DELPHI FINANCIAL GROUP INC/DE
Form 10-Q
May 13, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the Quarterly Period Ended March 31, 2003

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to __________

Commission File Number 001-11462

DELPHI FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	(302) 478-5142	13-342727
(State or other jurisdiction of incorporation or organization)	(Registrant's telephone number, including area code)	(I.R.S. Employer Number)

1105 North Market Street, Suite 1230, P.O. Box 8985, Wilmington, Delaware	198
(Address of principal executive offices)	(Zip

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to filing requirements for the past 90 days:

Yes X No ____

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes X No ____

As of April 30, 2003, the Registrant had 17,405,436 shares of Class A Common Stock and 3,038,905 shares of Class B Common Stock outstanding.

DELPHI FINANCIAL GROUP, INC.
FORM 10-Q
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER INFORMATION

PART I. FINANCIAL INFORMATION

DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

Three Months Ended
March 31,

	2003	2002
Revenue:		
Premium and fee income	$171,761	$156,827
Net investment income	45,705	41,064
Net realized investment gains	1,215	95
	218,681	197,986
Benefits and expenses:		
Benefits, claims and interest credited to policyholders	130,414	120,533
Commissions	11,989	9,847
Amortization of cost of business acquired	12,337	10,449
Other operating expenses	28,706	25,325
	183,446	166,154
Operating income	35,235	31,832
Interest expense:		
Corporate debt	2,269	2,528
Dividends on Capital Securities of Delphi Funding L.L.C	839	839
	3,108	3,367
Income before income tax expense	32,127	28,465
Income tax expense	9,631	8,895
Net income	$ 22,496	$ 19,570
Basic results per share of common stock:		
Net income	$ 1.08	$ 0.95
Diluted results per share of common stock:		
Net income	$ 1.06	$ 0.93
Dividends paid per share of common stock	$ 0.08	$ 0.07

See notes to consolidated financial statements.

DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	March 31, 2003
Assets:	
Investments:	
Fixed maturity securities, available for sale	$ 2,467,674
Short-term investments	215,549
Other investments	217,684
	2,900,907
Cash	53,160
Cost of business acquired	177,427
Reinsurance receivables	391,678
Goodwill	93,929
Other assets	184,282
Assets held in separate account	74,026
Total assets	$ 3,875,409
Liabilities and Shareholders' Equity:	
Future policy benefits:	
Life	$ 235,818
Disability and accident	403,860
Unpaid claims and claim expenses:	
Life	45,080
Disability and accident	178,215
Casualty	530,699
Policyholder account balances	924,382
Corporate debt	128,133
Other liabilities and policyholder funds	637,834
Liabilities related to separate account	63,582
Total liabilities	3,147,603
Company-obligated mandatorily redeemable Capital Securities of Delphi Funding L.L.C. holding solely junior subordinated deferrable interest debentures of the Company	36,050
Shareholders' equity:	
Preferred Stock, $.01 par; 10,000,000 shares authorized	--
Class A Common Stock, $.01 par; 40,000,000 shares authorized; 18,948,958 and 18,927,855 shares issued and outstanding, respectively	189
Class B Common Stock, $.01 par; 20,000,000 shares authorized; 3,194,905 shares issued and outstanding	32
Additional paid-in capital	373,889
Accumulated other comprehensive income	26,205
Retained earnings	350,419
Treasury stock, at cost; 1,706,690 and 1,505,290 shares of Class A Common Stock, respectively	(58,978)
Total shareholders' equity	691,756
Total liabilities and shareholders' equity	$ 3,875,409

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See notes to consolidated financial statements.

DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retain Earnin
Balance, January 1, 2002	$ 178	$ 41	$ 369,385	$ (10,985)	$ 274,
Net income	--	--	--	--	19,
Other comprehensive income:					
Increase in net unrealized depreciation on investments .	--	--	--	(15,126)	
Comprehensive income	--	--	--	--	
Issuance of stock and exercise of stock options	5	(4)	1,330	--	
Cash dividends	--	--	--	--	(1,
Balance, March 31, 2002	$ 183	$ 37	$ 370,715	$ (26,111)	$ 293,
Balance, January 1, 2003	$ 189	$ 32	$ 373,356	$ 30,003	$ 329,
Net income	--	--	--	--	22,
Other comprehensive income:					
Decrease in net unrealized appreciation on investments .	--	--	--	(3,024)	
Increase in net unrealized loss on cash flow hedge	--	--	--	(774)	
Comprehensive income	--	--	--	--	
Issuance of stock and exercise of stock options	--	--	533	--	
Acquisition of treasury stock ...	--	--	--	--	
Cash dividends	--	--	--	--	(1,
Balance, March 31, 2003	$ 189	$ 32	$ 373,889	$ 26,205	$ 350,

See notes to consolidated financial statements.

DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	Three Months Ended March 31,	
	2003	2002
Operating activities:		
Net income	$ 22,496	$ 19,57
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in policy liabilities and policyholder accounts	60,689	63,06
Net change in reinsurance receivables and payables	1,865	(2,34
Amortization, principally the cost of business acquired and investments	5,353	6,03
Deferred costs of business acquired	(22,860)	(20,19
Net realized gains on investments	(1,215)	(9
Net change in trading account securities	(3,422)	2,34
Net change in federal income tax liability	9,605	10,05
Other	(31,191)	(10,18
Net cash provided by operating activities	41,320	68,23
Investing activities:		
Purchases of investments and loans made	(337,577)	(277,96
Sales of investments and receipts from repayment of loans	286,852	173,51
Maturities of investments	38,793	67,18
Net change in short-term investments	(10,519)	(69,53
Change in deposit in separate account	(324)	(23
Net cash used by investing activities	(22,775)	(107,03
Financing activities:		
Deposits to policyholder accounts	24,788	16,34
Withdrawals from policyholder accounts	(19,245)	(13,74
Proceeds from issuance of common stock and exercise of stock options	533	1,33
Dividends paid on common stock	(1,651)	(1,43
Acquisition of treasury stock	(7,479)	-
Borrowings under revolving credit facility	14,000	-
Principal payments under revolving credit facilities	(4,000)	(5,00
Change in liability for Federal Home Loan Bank advances	--	25,00
Change in liability for securities loaned or sold under agreements to repurchase	--	18,16
Net cash provided by financing activities	6,946	40,66

Increase in cash	25,491	1,86
Cash at beginning of period	27,669	11,68
Cash at end of period	$ 53,160	$ 13,54

See notes to consolidated financial statements.

DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The financial statements included herein were prepared in conformity with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Such principles were applied on a basis consistent with that reflected in the Company's report on Form 10-K for the year ended December 31, 2002. The information furnished includes all adjustments and accruals of a normal recurring nature which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. Operating results for the three months ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ended December 31, 2003. For further information refer to the consolidated financial statements and footnotes thereto included in the Company's report on Form 10-K for the year ended December 31, 2002. Capitalized terms used herein without definition have the meanings ascribed to them in the Company's report on Form 10-K for the year ended December 31, 2002.

Stock Options. The Company accounts for stock options in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, no compensation expense has been recognized in the accompanying financial statements for the Company's stock option plans, because, in each case, the exercise price of the options granted equaled the market price of the underlying stock on the date of grant. The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation (dollars in thousands, except per share data):

	Three Months Ended March 31,	
	2003	2002

Net income, as reported	$ 22,496	$ 19,570
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(459)	(619)
Pro forma net income	$ 22,037	$ 18,951
Earnings per share:		
Basic, as reported	$ 1.08	$ 0.95
Basic, pro forma	1.06	0.92
Diluted, as reported	$ 1.06	$ 0.93
Diluted, pro forma	1.04	0.89

Recently Adopted Accounting Standards. In January 2003, the Financial Accounting Standards Board issued Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entitites," which provides new criteria for determining whether or not consolidation accounting is required for a variable interest entity ("VIE"). If applicable, FIN 46 would require consolidation of a VIE's assets, liabilities and results of operations, with minority interest recorded for the ownership share applicable to other investors. Where consolidation is required, additional disclosures may be required. The consolidation provisions of FIN 46 are effective for VIEs established subsequent to January 31, 2003 and for pre-existing VIEs as of July 1, 2003. The Company has not yet determined the impact, if any, the adoption of FIN 46 will have on the Company's consolidated financial statements.

NOTE B - INVESTMENTS

At March 31, 2003, the Company had fixed maturity securities available for sale with a carrying value and a fair value of $2,467.7 million and an amortized cost of $2,406.0 million. At December 31, 2002, the Company had fixed maturity securities available for sale with a carrying value and a fair value of $2,495.6 million and an amortized cost of $2,429.7 million.

DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

NOTE C - SEGMENT INFORMATION

	Three Months Ended March 31,	
	2003	2002
	(dollars in thousands)	
Revenues excluding net realized investment gains:		
Group employee benefit products	$ 192,014	$ 175,039

Asset accumulation products ...	20,384	17,606
Other (1)	5,068	5,246
	$ 217,466	$ 197,891
Operating income (2):		
Group employee benefit products	$ 33,476	$ 30,353
Asset accumulation products ...	3,665	2,993
Other (1)	(3,121)	(1,609)
	$ 34,020	$ 31,737

(1) Consists of operations that do not meet the quantitative thresholds for determining reportable segments and includes integrated disability and absence management services and certain corporate activities.

(2) Income excluding net realized investment gains and before interest and income tax expense.

NOTE D - COMPREHENSIVE INCOME

Total comprehensive income is comprised of net income and other comprehensive income, which includes the change in unrealized gains and losses on securities available for sale and the change in unrealized loss on a cash flow hedge. Total comprehensive income was $18.7 million and $4.4 million for the first quarter of 2003 and 2002, respectively.

NOTE E - COMPUTATION OF RESULTS PER SHARE

The following table sets forth the calculation of basic and diluted results per share (dollars in thousands, except per share data):

	Three Months Ended March 31,	
	2003	2002
Numerator:		
Net income	$22,496	$19,570
Denominator:		
Weighted average common shares outstanding	20,823	20,688
Effect of dilutive securities	391	465
Weighted average common shares outstanding, assuming dilution	21,214	21,153
Basic results per share of common stock:		
Net income	$ 1.08	$ 0.95
Diluted results per share of common stock:		

Net income	$ 1.06	$ 0.93
	=======	=======

DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

NOTE F - CONTINGENCIES

In the course of its business, the Company is a party to litigation and other proceedings, primarily involving its insurance operations. In some cases, these proceedings entail claims against the Company for punitive damages and similar types of relief. The ultimate disposition of such pending litigation and proceedings is not expected to have a material adverse effect on the Company's consolidated financial position. In addition, incident to its discontinued products, the Company is currently a party to two separate arbitrations arising out of two accident and health reinsurance arrangements in which it and other companies formerly were participating reinsurers. At issue in both arbitrations, among other things, is whether certain reinsurance risks were validly ceded to the Company. The ultimate resolutions of these arbitrations are likely to require extended periods of time. While management believes that in both cases the Company has substantial legal grounds for avoiding the reinsurance risks at issue, it is not at this time possible to predict the ultimate outcome of these arbitrations, nor is it feasible to provide reasonable ranges of potential losses. In the opinion of management, such arbitrations, when ultimately resolved, will not individually or collectively have a material adverse effect on the Company's consolidated financial position.

DELPHI FINANCIAL GROUP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The following is an analysis of the results of operations and financial condition of Delphi Financial Group, Inc. (the "Company," which term includes the Company and its consolidated subsidiaries unless the context indicates otherwise). This analysis should be read in conjunction with the Consolidated Financial Statements and related notes included in this document, as well as the Company's annual report on Form 10-K for the year ended December 31, 2002. Capitalized terms used herein without definition have the meanings ascribed to them in the Company's annual report on Form 10-K for the year ended December 31, 2002.

RESULTS OF OPERATIONS

Premium and Fee Income. Premium and fee income for the first quarter of 2003 was $171.8 million as compared to $156.8 million for the first quarter of 2002, an increase of 10%. Premiums from core group employee benefit products increased 26% to $162.2 million for the first quarter of 2003 from $129.2 million for the first quarter of 2002. This increase reflects normal growth in employment and salary levels for the Company's existing customer base, price increases, and strong production of new business. Within core group employee benefit products, excess workers' compensation premiums increased 50% to $34.4 million for the first quarter of 2003 from $22.9 million for the first quarter of 2002 primarily due to the favorable pricing environment and the strong demand for this product as a result of higher primary workers' compensation rates. SNCC obtained price increases of 15% in connection with its renewals of insurance coverage during the first quarter of 2003, and has continued to obtain significant improvements in contract terms, in particular higher self-insured retention levels, in these renewals. New business production for excess workers' compensation products was $10.6 million for the first quarter of 2003, slightly greater than the $10.3 million achieved for the first quarter of 2002. Retention of existing customers for excess workers' compensation products for the first quarter of 2003 was slightly higher than for the first quarter of 2002. Premiums for the Company's other group employee benefit products increased 20% to $127.8 million for the first quarter of 2003 from $106.3 million for the first quarter of 2002. New business production for the Company's other core group employee benefit products was $47.0 million for the first quarter of 2003, slightly greater than fourth quarter 2002 new business production of $46.7 million. New business production for the Company's other core group employee benefit products for the first quarter of 2002 was particularly strong at $53.2 million. During the first quarter of 2003, retention of existing customers for these products was unchanged from the same period in 2002. Price increases continued to be implemented for certain disability customers.

Premiums from non-core group employee benefit products were $4.8 million for the first quarter of 2003 as compared to $23.2 million for the first quarter of 2002. Premiums from non-core group employee benefit products for the first quarter of 2002 included a high level of premiums from loss portfolio transfers, which are episodic in nature. The 2003 period did not include any premiums from loss portfolio transfers.

Deposits from the Company's asset accumulation products were $23.8 million for the first quarter of 2003 as compared to $15.2 million for the first quarter of 2002. Deposits for these products, which are long-term in nature, are recorded as liabilities rather than as premiums. The Company continues to maintain its disciplined approach to setting the crediting rates offered on its asset accumulation products since market interest rates and the resulting interest rate spreads available to the Company on these products remained less favorable throughout 2002 and the first quarter of 2003. The increase in deposits from the Company's asset accumulation products in the first quarter of 2003 was primarily due to the pullback of certain fixed annuity providers from the wholesale distribution chain and heightened demand for fixed annuity products as a result of adverse conditions in the equity markets. This increase is also attributable to an increase in the number of networks of independent agents distributing the Company's annuity products.

Net Investment Income. Net investment income for the first quarter of 2003 was $45.7 million as compared to $41.1 million for the first quarter of 2002, an increase of 11%. This increase primarily reflects an increase in average invested assets in 2003, partially offset by a decrease in the tax equivalent weighted average annualized yield. The tax equivalent weighted average annualized yield on invested assets was 6.7% on average invested assets of $2,834.9 million for the first quarter of 2003 and 6.9% on average invested assets of $2,467.1 million for the first quarter of 2002.

Net Realized Investment Gains. Net realized investment gains were $1.2 million for the first quarter of 2003 as compared to $0.1 million for the first quarter of 2002. The Company's investment strategy results in periodic sales of securities and, therefore, the recognition of realized investment gains and losses. During the first quarters of 2003 and 2002, the Company recognized $6.3 million and $4.5 million, respectively, of net gains on sales of securities. The Company monitors its investments on an ongoing basis. When the market value of a security declines below its cost, and such decline is determined in

the judgment of management to be other than temporary, the security is written down to fair value, and the decline is reported as a realized investment loss. In the first quarters of 2003 and 2002, the Company recognized $5.1 million and $3.6 million, respectively, of losses due to the other than temporary declines in the market values of certain fixed maturity securities.

The losses due to the other than temporary declines in the market values of fixed maturity securities recognized during 2003, which totaled $3.3 million on an after-tax basis, resulted primarily from credit quality-related deterioration in the corporate debt markets, and the Company may recognize additional losses of this type in the future. The Company anticipates that if certain other existing declines in security values are determined to be other than temporary, it may recognize additional investment losses in the range of $5 million to $10 million, on an after-tax basis, with respect to the relevant securities. However, the extent of any such losses will depend on future market developments and changes in security values, and such losses may exceed or be lower than such range. The Company continuously monitors the affected securities pursuant to its procedures for evaluation for other than temporary impairment in valuation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Forward-Looking Statements and Cautionary Statements Regarding Certain Factors That May Affect Future Results" for a description of these procedures, which take into account a number of factors. It is not possible to predict the extent of any future changes in value, positive or negative, or the results of the future application of these procedures, with respect to these securities. There can be no assurance that the Company will realize investment gains in the future in an amount sufficient to offset any such losses.

Benefits and Expenses. Policyholder benefits and expenses were $183.4 million as compared to $166.2 million for the first quarter of 2002, an increase of 10%. This increase primarily reflects the increase in premiums from the Company's group employee benefit products discussed above. The combined ratio (loss ratio plus expense ratio) for the Company's group employee benefits segment was 95.0% for the first quarters of 2003 and 2002.

Income Tax Expense. Income tax expense was $9.6 million for the first quarter of 2003 as compared to $8.9 million for the first quarter of 2002. The Company's effective tax rate was 30.0% for the first quarter of 2003 and 31.2% for the first quarter of 2002. The effective tax rate in the 2003 period reflects a higher level of tax-exempt investment income.

Net Income. Management believes the non-GAAP financial measure of "operating earnings" is informative when analyzing the Company's operating trends and in comparing the Company's performance with that of other companies in its industry. Operating earnings exclude discretionary income or loss items such as realized investment gains and losses. Investment gains and losses may be realized based on management's decision to dispose of an investment or management's judgment that a decline in the market value of an investment is other than temporary. Therefore, realized investment gains and losses do not represent elements of the Company's ongoing earnings capacity. However, operating earnings should not be considered a substitute for net income as an indication of the Company's overall performance and may not be calculated in the same manner as similarly titled captions in other companies' financial statements. Operating earnings for the Company, consisting of net income adjusted to exclude realized investment gains (net of the related income tax expense), were $21.7 million, or $1.02 per diluted share, for the first quarter of 2003 as compared to $19.5 million, or $0.93 per diluted share, for the first quarter of 2002. The increase in operating earnings in the current period is attributable to the growth in income from group employee benefit products in the first quarter of 2003 as compared to the 2002 period. Realized investment gains (net of the related income tax expense) excluded from the calculation of operating earnings were $0.8 million ($0.04 per diluted share) and $0.1 million for the first quarters of 2003 and 2002, respectively. Net income, which is the GAAP measure most comparable to operating earnings, was $22.5 million and $19.6 million for the first quarters of 2003 and 2002, respectively. Net income per diluted share was $1.06 and $0.93 for the first quarters of 2003 and 2002, respectively.

LIQUIDITY AND CAPITAL RESOURCES

General. The Company had approximately $37.5 million of financial resources available at the holding company level at March 31, 2003, which was primarily comprised of investments in the common stock of its investment subsidiaries. The assets of the investment subsidiaries are primarily invested in fixed maturity securities and balances with independent investment managers. Other sources of liquidity at the holding company level include dividends paid from subsidiaries, primarily generated from operating cash flows and investments. The Company's insurance subsidiaries will be permitted, without prior regulatory approval, to make dividend payments of up to $46.6 million during 2003, of which $1.8 million has been paid during the first quarter of 2003. In general, dividends from the Company's non-insurance subsidiaries are not subject to regulatory or other restrictions. The Company had $103.0 million of borrowings available to it under its revolving credit facility. A shelf registration is also in effect under which up to $250.0 million in securities may be issued by the Company.

The Company's current liquidity needs, in addition to funding its operating expenses, include principal and interest payments on outstanding borrowings under its revolving credit facility, the Senior Notes, the SIG Senior Notes and the Subordinated Notes and distributions on the Capital Securities. The Senior Notes mature in their entirety in October 2003 and are not subject to any

sinking fund requirements nor are they redeemable prior to maturity. The SIG Senior Notes mature in their entirety in May 2003. The Subordinated Notes mature in their entirety in June 2003. The junior subordinated debentures underlying the Capital Securities are not redeemable prior to March 25, 2007.

Subject to market conditions, the Company may refinance its revolving credit facility and its Senior Notes prior to maturity through the issuance of debt securities covered by the shelf registration. On May 12, 2003, the Company commenced an underwritten offering of $100,000,000 aggregate principal amount of new senior notes due 2033 under the shelf registration, the proceeds of which would be used to repay outstanding indebtedness under the revolving credit facility and to repay at maturity or repurchase existing Senior Notes. However, no assurance can be given that such an offering will be completed. This Form 10-Q does not by itself constitute an offer to sell or a solicitation of offers to purchase any securities. To mitigate the risk of interest rates rising before such refinancing could be completed, the Company entered into a treasury rate lock agreement, with a notional amount of $150.0 million, pursuant to which the Company will receive (or make) a single payment at the conclusion of the agreement, depending on the extent to which the market yield on the specified U.S. Treasury security rises (or falls) over the term of the agreement. The agreement was entered into in September 2002 with a term of one year. Any gains or losses on the treasury rate lock agreement would be deferred and amortized as a component of interest expense over the hedged term of any debt securities issued in the refinancing, or recognized in income if, and at the time, the Company concludes that the refinancing is improbable or that the agreement is ineffective as a hedge under the applicable accounting rules, to the extent of such ineffectiveness.

The Company's board of directors has authorized a share repurchase program. Share repurchases are effected by the Company in the open market or in negotiated transactions in compliance with the safe harbor provisions of Rule 10b-18 under the Securities Exchange Act of 1934. Execution of the share repurchase program is based upon management's assessment of market conditions for its common stock and other potential uses of capital. During the first quarter of 2003, the Company repurchased 201,400 shares of its Class A Common Stock at a total cost of $7.5 million, for a volume-weighted average price of $37.13 per share. At March 31, 2003, approximately 728,700 shares were remaining under the currently authorized share repurchase program.

Sources of liquidity available to the Company and its subsidiaries are expected to exceed their current and long-term cash requirements.

Investments. The Company's overall investment strategy emphasizes safety and liquidity, while seeking the best available return, by focusing on, among other things, managing the Company's interest-sensitive assets and liabilities and seeking to minimize the Company's exposure to fluctuations in interest rates. The Company's investment portfolio, which totaled $2.9 billion at March 31, 2003, primarily consists of investments in fixed maturity securities and short-term investments. The weighted average credit rating of the Company's fixed maturity portfolio as rated by Standard & Poor's Corporation was "AA" at March 31, 2003. While the investment grade rating of the Company's fixed maturity portfolio addresses credit risk, it does not address other risks, such as prepayment and extension risks. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Forward-Looking Statements and Cautionary Statements Regarding Certain Factors That May Affect Future Results" for a discussion of these and certain other risks relating to the Company's investment portfolio.

MARKET RISK

There have been no material changes in the Company's exposure to market risk or its management of such risk since December 31, 2002.

CONTROLS AND PROCEDURES

Within the 90-day period preceding the date of this report, an evaluation was performed under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") and Vice President and Treasurer (the individual who acts in the capacity of the Chief Financial Officer), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934). Based on that evaluation, the Company's management, including the CEO and Vice President and Treasurer, concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of such evaluation.

FORWARD-LOOKING STATEMENTS AND CAUTIONARY STATEMENTS REGARDING CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

In connection with, and because it desires to take advantage of, the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions readers regarding certain forward-looking statements in the above "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Form 10-Q and in any other statement made by, or on behalf of, the Company, whether in future filings with the Securities and Exchange Commission or otherwise. Forward-looking statements are statements not based on historical information and which relate to future operations, strategies, financial results, prospects, outlooks or other developments. Some forward-looking statements may be identified by the use of terms such as "expects," "believes," "anticipates," "intends," "judgment" or other similar expressions. Forward-looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic, competitive and other uncertainties and contingencies, many of which are beyond the Company's control and many of which, with respect to future business decisions, are subject to change. Examples of such uncertainties and contingencies include, among other important factors, those affecting the insurance industry generally, such as the economic and interest rate environment, federal and state legislative and regulatory developments, including but not limited to changes in financial services and tax laws and regulations, market pricing and competitive trends relating to insurance products and services, acts of terrorism or war, and the availability and cost of reinsurance, and those relating specifically to the Company's business, such as the level of its insurance premiums and fee income, the claims experience, persistency and other factors affecting the profitability of its insurance products, the performance of its investment portfolio and changes in the Company's investment strategy, acquisitions of companies or blocks of business, and ratings by major rating organizations of its insurance subsidiaries. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company. Certain of these uncertainties and contingencies are described in more detail in the remainder of this section. The Company disclaims any obligation to update forward-looking information.

RESERVES ESTABLISHED FOR FUTURE POLICY BENEFITS AND CLAIMS MAY PROVE INADEQUATE.

The Company establishes reserves for future policy benefits and unpaid claims and claim expenses relating to its insurance products. These reserves are calculated using various generally recognized actuarial methodologies and are based upon assumptions that management believes are appropriate and which vary by type of product. External actuarial experts also review the Company's methodologies, assumptions and the resulting reserves. The estimation process is complex and involves information obtained from company-specific and industry-wide data, as well as general economic information. The most significant assumptions made in the estimation process for future policy benefits relate to mortality, morbidity, claim termination and discount rates. The reserves for unpaid claims and claim expenses are determined on an individual basis for reported claims and estimates of incurred but not reported losses are developed on the basis of past experience. The most significant assumptions made in the estimation process for unpaid claims and claim expenses are the trend in loss costs, the expected frequency and severity of claims, changes in the timing of the reporting of losses from the loss date to the notification date, and expected costs to settle unpaid claims. The assumptions vary based on the year the claim is incurred. Disability reserves for unpaid claims and claim expenses are discounted using interest rate assumptions based upon projected portfolio yield rates for the assets supporting the liabilities. The assets selected to support these liabilities produce cash flows that are intended to match the timing and amount of anticipated claim and claim expense payments. Excess workers' compensation claim reserves are discounted using interest rate assumptions based on the risk-free rate of return for U.S. Government securities with a duration comparable to the expected duration and payment pattern of the claims at the time the claims are settled. The rates used to discount reserves are determined annually. The methods and assumptions used to establish reserves for future policy benefits and unpaid claims and claim expenses are continually reviewed and updated based on current circumstances, and any resulting adjustments are reflected in earnings currently.

The Company's reserves for future policy benefits and unpaid claims and claim expenses are estimates. These estimates are subject to variability, since the factors and events affecting the ultimate liability have not all taken place, and thus cannot be evaluated with certainty. Moreover, under the actuarial methodologies discussed above, these estimates are subject to reevaluation based on developing trends with respect to the Company's loss experience. Such trends may emerge over longer periods of time, and changes in such trends cannot necessarily be identified or predicted at any given time by reference to current claims experience, whether favorable or unfavorable. If the Company's actual loss experience is different from the Company's assumptions or estimates, the Company's reserves could be inadequate. In such event, the Company's results of operations, liquidity or financial condition could be materially adversely affected.

THE MARKET VALUES OF THE COMPANY'S INVESTMENTS FLUCTUATE.

The market values of the Company's investments vary depending on economic and market conditions, including interest rates, and such values can decline as a result of changes in such conditions. Increasing interest rates or a widening in

the spread between interest rates available on U.S. Treasury securities and corporate debt, for example, will typically have an adverse impact on the market values of the fixed maturity securities in the Company's investment portfolio. If interest rates decline, the Company generally achieves a lower overall rate of return on investments of cash generated from the Company's operations. In addition, in the event that investments are called or mature in a declining interest rate environment, the Company may be unable to reinvest the proceeds in securities with comparable interest rates. The Company may also in the future be required or determine to sell certain investments at a price and a time when the market value of such investments is less than the book value of such investments.

Declines in the fair value of investments that are considered in the judgment of management to be other than temporary are reported as realized investment losses. The Company evaluates, among other things, the financial position and prospects of the issuer, conditions in the issuer's industry and geographic area, liquidity of the investment, changes in the amount or timing of expected future cash flows from the investment, and recent downgrades of the issuer by a rating agency to determine if and when a decline in the fair value of an investment below amortized cost is other than temporary. The length of time and extent to which the fair value of the investment is lower than its amortized cost and the Company's ability and intent to retain the investment to allow for any anticipated recovery in the investment's fair value are also considered. The Company has experienced and may in the future experience losses from other than temporary declines in security values. Such losses are recorded as realized investment losses in the income statement. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations."

THE COMPANY'S INVESTMENT STRATEGY EXPOSES THE COMPANY TO DEFAULT AND OTHER RISKS.

The management of the Company's investment portfolio is an important component of the Company's profitability since a substantial portion of the Company's operating income is generated from the difference between the yield achieved on invested assets and, in the case of asset accumulation products, the interest credited on policyholder funds and, in the case of all of the Company's other products, the discount rate used to calculate the related reserves.

The Company is subject to the risk that the issuers of the fixed maturity securities the Company owns will default on principal and interest payments. A major economic downturn or any of the various other factors that affect issuers' ability to pay could result in issuer defaults. Because the Company's investments consist primarily of fixed maturity securities and short-term investments, such defaults could materially adversely affect the Company's results of operations, liquidity or financial condition. The Company continually monitors its investment portfolio and attempts to ensure that the risks associated with concentrations of investments in either a particular sector of the market or a single entity are limited.

At March 31, 2003, mortgage-backed securities comprised 21% of the Company's total invested assets. Mortgage-backed securities subject the Company to a degree of interest rate risk, including prepayment and extension risk, which is generally a function of the sensitivity of each security's underlying collateral to prepayments under varying interest rate environments and the repayment priority of the securities in the particular securitization structure. The Company seeks to limit the extent of this risk by emphasizing the more predictable payment classes and securities with stable collateral.

The Company, through its insurance subsidiaries, maintains a program in which investments are financed using advances from various Federal Home Loan Banks. At March 31, 2003, the Company had outstanding advances of $207.0 million. These advances, of which $195.0 million were obtained at a fixed rate and $12.0 million were obtained at a variable rate, have a weighted average term to maturity of 5.3 years. A total of $57.0 million of these advances will mature at various times during the remainder of 2003. In addition, the Company has utilized reverse repurchase agreements, futures and option contracts and interest rate swap contracts from time to time in connection with the Company's investment strategy. These transactions require the Company to maintain securities or cash on deposit with the applicable counterparty as collateral. As the market value of the collateral or contracts changes, the Company may be required to deposit additional collateral or be entitled to have a portion of the collateral returned to it.

The types and amounts of investments made by the Company's insurance subsidiaries are subject to the insurance laws and regulations of their respective states of domicile. Each of these states has comprehensive investment regulations. In addition, the Company's revolving credit facility and the SIG Senior Notes also contain limitations, with which the Company is currently in compliance in all material aspects, on the composition of the Company's investment portfolio.

THE COMPANY'S FINANCIAL POSITION EXPOSES THE COMPANY TO INTEREST RATE RISKS.

Because the Company's primary assets and liabilities are financial in nature, the Company's consolidated financial position and earnings are subject to risks resulting from changes in interest rates. The Company manages this risk by active portfolio management focusing on minimizing its exposure to fluctuations in interest rates by matching its invested assets and related liabilities and by periodically adjusting the crediting rates on its annuity products.

THE COMPANY'S ABILITY TO REDUCE ITS EXPOSURE TO RISKS DEPENDS ON THE AVAILABILITY AND COST OF REINSURANCE.

The Company transfers its exposure to some risks through reinsurance arrangements with other insurance and reinsurance companies. Under the Company's reinsurance arrangements, another insurer assumes a specified portion of the Company's losses and loss adjustment expenses in exchange for a specified portion of policy premiums. The availability, amount, cost and terms of reinsurance may vary significantly based on market conditions. Any decrease in the amount of the Company's reinsurance will increase the Company's risk of loss, furthermore, the Company is subject to credit risk with respect to reinsurance. The Company obtains reinsurance primarily through indemnity reinsurance transactions in which the Company is still liable for the transferred risks if the reinsurers fail to meet their financial obligations. Such failures could materially affect the Company's results of operations, liquidity or financial condition.

Some reinsurers experienced significant losses related to the terrorist events of September 11, 2001. As a result, higher prices and less favorable terms and conditions are presently being offered in the reinsurance market. Also, there has been significantly reduced availability of reinsurance covering risks such as terrorist and catastrophic events. Accordingly, substantially all of the Company's coverages of this nature were discontinued in 2002, which may result in the Company retaining a higher portion of such losses should they occur. There can be no assurance that the Company will be able to obtain such coverages on acceptable terms, if at all, in the future. However, under the Terrorism Risk Insurance Act of 2002, the federal government will pay 90% of the Company's covered losses relating to acts of international terrorism from property and casualty products directly written by SNCC above SNCC's annual deductible.

THE INSURANCE BUSINESS IS A HEAVILY REGULATED INDUSTRY.

The Company's insurance subsidiaries, like other insurance companies, are highly regulated by state insurance authorities in the states in which they are domiciled and the states in which they conduct business. Such regulations, among other things, limit the amount of dividends and other payments that can be made by such subsidiaries without prior regulatory approval and impose restrictions on the amount and type of investments such subsidiaries may have. These regulations also affect many other aspects of the Company's insurance subsidiaries' businesses, including, for example, risk-based capital requirements, various reserve requirements, the terms, conditions and manner of sale and marketing of insurance products and the form and content of required financial statements. These regulations are intended to protect policyholders rather than investors. The ability of the Company's insurance subsidiaries to continue to conduct their businesses is dependent upon the maintenance of their licenses in these various states.

From time to time, increased scrutiny has been placed upon the insurance regulatory framework, and a number of state legislatures have considered or enacted legislative measures that alter, and in many cases increase, state authority to regulate insurance companies. In addition to legislative initiatives of this type, the National Association of Insurance Commissioners and insurance regulators are continuously involved in a process of reexamining existing laws and regulations and their application to insurance companies. Furthermore, while the federal government currently does not directly regulate the insurance business, federal legislation and administrative policies in a number of areas, such as employee benefits regulation, age, sex and disability-based discrimination, financial services regulation and federal taxation, can significantly affect the insurance business. It is not possible to predict the future impact of changing regulation on the operations of the Company and those of its insurance subsidiaries.

The Company's insurance subsidiaries can also be required, under solvency or guaranty laws of most states in which they do business, to pay assessments to fund policyholder losses or liabilities of insurance companies that become insolvent.

THE FINANCIAL SERVICES INDUSTRY IS HIGHLY COMPETITIVE.

The Company competes with numerous other insurance and financial services companies. Many of these organizations have substantially greater assets, higher ratings from rating agencies, larger and more diversified portfolios of insurance products and larger agency sales operations than the Company. Competition in asset accumulation product markets is also encountered from the expanding number of banks, securities brokerage firms and other financial intermediaries marketing alternative savings products, such as mutual funds, traditional bank investments and retirement funding alternatives.

THE COMPANY MAY BE ADVERSELY IMPACTED BY A DECLINE IN THE RATINGS OF THE COMPANY'S INSURANCE SUBSIDIARIES.

Ratings with respect to claims-paying ability and financial strength have become an increasingly important factor impacting the competitive position of insurance companies. Each of the rating agencies reviews its ratings of companies periodically and there can be no assurance that current ratings will be maintained in the future. Claims-paying and financial strength ratings are based upon factors relevant to policyowners and are not directed toward protection of investors. Downgrades in the ratings of the Company's insurance subsidiaries could adversely affect sales of their products and could have a material adverse effect on the results of the Company's operations.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 2003 Bonus Criteria for Chairman, President and Chief Executive Officer of Delphi Financial Group, Inc.

11 Computation of Results per Share of Common Stock (incorporated by reference to Note E to the Consolidated Financial Statements

included elsewhere herein)

99.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.2 Certification of Vice President and Treasurer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

The Company filed a report on Form 8-K on February 13, 2003, under Item 9, containing a press release announcing fourth quarter 2002 earnings.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DELPHI FINANCIAL GROUP, INC. (Registrant)

/s/ ROBERT ROSENKRANZ

Robert Rosenkranz
Chairman of the Board, President and Chief Executive Officer
(Principal Executive Officer)

/s/ THOMAS W. BURGHART

Thomas W. Burghart
Vice President and Treasurer
(Principal Accounting and Financial Officer)

Date: May 13, 2003

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DELPHI FINANCIAL GROUP, INC.

CERTIFICATIONS PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Robert Rosenkranz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Delphi Financial Group, Inc. (the "registrant").

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

/s/ ROBERT ROSENKRANZ

Robert Rosenkranz
Chairman of the Board, President and
Chief Executive Officer

CERTIFICATION

I, Thomas W. Burghart, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Delphi Financial Group, Inc. (the "registrant").

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

    a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

    b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

    c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    d. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    e. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this

quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

/s/ THOMAS W. BURGHART

Thomas W. Burghart
Vice President and Treasurer