a retrospective basis, as described on page 8, Note A. Accordingly, as described in the following notes (1) through (4), certain of the Company's financial information for prior periods has been restated.

⁽¹⁾ Restatement resulted in a decrease in operating earnings of \$1.3 million, \$4.8 million, \$4.2 million and \$7.9 million or \$0.03 per diluted share, \$0.09 per diluted share, \$0.08 per diluted share and \$0.15 per diluted share for the three and nine months ended 09/30/10, and the full years ended 12/31/10 and 12/31/09, respectively.

⁽²⁾ Restatement resulted an increase in the annualized operating return on beginning shareholders' equity by 0.2% and 0.1% for the three and nine months ended 09/30/10, respectively, and 0.4% and 0.5% for the full years ended 12/31/10 and 12/31/09, respectively.

⁽³⁾ Restatement resulted an increase in the annualized net income return on beginning shareholders' equity (GAAP measure) by 0.2% and 0.1% for the three and nine months ended 09/30/10, respectively, and 0.3% and (0.2)% for the full years ended 12/31/10 and 12/31/09, respectively.

⁽⁴⁾ Restatement resulted in a decrease in shareholders' equity, both before and after accumulated other comprehensive income (loss) by \$64.2 million and \$59.0 million for the full years ended 12/31/10 and 12/31/09, respectively.