DELPHI FINANCIAL GROUP INC/DE
Form 10-Q
November 14, 2002

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 September 30, 2002

[ ] 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-
(State or other jurisdiction of incorporation or organization)	(Registrant's telephone number, including area code)	(I.R.S. Employ N

1105 North Market Street, Suite 1230, P.O. Box 8985, Wilmington, Delaware

(Address of principal executive offices) (

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

As of October 31, 2002, the Registrant had 17,318,184 shares of Class A Common Stock and 3,279,018 shares of Class B Common Stock outstanding.

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FORM 10-Q
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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 September 30,		
	2002	2001	
Revenue:			
Premium and fee income	$ 152,780	$ 127,068	$ 4
Net investment income	40,627	38,397	1
Net realized investment losses	(10,825)	(6,926)	(
	182,582	158,539	5
Benefits and expenses:			
Benefits, claims and interest credited to policyholders	115,450	96,972	3
Commissions	10,691	9,595	
Amortization of cost of business acquired	11,584	8,536	
Other operating expenses	24,326	23,172	

	162,051	138,275	4
Operating income	20,531	20,264	
Interest expense:			
Corporate debt	2,115	2,539	
Dividends on Capital Securities of Delphi Funding L.L.C	839	1,072	
	2,954	3,611	
Income before income tax expense and extraordinary gain (loss)	17,577	16,653	
Income tax expense	4,784	5,081	
Income before extraordinary gain (loss)	12,793	11,572	
Extraordinary gain (loss), net of income taxes	--	1,233	
Net income	$ 12,793	$ 12,805	$
Basic results per share of common stock:			
Income before extraordinary gain (loss)	$ 0.62	$ 0.56	$
Net income	0.62	0.62	
Diluted results per share of common stock:			
Income before extraordinary gain (loss)	$ 0.60	$ 0.55	$
Net income	0.60	0.61	
Dividend paid per share of common stock	$ 0.07	$ 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)

Assets:
Investments:
Fixed maturity securities, available for sale ....
Short-term investments ....
Other investments ....

Cash ....
Cost of business acquired ....
Reinsurance receivables ....
Goodwill ....
Other assets ....
Assets held in separate account ....

Total assets ....

Liabilities and Shareholders' Equity:
Future policy benefits:
Life ....

Accident and health ....
Unpaid claims and claim expenses:
Life ....
Accident and health ....
Casualty ....
Policyholder account balances ....
Corporate debt ....
Other liabilities and policyholder funds ....
Liabilities related to separate account ....
Total liabilities ....
Company-obligated mandatorily redeemable Capital Securities of Delphi Funding L.L.C. holding solely junior subordinated deferrable interest debentures of the Company ....
Shareholders' equity:
Preferred Stock, $.01 par; 10,000,000 shares authorized ....
Class A Common Stock, $.01 par; 40,000,000 shares authorized; 18,754,328 and 17,763,428 shares issued and outstanding, respectively ....
Class B Common Stock, $.01 par; 20,000,000 shares authorized; 3,279,018 and 4,132,688 shares issued and outstanding, respectively ....
Additional paid-in capital ....
Accumulated other comprehensive income (loss) ....
Retained earnings ....
Treasury stock, at cost; 1,505,290 shares of Class A Common Stock ....
Total shareholders' equity ....
Total liabilities and shareholders' equity ....

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	Ret Ear
Balance, January 1, 2001	$ 168	$ 48	$ 366,834	$ (53,622)	$ 2
Net income	--	--	--	--	
Other comprehensive income:					
Decrease in net unrealized depreciation on investments ...	--	--	--	33,001	
Comprehensive income					
Issuance of stock, exercise of stock options and share conversions ...	8	(7)	1,941	--	

Acquisition of treasury stock	--	--	--	--	
Cash dividends	--	--	--	--	
Balance, September 30, 2001	$ 176	$ 41	$ 368,775	$ (20,621)	$ 3
Balance, January 1, 2002	$ 178	$ 41	$ 369,385	$ (10,985)	$ 2
Net income	--	--	--	--	
Other comprehensive income:					
Increase in net unrealized appreciation on investments ...	--	--	--	56,875	
Net unrealized loss on cash flow hedge	--	--	--	(3,953)	
Comprehensive income					
Issuance of stock, exercise of stock options and share conversions ...	10	(8)	3,292	--	
Cash dividends	--	--	--	--	
Balance, September 30, 2002	$ 188	$ 33	$ 372,677	$ 41,937	$ 3

See notes to consolidated financial statements.

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

	Nine S
	2002
Operating activities:	
Net income	$ 51,8
Adjustments to reconcile net income to net cash provided by operating activities:	
Change in policy liabilities and policyholder accounts	106,6
Net change in reinsurance receivables and payables	(13,3
Amortization, principally the cost of business acquired and investments	21,0
Deferred costs of business acquired	(51,8
Net realized losses on investments	10,5
Net change in trading account securities	5,8
Net change in federal income tax liability	15,0
Extraordinary loss (gain)	2
Other	6,4
Net cash provided by operating activities	152,3
Investing activities:	
Purchases of investments and loans made	(805,7
Sales of investments and receipts from repayment of loans	539,8
Maturities of investments	116,9

Net change in short-term investments	(62,0
Business acquisitions	
Change in deposit in separate account	5
Net cash (used) provided by investing activities	(210,3
Financing activities:	
Deposits to policyholder accounts	86,1
Withdrawals from policyholder accounts	(43,1
Proceeds from issuance of common stock and exercise of stock options	3,2
Dividends paid on common stock	(4,3
Acquisition of treasury stock	
Borrowings under Credit Agreements	29,0
Principal payments under Credit Agreements	(24,0
Principal payment under SIG Senior Notes	(9,0
Change in liability for Federal Home Loan Bank advances	45,0
Repurchase of Capital Securities	
Repurchase of Senior Notes	(10,8
Change in liability for securities loaned or sold under agreements to repurchase	8,0
Net cash provided (used) by financing activities	80,2
Increase in cash	22,1
Cash at beginning of period	11,6
Cash at end of period	$ 33,8

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, 2001. 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 nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002. Certain reclassifications have been made in the 2001 financial statements to conform to the 2002 presentation. 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, 2001. 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, 2001.

Recently Adopted Accounting Standards. Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." Under SFAS 142, goodwill and intangible assets

deemed to have indefinite lives are no longer amortized over a pre-determined period, but are required to be periodically reviewed for impairment. Other intangible assets with finite lives continue to be amortized over their useful lives. An impairment loss resulting from the adoption of SFAS 142 must be accounted for as a cumulative effect of a change in accounting principle and recognized in the entity's first interim period financial statements following the effective date regardless of the interim period in which the measurement is completed. Any subsequent impairment losses will be reflected within operating results in the income statement. At January 1, 2002, unamortized goodwill of $60.9 million was attributable to the acquisition of SNCC, whose operations are included in the group employee benefits segment, and $33.0 million was attributable to the acquisition of Matrix, whose operations do not meet the quantitative threshold for reportable segments and, therefore, are reported in other segments. In accordance with SFAS 142, the Company during the first half of 2002 completed its transitional tests for impairment of goodwill, and based on these tests, the Company determined that no impairment of goodwill had occurred.

Income before extraordinary loss was $52.1 million, or $2.51 per share ($2.45 per share assuming dilution), for the first nine months of 2002, and $12.8 million, or $0.62 per share ($0.60 per share assuming dilution), for the third quarter of 2002. Income before extraordinary gain, excluding the effects of goodwill amortization, would have been $50.1 million, or $2.44 per share ($2.37 per share assuming dilution), for the first nine months of 2001, and $12.4 million, or $0.60 per share ($0.59 per share assuming dilution), for the third quarter of 2001. The following table provides a reconciliation of reported net income to adjusted net income and the related earnings per share data as if the provisions of SFAS 142 related to goodwill had been adopted as of January 1, 2001:

	Three Months Ended September 30,		Nine Months Ende September 30,	
	2002	2001	2002	20
	(dollars in thousands, except per share data			
Net income, as reported	$ 12,793	$ 12,805	$ 51,879	$ 5
Add back: goodwill amortization	--	799	--	
Adjusted net income	$ 12,793	$ 13,604	$ 51,879	$ 5
Basic results per share of common stock:				
Net income, as reported	$ 0.62	$ 0.62	$ 2.50	$
Add back: goodwill amortization	--	0.04	--	
Adjusted net income	$ 0.62	$ 0.66	$ 2.50	$
Diluted results per share of common stock:				
Net income, as reported	$ 0.60	$ 0.61	$ 2.44	$
Add back: goodwill amortization	--	0.04	--	
Adjusted net income	$ 0.60	$ 0.65	$ 2.44	$

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS 145 is required to be adopted for fiscal years beginning after May 15, 2002. SFAS 145 rescinds SFAS 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. Accordingly, gains or losses from extinguishment of debt will be classified as income or loss from continuing operations in the income statement unless the extinguishment qualifies as an extraordinary item under the provisions of Accounting Principles Board Opinion No. 30 ("APB 30"), "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." Events or transactions that are both unusual in nature and infrequent in occurrence are classified as extraordinary items under APB 30. Upon adoption, any gain or loss on extinguishment of debt previously classified as an extraordinary item in prior periods presented that does not meet the criteria of APB 30 for such classification will be reclassified as required by SFAS 145. For the nine month period ending September 30, 2002 and 2001, the Company had an extraordinary (loss) gain, net of the related income tax effect, of $(0.2) million, or $(0.01) per diluted share, and $7.4 million, or $0.35 per diluted share, respectively, that would be reclassified to ongoing operations if SFAS 145 were adopted early.

NOTE B - INVESTMENTS

At September 30, 2002, the Company had fixed maturity securities available for sale with a carrying value and a fair value of $2,499.4 million and an amortized cost of $2,421.1 million. At December 31, 2001, the Company had fixed maturity securities available for sale with a carrying value and a fair value of $2,223.8 million and an amortized cost of $2,249.3 million.

NOTE C - REPURCHASE OF SENIOR NOTES

The Company repurchased $10.5 million aggregate principal amount of its 8% Senior Notes due 2003 at various times during the second quarter of 2002. The Company recognized an extraordinary loss of $0.2 million, net of an income tax benefit of $0.1 million, in connection with these repurchases.

NOTE D - SEGMENT INFORMATION

	Three Months Ended September 30,		Nine Mon Septe
	2002	2001	2002
		(dollars in thousands)	
Revenues excluding net realized investment losses:			
Group employee benefit products	$ 170,715	$ 142,718	$ 519,089
Asset accumulation products	17,494	17,604	51,873

Other (1)	5,198	5,143	15,789
	$ 193,407	$ 165,465	$ 586,751
Operating income (2):			
Group employee benefit products (3)	$30,287	$25,659	$ 91,320
Asset accumulation products	2,255	2,776	7,106
Other (1) (3)	(1,186)	(1,245)	(3,765)
	$ 31,356	$ 27,190	$ 94,661

(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 losses and before interest and income tax expense and extraordinary gain (loss).

(3) Operating income for group employee benefits and other operations includes amortization of goodwill of $0.4 million and $0.4 million, respectively, for the third quarter of 2001, and $1.3 million and $1.1 million, respectively, for the first nine months of 2001.

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

NOTE E - 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 an unrealized loss on a cash flow hedge. Total comprehensive income was $104.8 million and $88.1 million for the first nine months of 2002 and 2001, respectively, and $57.7 million and $37.3 million for the third quarter of 2002 and 2001, respectively.

NOTE F - COMPUTATION OF RESULTS PER SHARE

The following table sets forth the calculation of basic and diluted results per share:

	Three Months Ended September 30,		Nine M Sep
	2002	2001	2002
	(dollars in thousands, except per		
Numerator:			
Income before extraordinary gain (loss)	$ 12,793	$ 11,572	$ 52,095
Extraordinary gain (loss), net of income taxes ..	--	1,233	(216
Net income	$ 12,793	$ 12,805	$ 51,879

Denominator:			
Weighted average common shares outstanding	20,767	20,564	20,728
Effect of dilutive securities	512	585	523
Weighted average common shares outstanding, assuming dilution	21,279	21,149	21,251
Basic results per share of common stock:			
Income before extraordinary gain (loss)	$ 0.62	$ 0.56	$ 2.51
Extraordinary gain (loss), net of income taxes	--	0.06	(0.01
Net income	$ 0.62	$ 0.62	$ 2.50
Diluted results per share of common stock:			
Income before extraordinary gain (loss)	$ 0.60	$ 0.55	$ 2.45
Extraordinary gain (loss), net of income taxes ..	--	0.06	(0.01
Net income	$ 0.60	$ 0.61	$ 2.44

NOTE G - 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 certain of 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. These arbitrations are in their early stages, and their ultimate resolutions 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, 2001. 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, 2001.

RESULTS OF OPERATIONS

Nine Months Ended September 30, 2002 Compared to
Nine Months Ended September 30, 2001

Premium and Fee Income. Premium and fee income for the first nine months of 2002 was $466.0 million as compared to $372.9 million for the first nine months of 2001, an increase of 25%. Premiums from core group employee benefit products increased 22% to $407.6 million in the first nine months of 2002 from $333.3 million in the first nine months of 2001. 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 38% to $73.7 million in the first nine months of 2002 from $53.3 million in the first nine months of 2001 primarily due to improvements in the pricing environment in this market sector and increased demand due to higher primary workers' compensation rates. SNCC has been able to obtain significant price increases in connection with its renewals of insurance coverage during 2002. As to a substantial portion of such renewals, such price increases exceeded 20%. SNCC has also been obtaining significant improvements in contract terms, in particular higher self-insured retention levels, in connection with these renewals. In addition, new business production for excess workers' compensation products increased 97% to $25.2 million in the first nine months of 2002 from $12.8 million in the first nine months of 2001 and the retention of existing customers has been satisfactory. New business production for the Company's other core group employee benefit products increased 47% to $123.6 million in the first nine months of 2002 from $84.0 million in the first nine months of 2001 primarily due to the expansion of the Company's sales force during 2001 and the opening of three new sales offices in the first nine months of 2002. Retention of existing customers for these products also improved during the first nine months of 2002 and price increases continue to be implemented for certain disability customers. Premiums from non-core group employee benefit products increased 68% to $44.2 million in the first nine months of 2002 from $26.3 million in the first nine months of 2001 primarily due to a higher level of premium from loss portfolio transfers, which are episodic in nature. Deposits from the Company's asset accumulation products increased 26% to $82.0 million in the first nine months of 2002 from $64.8 million in the first nine months of 2001. Deposits for these products, which are long-term in nature, are not recorded as premiums; instead, the deposits are recorded as a liability. The Company has maintained 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 2001 and the first nine months of 2002. The increase in deposits from the Company's asset accumulation products in the first nine months of 2002 was higher than expected primarily due to heightened demand for fixed annuity products during the third quarter of 2002 as a result of adverse conditions in the equity markets.

Net Investment Income. Net investment income for the first nine months of 2002 was $120.8 million as compared to $116.9 million for the first nine months of 2001, an increase of 3%. This increase primarily reflects an increase in average invested assets in 2002, partially offset by a decrease in the tax equivalent weighted average annualized yield. The tax equivalent weighted average annualized yield on invested assets was 6.6% on average invested assets of $2,533.6 million in the first nine months of 2002 and 6.9% on average invested assets of $2,325.7 million in the first nine months of 2001.

Net Realized Investment Losses. Net realized investment losses were $10.5 million in the first nine months of 2002 as compared to $6.3 million in the first nine months of 2001. The Company's investment strategy results in periodic sales of securities and the recognition of realized investment gains and losses. 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, even though the security has not been sold. In the first nine months of 2002 and 2001, the Company recognized $29.5 million and $13.1 million, respectively, of losses due to the other than temporary declines in the market values of certain fixed maturity securities. During the same periods, the Company recognized $19.8 million and $6.8 million, respectively, of net gains on sales of securities.

The losses due to the other than temporary declines in the market values of fixed maturity securities recognized during 2002, which totaled $19.2 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 $10 to $15 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 for the first nine months of 2002 were $492.1 million as compared to $399.9 million in the first nine months of 2001, an increase of 23%. This increase primarily reflects the increase in premiums from the Company's group employee benefit products discussed above. Policyholder benefits for the first nine months of 2001 included losses of $3.8 million, net of reinsurance coverages, as a result of the World Trade Center attacks. The combined ratio (loss ratio plus expense ratio) for the Company's group employee benefits segment was 94.7% in the first nine months of 2002 and 93.5% for the comparable period of 2001. This increase was primarily due to a higher combined ratio in the Company's excess workers' compensation business and a higher level of premium from loss portfolio transfers, which carry a higher loss ratio.

Interest Expense and Extraordinary (Loss) Gain. Interest expense was $9.4 million in the first nine months of 2002 as compared to $13.8 million in the first nine months of 2001, a decrease of $4.4 million. This decrease was primarily a result of the Company's repurchase of $64.0 million liquidation amount of the Capital Securities in the open market, which occurred on various dates during the first nine months of 2001, and a lower weighted average borrowing rate under the Company's revolving credit facilities during the first nine months of 2002. In addition, the Company had a lower amount of borrowings outstanding under its Senior Notes and SIG Senior Notes during the first nine months of 2002. In June 2001, the Company also repurchased $8.0 million aggregate principal amount of the Senior Notes. The Company recognized an extraordinary gain of $7.4 million, net of income tax expense of $4.0 million, in connection with the repurchases of the Capital Securities and Senior Notes in the first nine months of 2001. In the second quarter of 2002, the Company repurchased $10.5 million aggregate principal amount of the Senior Notes, resulting in an extraordinary loss of $0.2 million, net of an income tax benefit

of $0.1 million.

Income before Extraordinary (Loss) Gain. Management believes that the calculation 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 or nonrecurring items of income or loss such as realized investment gains and losses and extraordinary items. 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 income before extraordinary (loss) gain adjusted to exclude realized investment losses (net of the related income tax benefit), were $58.9 million, or $2.77 per diluted share, in the first nine months of 2002 as compared to $51.7 million, or $2.45 per diluted share, in the first nine months of 2001. The increase in operating earnings in the current period is attributable to decreased interest expense ($2.8 million after taxes) and to charges in the 2001 period for goodwill amortization ($2.4 million after taxes) and World Trade Center losses ($2.5 million after taxes).

Three Months Ended September 30, 2002 Compared to
Three Months Ended September 30, 2001

Premium and Fee Income. Premium and fee income for the third quarter of 2002 was $152.8 million as compared to $127.1 million for the third quarter of 2001, an increase of 20%. Premiums from core group employee benefit products increased 24% to $142.0 million in the third quarter of 2002 from $114.2 million in the third quarter of 2001. 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 46% to $27.5 million in the third quarter of 2002 from $18.9 million in the third quarter of 2001 primarily due to improvements in the pricing environment in this market sector and increased demand due to higher primary workers' compensation rates. SNCC has been

able to obtain significant price increases in connection with its renewals of insurance coverage during 2002. As to a substantial portion of such renewals, such price increases exceeded 20%. SNCC has also been obtaining significant improvements in contract terms, in particular higher self-insured retention levels, in connection with these renewals. In addition, new business production for excess workers' compensation products increased 56% to $9.8 million in the third quarter of 2002 from $6.3 million in the third quarter of 2001 and the retention of existing customers has been satisfactory. New business production for the Company's other core group employee benefit products increased 17% to $33.1 million in the third quarter of 2002 from $28.2 million in the third quarter of 2001 primarily due to the expansion of the Company's sales force during 2001 and the opening of three new sales offices in 2002. Retention of existing customers for these products also improved during the third quarter of 2002 and price increases continue to be implemented for certain disability customers. Premiums from non-core group employee benefit products decreased to $5.7 million in the third quarter of 2002 from $8.2 million in the third quarter of 2001. The Company did not have significant sales of loss portfolio transfers during the third quarter of 2002 or 2001. Deposits from the Company's asset accumulation products increased 98% to $44.9 million in the third quarter of

2002 from $22.7 million in the third quarter of 2001. Deposits for these products, which are long-term in nature, are not recorded as premiums; instead, the deposits are recorded as a liability. The Company has maintained 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 2001 and the first nine months of 2002. The increase in deposits from the Company's asset accumulation products in the third quarter of 2002 was higher than expected primarily due to heightened demand for fixed annuity products as a result of adverse conditions in the equity markets.

Net Investment Income. Net investment income for the third quarter of 2002 was $40.6 million as compared to $38.4 million for the third quarter of 2001, an increase of 6%. This increase primarily reflects an increase in average invested assets in third quarter 2002, partially offset by a decrease in the tax equivalent weighted average annualized yield. The tax equivalent weighted average annualized yield on invested assets was 6.3% on average invested assets of $2,683.2 million in the third quarter of 2002 and 6.8% on average invested assets of $2,326.6 million in the third quarter of 2001.

Net Realized Investment Losses. Net realized investment losses for the third quarter of 2002 were $10.8 million as compared to $6.9 million in the comparable period of 2001. The Company's investment strategy results in periodic sales of securities and the recognition of realized investment gains and losses. 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, even though the security has not been sold. In the third quarter of 2002 and 2001, the Company recognized $20.0 million and $12.5 million, respectively, of losses due to the other than temporary declines in the market values of certain fixed maturity securities. During the same periods, the Company recognized $10.0 million and $5.6 million, respectively, of net gains on sales of securities.

The losses due to the other than temporary declines in the market values of fixed maturity securities recognized during the third quarter of 2002, which totaled $13.0 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 $10 to $15 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 for the third quarter of 2002 were $162.1 million as compared to $138.3 million in the third quarter of 2001, an increase of 17%. This increase primarily reflects the increase in premiums from the Company's group employee benefit products discussed above. Policyholder benefits for the third quarter of 2001 included losses of $3.8 million, net of reinsurance coverages, as a result of the World Trade Center

attacks. The combined ratio (loss ratio plus expense ratio) for the Company's group employee benefits segment was 95.1% in the third quarter of 2002 and 95.6% for the comparable period of 2001. The Company's combined ratio for the third quarter of 2002 reflects a higher combined ratio in the Company's excess workers' compensation business.

Interest Expense and Extraordinary Gain. Interest expense was $3.0 million in the third quarter of 2002 as compared to $3.6 million in the third quarter of 2001, a decrease of $0.6 million. This decrease resulted from the Company's repurchase of $64.0 million liquidation amount of the Capital Securities in the open market, which occurred on various dates during the first nine months of 2001 and a lower amount of borrowings outstanding under its Senior

Notes and SIG Senior Notes due to repurchases and scheduled principal repayments during 2001 and 2002. At the end of the third quarter of 2001, the Company repurchased an additional $10.0 million liquidation amount of the Capital Securities in the open market. The Company recognized an extraordinary gain of $1.2 million, net of income tax expense of $0.7 million, in connection with this repurchase.

Income before Extraordinary Gain. Management believes that the calculation 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 or nonrecurring items of income or loss such as realized investment gains and losses and extraordinary items. 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 income before extraordinary gain adjusted to exclude realized investment losses (net of the related income tax benefit), were $19.8 million, or $0.93 per diluted share, in the third quarter of 2002 as compared to $16.1 million, or $0.76 per diluted share, in the third quarter of 2001. The increase in operating earnings in the current period is attributable to decreased interest expense ($0.4 million after taxes) and to charges in the 2001 period for goodwill amortization ($0.8 million after taxes) and World Trade Center losses ($2.5 million after taxes).

LIQUIDITY AND CAPITAL RESOURCES

General. The Company had approximately $58.5 million of financial resources available at the holding company level at September 30, 2002, 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 are permitted, without prior regulatory or other approval, to make dividend payments of $44.1 million during 2002, of which $20.0 million has been paid during the first nine months of 2002. In general, dividends from the Company's non-insurance subsidiaries are not subject to regulatory or other restrictions. The Company had $110.0 million of borrowings available to it under its revolving credit facilities as of October 1, 2002.

The Company's current liquidity needs, in addition to funding lease commitments and other operating expenses, include principal and interest payments on outstanding borrowings under its revolving credit facilities, the Senior Notes, the SIG Senior Notes and the Subordinated Notes, all of which mature during 2003, and distributions on the Capital Securities. As of October 1, 2002, the maximum amount of borrowings available under the Company's revolving credit facilities, which expire in April 2003, is $140.0 million. During the second quarter of 2002, the Company repurchased $10.5 million aggregate principal amount of the Senior Notes. 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. A $9.0 million annual principal installment was paid on the SIG Senior Notes in May 2002, and the remaining $9.0 million of such notes will 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.

The Company's shelf registration statement for the sale, from time to time, of securities was declared effective by the Securities and Exchange Commission on May 6, 2002. This shelf registration increased the Company's existing $49.2 million shelf registration to an amount of up to $250.0 million of proceeds. In addition, the Company is currently negotiating the replacement of its revolving credit facilities with another credit facility in the range of $125.0 million to $150.0 million. However, no assurance can be given that these negotiations will result in the Company's obtaining a new credit facility or that the amount of any such facility will be in the aforementioned range. Subject to market conditions, the Company may refinance its existing credit facilities or any new credit facility and its Senior Notes prior to maturity through the issuance of debt securities covered by the shelf registration. However, no assurance can be given that such an offering will be commenced. To mitigate the risk that interest rates rise before such refinancing is 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 amount by which the market yield on the specified U.S. Treasury security rises (or falls), and the extent of such change, 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 term of any debt securities issued in the refinancing; or recognized in income if, and at the time, the Company concludes the refinancing is improbable.

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 $2.8 billion at September 30, 2002, primarily consists of investments in fixed maturity securities and short-term investments. The market value of the Company's investment portfolio, in relation to its amortized cost, improved by $105.1 million during the first nine months of 2002, before related changes in the cost of business acquired of $17.6 million and the income tax provision of $30.6 million. The net investment losses recognized during the first nine months of 2002, which are discussed above, contributed to the improvement in the net unrealized appreciation in the investment portfolio. The weighted average credit rating of the Company's fixed maturity portfolio as rated by Standard & Poor's Corporation was "AA" at

September 30, 2002. 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, 2001.

DISCLOSURE 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, 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 the Company's 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. 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 interest 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 liability payments. 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 projected ultimate insurance liabilities and associated reserves are estimates. As estimates, these values are subject to variability. This variability arises because the factors and events affecting the ultimate liability for claim reserves 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 be required or determine in the future 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, even though the investments are not sold. 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 - Nine Months Ended September 30, 2002 Compared to Nine Months Ended September 30, 2001."

THE COMPANY'S INVESTMENT AND FINANCING STRATEGY EXPOSES THE COMPANY TO DEFAULT, PREPAYMENT, EXTENSION 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 September 30, 2002, approximately 25% of the Company's total invested assets were comprised of mortgage-backed securities, of which approximately 46% are guaranteed by U.S. Government sponsored entities as to the full amount of principal and interest and the remaining 54% consists of investments in trusts created by banks and finance and mortgage companies. 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 maintains a program in which investments are financed using advances from various Federal Home Loan Banks. At September 30, 2002, the Company had outstanding advances of $207.0 million, of which $45.0 million were obtained during 2002. 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 5.8 years. 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.

The ability of the Company's insurance subsidiaries to make investments is 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 facilities and the SIG Senior Notes also contain limitations 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 depend on market conditions and may vary significantly. 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 have been or, unless significant improvements in availability of such coverages occur, will be discontinued during the present year. There can be no assurance that the Company will be able to obtain such coverages on

acceptable terms, if at all, in the future. In addition, while federal legislation is presently being considered that would potentially provide insurers with some degree of protection in the event of terrorism-related losses, there can be no assurance that such legislation will be enacted or as to its effect on the Company if enacted.

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 other 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. 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. A downgrade 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 5. Other Information

Pursuant to Section 10A of the Securities Exchange Act of 1934, as amended, the Audit Committee of the Board of Directors of the Company approved the engagement of Ernst & Young LLP, the Company's independent auditor, to perform non-audit services for the Company consisting of actuarial attestation under statutory valuation laws and related advisory services.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 2002 Bonus Criteria for Chairman, President and Chief Executive Officer of Delphi Financial Group, Inc.

10.2 Second Amendment to the Delphi Capital Management, Inc. Pension Plan for Robert Rosenkranz

11 Computation of Results per Share of Common Stock (incorporated by reference to Note F 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

None.

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: November 14, 2002

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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 officers 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 we 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 officers 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 function):

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 officers 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: November 14, 2002

/s/ ROBERT ROSENKRANZ

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

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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 officers 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 we 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 officers 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 function):

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 officers 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: November 14, 2002

/s/ THOMAS W. BURGHART

Thomas W. Burghart
Vice President and Treasurer