

DELPHI
Financial Group, Inc.

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DELPHI FINANCIAL GROUP, INC. 2000 ANNUAL REPORT

DELPHI
Financial Group, Inc.

Delphi Financial Group, Inc. is an integrated employee benefit services company. We are a leader in managing all aspects of employee absence to enhance the productivity of our clients and we provide the related insurance coverages: long-term and short-term disability, excess and primary workers' compensation, group life, and travel accident. Our asset accumulation business emphasizes individual annuity products. Our common stock is listed on the New York Stock Exchange under the symbol DFG and our corporate website address is www.delphifin.com.

2000 Highlights

- Operating earnings for 2000 were a record \$4.24 per share, or \$86.4 million, up 14% from \$3.73 per share, or \$80.9 million a year ago.
- Our group employee benefits combined ratio improved to 92.3% in 2000 from 95.2% in 1999.
- Core employee benefits premium production for 2000 was \$140 million, up 27% from 1999.
- New annuity production reached \$160 million in 2000, more than double the sales in 1999.
- We unveiled our deleveraging strategy, liquidated a substantial majority of our holding company investments and reduced corporate debt by \$150 million in the first quarter of 2001.
- We instituted a quarterly cash dividend of \$0.07 per share in the first quarter of 2001.

“ We intend to strip the company to its essentials, making unmistakably clear to investors and all the rest of our constituencies what an insurance powerhouse Delphi is. ”

Financial Highlights

DELPHI FINANCIAL GROUP, INC.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

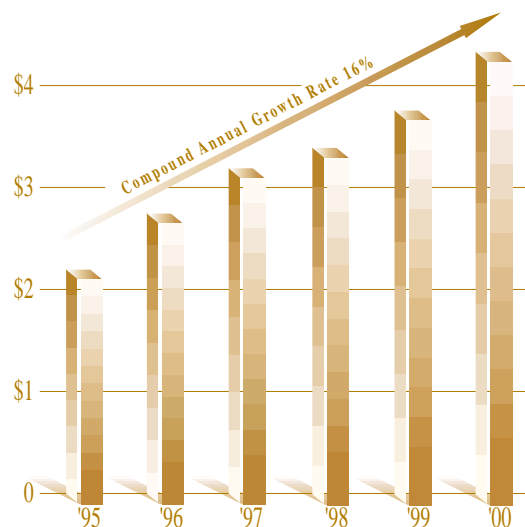
Years Ended December 31,	2000	1999	1998	1997	1996	1995
Income Statement Data:						
Core Premium and Fee Income*	\$ 419,072	\$ 374,887	\$ 337,233	\$ 307,524	\$ 282,269	\$ 213,241
Net Investment Income	184,576	180,945	168,692	162,380	157,020	117,112
Revenues Excluding Realized Investment (Losses) Gains	650,933	666,213	595,566	523,251	492,253	378,014
Operating Profit Excluding Realized Investment (Losses) Gains	157,371	144,995	124,960	118,326	102,270	63,465
Income from Continuing Operations, Excluding Realized Investment (Losses) Gains	86,438	80,850	68,564	65,513	55,577	32,284
Net (Loss) Income	(3,293)	50,285	87,035	74,982	47,253	30,464
Balance Sheet Data:						
Total Assets	3,440,010	3,395,688	3,287,057	3,203,713	2,857,906	2,323,010
Long-Term Debt	267,770	283,938	265,165	178,769	231,004	134,611
Capital Securities of Delphi Funding L.L.C.	100,000	100,000	100,000	100,000	—	—
Shareholders' Equity	538,193	501,417	566,440	509,486	366,965	222,815
Diluted Per Share Data:						
Income from Continuing Operations, Excluding Realized Investment (Losses) Gains	4.24	3.73	3.13	3.07	2.72	2.03
Net (Loss) Income	(.16)	2.32	3.97	3.51	2.32	1.92
Book Value	26.87	24.52	26.59	24.09	17.43	14.04
Book Value**	29.15	28.96	27.36	22.25	18.25	16.17
Weighted Average Shares Outstanding (in thousands)	20,388	21,674	21,920	21,367	20,407	15,875

* Excludes non-core premium income, primarily loss portfolio transfers and reinsurance pools.

** Before net unrealized appreciation and depreciation on investments.

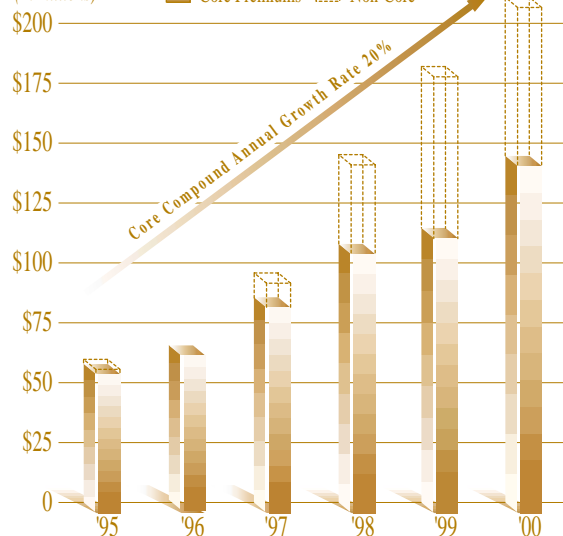
Income Per Share from Continuing Operations

(Excluding realized investment gains and losses)



New Gross Premium Production

(In millions)



(1) Loss portfolio transfers and other.

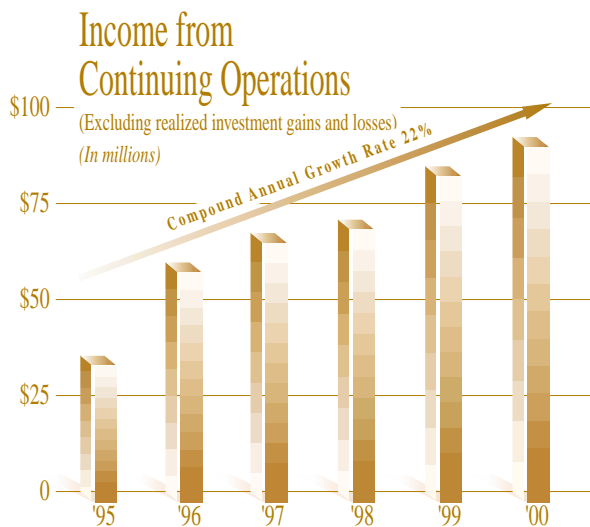
Letter to Shareholders



Our Annual Report for 2000 tells two distinct stories. The first, focusing on our operating results, is an account of how each of our three first-class subsidiaries turned in gratifyingly solid results, and how the synergies among the individual units have begun to add to Delphi's overall growth. The second story, which centers on Delphi's bottom line, is a strategy tale: it sets forth and explains management's decision to clear away activities that could distract from the first, simple, compelling story. We intend to strip the Company to its essentials, making unmistakably clear to investors and all the rest of our constituencies what an insurance powerhouse it is. If we make it easier to see that reality clearly, we believe, shareholders will before long begin to reap more fully the ample rewards that management can produce.

An Insurance Powerhouse

Operating income per share totaled \$4.24 for the full year, toward the top end of the range of analysts' expectations and up a satisfying 14% from 1999's \$3.73. Each of our companies, all of them boasting consistently strong historic performance and excellent growth prospects, contributed nicely to this solid result. For instance, our combined ratio—losses and expenses as a percentage of premium—improved from 95.2% in 1999 to 92.3% in 2000. Here's the scorecard:



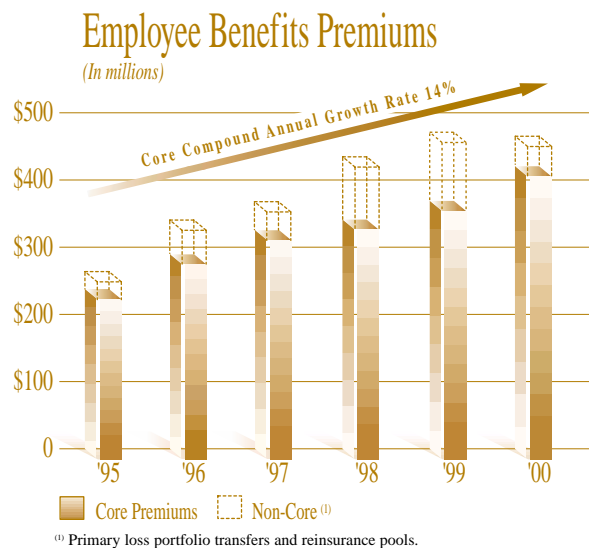
Reliance Standard Life RSL is one of the nation's leading underwriters of the various insurance coverages that employers provide as employee benefits—long and short-term disability insurance, group life insurance, travel accident insurance and dental insurance. The company has two key competitive advantages. First, it focuses on the small-to-medium sized employers that have generated so much of the U.S. economy's growth over the last two decades. As a result, not only has demand for RSL's products grown apace, but profits have stayed high, that's because this highly specialized, relatively

underserved industry niche has been somewhat insulated from the fierce competition that has driven down margins in other, more crowded segments of the industry. Second, RSL boasts one of the industry's very best underwriting operations—the process by which insurers determine how big a risk any particular applicant for coverage poses. The

company's veteran underwriters, backed up by RSL's extensive database and wealth of institutional knowledge, make sure that we do not sign up as clients employers likely to saddle us with higher-than-normal claims in the future. We are interested in profitable growth, not just in growth for growth's sake, and this stringent screening process is a key mechanism by which we make sure that is what we achieve.

During 2000, RSL's core group employee benefits business continued to grow. RSL's core premiums were up 11% compared to the prior year. New core production, which will be reflected in premiums in future years, was up 27%. Top line growth looks less impressive than it really was because the numbers are distorted by changes in non-core activities. An important example: over the last year we have been getting out of U.S. government employee group life reinsurance, an activity that over the years has brought in some \$30-40 million in premium revenues annually but very little profit. Clearly, it was inconsistent with Delphi's profit-oriented strategy. Another example is a one-off transaction that occurred in 1999 where we received some \$19.1 million of premium for assuming a closed block of existing claim liabilities. Profit margins in our core business expanded in a gratifying way last year. Particularly important was the turnaround in profit performance of our flagship long-term disability line. We were extremely disciplined about pricing during the year and were able to achieve 7-9% increases on average on renewing policies. We also saw significant improvements in claim settlement costs as we cleared up old cases and reaped some of the rewards from our more intensive management of this vital function.

In a significant management change during the year, Lawrence E. Daurelle assumed the presidency of RSL. Mr. Daurelle, 49, has over 28 years of experience in managing life insurance operations with an emphasis on finance, administration and corporate development. He joined RSL in May 1995 and has served RSL as Vice President and Treasurer since that time and as Vice President and Treasurer of Delphi since August 1998. Harry Ilg had taken on the presidency of RSL 18 months before Larry's appointment with three goals in mind: to foster a highly-collegial style of management, to create a disciplined focus on bottom-line results, and to realize the potential for synergies among Delphi's operating units. These goals have largely been achieved. In returning full time to his role as Chairman of Safety National, he will be concentrating all his efforts on the tremendous opportunity that exists for us today in excess workers' compensation.



“RSL's core premiums were up 11% compared to the prior year. New core production was up 27%.”

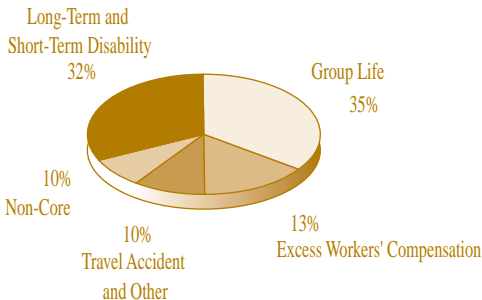
“...Matrix enhances the productivity of its customers by getting ill or injured employees back to work as quickly as possible...”

RSL's entrepreneurial culture has been reflected in our Philadelphia headquarters. We sold our old building, which was a handsome architectural monument, but poorly suited to a modern company, and moved into very efficient space downtown. As we look forward, RSL is committed to accelerated growth of its field sales force through an active recruitment effort. It is also well along in a major systems overhaul which promises significant improvements in both cost and efficiency in the years ahead.

In addition to its group employee benefits products, RSL also sells annuities. 2000 was a banner year for new production: sales were \$160.5 million, a 106% increase from the prior year. But new annuity liabilities are more costly than the old annuity liabilities they replace. Thus, profit margins in this line have been under pressure.

Unfortunately, the outlook for 2001 is not particularly favorable. As interest rates fall, annuity providers generally are slow to reduce the rates they offer on their new contracts. Consequently, the spread between their cost of funds and the interest they earn on their investments narrows, and profits decline. We are not willing to follow our competitors down this path. We have already reduced the crediting rates we offer several times over the last months and will do so again as needed—which means that our annuities are likely to find fewer buyers in the year ahead. This is the result of a well-considered management strategy: consistent with our overall philosophy, we would much rather accept lower growth in our annuity business than to add to the books annuities that will not earn us worthwhile profits. And we can make this decision much more easily than most of our competitors, whose core products are annuities and whose sales forces need something to sell, however minimally profitable. We have no in-house annuities sales force; we sell our asset accumulation products through a network of independent wholesalers, so we can react instantaneously, as we have just now.

Group Employee Benefits 2000 Insurance Premiums



Matrix Absence Management The gold-standard company in a niche that stirred great industry excitement during 2000, Matrix provides two unique and much-valued services to an impressive array of the nation's most gilt-edged, fast-growing high-tech firms. First, it administers the confusing tangle of programs that pertain to employee absence—everything from workers' compensation and disability insurance to the Family and Medical Leave Act and Social Security. These programs, with their multiplicity of forms and bureaucratic requirements, are difficult, frustrating and time-consuming for non-experts to navigate. Second and more important, Matrix enhances the productivity of its customers by getting

ill or injured employees back to work as quickly as possible, identifying the optimal medical treatment or rehabilitation therapy without loss of precious time. The employers who want such a service are a special breed, of course: they are the cutting-edge companies whose skilled and experienced employees—far from being standardized, interchangeable parts—are their most precious resource. These employers are a Who's Who of America's best run and fastest growing companies, and Matrix typically cuts their days lost to employee absence by 15%.

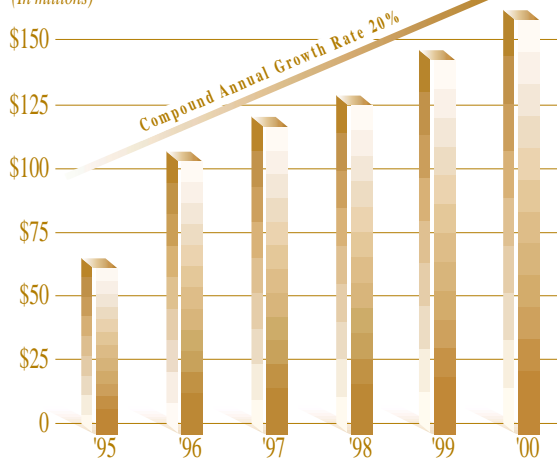
Safety National Safety National is without question the premier player in its highly specialized and very profitable market niche. Its arcane-sounding product is an essential element in the growing secular trend toward self-insurance against workers' compensation risks. Called "excess workers' compensation insurance," the product works like this: Suppose an employer or a trade group (an association of hardware dealers, for example) decides to reduce its costs by self-insuring against workers' compensation risks. Worthwhile savings are not hard to achieve: simply give workers good training in sensible safety practices to reduce claims and, at the same time, hire any one of the many outside contractors who can administer the program much more cost-effectively than any of the bloated, bureaucratic state insurance funds that typically provide workers' compensation insurance to the ordinary run of employers. These steps generally reduce workers' compensation insurance costs significantly.

There is only one problem for the self-insurer: its bottom line could get shot to pieces if it had to pay out a particularly costly claim or two, or even an epidemic of ordinary ones. It is this risk that Safety National's product protects against: with excess workers' compensation insurance, the employer typically only has to pay out the first ten or so years of any given claim before Safety National takes over. Amounting to only a fraction of the cost of first dollar primary insurance, Safety National's product is the essential ingredient that makes the whole self-insurance idea prudent.

For Delphi, this line of business has two highly favorable financial characteristics. First, it is extremely profitable. Second, profits can grow even when new production does not, because premiums from our existing customers come in year after year for a decade or more before we have to pay out a penny in claims, and meanwhile the investment income we earn on those premium dollars grows inexorably.

Pre-Tax Operating Profit

(Excluding realized investment gains and losses)
(In millions)



“Safety National is without question the premier player in its highly specialized and very profitable market niche.”

As it happens, though, Safety National’s new production of this type of business was exuberant in 2000—more than 60% above 1999—which augurs even stronger profit growth ahead. The year 2000 was the year in which the workers’ compensation insurance cycle decisively turned in Safety National’s favor. For the

“...the primary workers’ compensation cycle strongly favors Safety National’s core excess product...”

previous few years, excess capacity in the primary (or “first dollar”) workers’ compensation insurance business led to fierce competition that drove the price of ordinary workers’ compensation insurance so low that many employers did not see the need to self-insure. But such low prices, inevitably, have led to huge losses among the primary workers’ compensation insurers, driving excess capacity out of the industry and

forcing such hefty price increases among the survivors that self-insurance has once again become a preferred option. The primary carriers will need at least a few years of further aggressive price increases before they return to financial health. In the meantime, Safety National can look forward to strong demand, and attractive pricing in its core product—an outlook that is hard to beat.

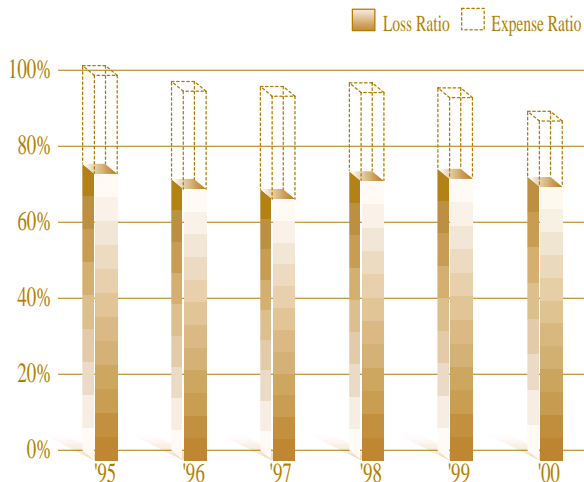
During the time when the workers’ compensation cycle was unfavorable to Safety National’s core excess compensation line, our entrepreneurial managers ingeniously launched a countercyclical business to keep the top line growing nevertheless. We aggressively developed our Loss Portfolio Transfer business, in which we take over and manage the existing claims of an employer who is shifting from self-insurance to

ordinary workers’ compensation insurance. When primary compensation rates are low and falling, employers tend to shift to first dollar coverage. This shift creates opportunities for the Loss Portfolio Transfer business, as employers seek to off-load their portfolios of existing claims. When primary rates are rising, employers shift toward self-insurance programs, thus creating opportunities for the excess compensation business. We enhance our profits in this business by our skill in investing the insurance assets Safety National receives, and by our skill in providing insureds with the rehabilitation they need so that they can get back to work more quickly after their injuries, reducing the total Safety National must pay.

But now, as the primary workers’ compensation cycle strongly favors Safety National’s core excess product, the same cycle reduces opportunities for the Loss Portfolio Transfer business.

As a result, the company’s top line growth looks less dramatic than it really is; but with new production shifting from lower-margin Loss Portfolio Transfer business to the much more profitable excess workers’ compensation product, bottom-line growth should accelerate.

Employee Benefits Profitability Combined Ratio

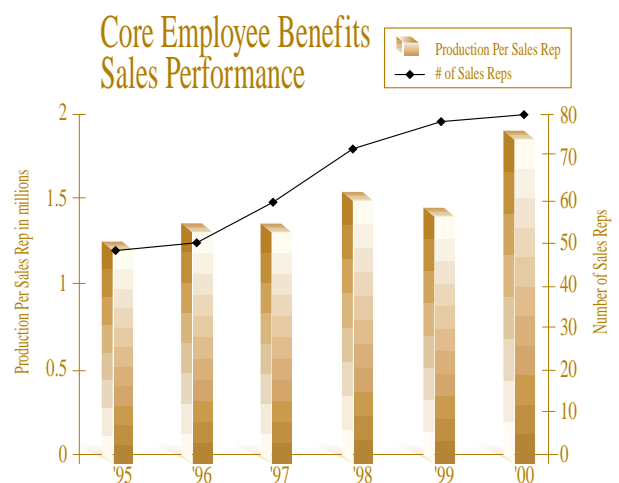


Integrated Employee Benefits Combining RSL, Matrix and Safety National allowed Delphi to create a breakthrough concept in our industry: Integrated Employee Benefits. We are the only company capable of providing on a national basis the full array of products and services that integrate disability insurance, workers' compensation insurance, and employee absence management. For employers, that means seamless convenience, as well as the cost savings that absence management provides. For instance, no more do they find themselves in jurisdictional disputes about whether the workers' compensation insurer or the long-term disability insurer is responsible for a given employee injury. Delphi is there for them, no matter what.

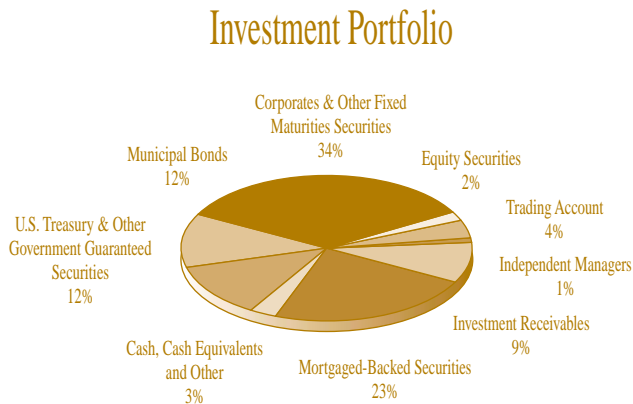
For our companies, of course, this concept is an enormous advantage, thanks to the opportunities for cross-selling it offers. Each subsidiary can provide an entree to its customer base for its sister companies. Selling insurance to large employers is so competitive that it typically offers unattractive profit margins to the insurance company. The integrated employee benefits initiative enables Delphi to target large employers while maintaining the profit margins we have historically enjoyed in our small-to-medium target market. There are two reasons: first, by offering a sharply differentiated product we can achieve better pricing; and, second, our proactive return-to-work management and our involvement in every potential claim from day one tends to reduce ultimate losses. Moreover, Matrix clients are companies whose employees are extraordinarily motivated, are anxious to get back on the job, and are likely to file a lower than average number of disability and workers' compensation claims, making their business more than usually profitable for their insurer.

The amount of new production we got from our integrated employee benefits services business doubled in 2000 to 10% of our total new business, up from 5% the previous year. Moreover, as our book of integrated employee benefits services business grows, we find that the clients who purchase long-term disability, excess workers' compensation and employee absence services typically provide us with annual revenues of between \$500,000 and \$750,000. This compares with \$30,000 to \$40,000 for RSL's average long-term disability client, and \$60,000 for Safety National's average excess workers' compensation client. So the growth prospects for this concept are bright.

“We are the only company capable of providing on a national basis the full array of products and services that integrate disability insurance, workers' compensation insurance, and employee absence management.”



An Investor-Friendly Strategy Shift



As a complement to our core insurance operations, Delphi has had nearly \$300 million in assets at the holding company level. Our rationale was quite simple. We have been able to pay, say, 7% to finance those assets and to earn, typically, 15% or more by investing them in higher earning asset classes. The result of that spread was to add approximately \$1.00 per share on average to our annual net income.

You would think—certainly we thought—that those additional earnings would raise Delphi’s stock price. But they did not. On the contrary, even though the additional earnings allowed Delphi to grow at over 15% annually and achieve a return on equity above 15% for years—an impressive achievement—our investors did not reap the reward of a premium price for their shares. In fact, over the years Delphi stock has sold at a discount to the industry: compared to the life insurance industry’s average 11 price to earnings multiple, Delphi’s multiple was 8.5.

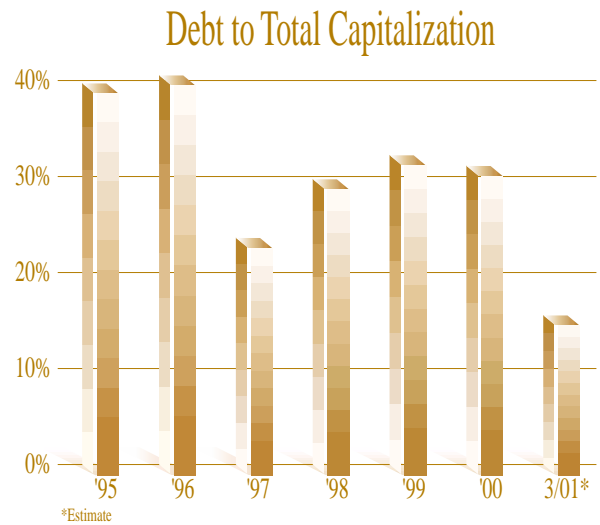
The reason, as we came increasingly to recognize, was the investment approach itself. Investors could not entirely figure out the sources of the Company’s growth and earnings, or the contributions from its core insurance operations. Puzzled and skeptical, they stayed away from Delphi’s stock.

“We have decided to assume a conventional insurance company profile—one with particularly good growth prospects, of course, due to the strength of our constituent companies and our unique integrated employee benefits services product.”

If investors were not going to reward Delphi for its investment success—if, on the contrary, they were going to penalize the Company for its unconventional profile—our strategy clearly needed to change. We decided during the course of 2000 to dramatically reduce these investments. We also decided to substantially pay off our debt, and indeed we paid back much of it in the first quarter of 2001. We determined, in addition, to institute a dividend to provide another way for shareholders to participate in the Company’s earnings and to make it possible for important classes of investors—especially pension funds and endowment funds—to buy the stock. We have decided to assume a conventional insurance company profile—one with particularly good growth prospects, of course, due to the strength of our constituent companies and our unique integrated

employee benefits services product. To be sure, growth and return on equity will be somewhat lower than the 15% we have been posting; but our results will still compare favorably with our industry counterparts.

Rating agencies were another factor in our decision: certainly we did not want to expose our investors to the risk of an adverse rating agency action. And the rating agencies have become de facto regulators of the insurance industry. We found we were spending inordinate amounts of managerial time explaining to them why our strategy made sense. Over time, they became ever narrower in what they considered to be appropriate insurance company investments, limiting our options quarter by quarter. Finally, their increasing focus on holding company investment activities became a real distraction for top management, and shifted the risk/reward balance unfavorably. By curtailing our holding company investments, we free up management to focus entirely on operations. As we sharply reduce our debt in this process, our ratings should rise.



This will benefit Delphi by making our insurance products even more attractive. This was a difficult decision for management: clearly there is a substantial cost in foregone earnings. But we feel the benefits outweigh the costs. Specifically:

- Reduced investment risk.
- Reduced risk of adverse rating agency action and the possibility of upgrades.
- Reduced financial leverage: debt will be only 15% of total capital.
- Greater transparency to investors; clearer emphasis on the strength of our insurance operations.
- Enhanced management focus on operations.

Surely our shareholders are now taking less risk; surely, too, we have addressed decisively the reasons Delphi stock has historically sold at a discount. We are confident that, as the market recognizes these changes, our shareholders will be rewarded.

“Surely our shareholders are now taking less risk; surely, too, we have addressed decisively the reasons Delphi stock has historically sold at a discount.”

An Accounting Consequence

Among the holding company investments we have sold to pay down debt are certain securities whose values have declined since we bought them. These declines have been reported over the years on our balance sheet as they occurred, and they have been reflected in the Company’s reported book value. When securities are sold they appear on the profit-and-loss statement as capital gains or capital losses. During 2000, these securities accounted for a substantial \$2.28 capital loss per share. We emphasize that these losses really are an accounting artifact; they occurred in the past and were reported on the balance sheet in the past. In point of fact, our

net worth rose from \$501 million at the start of 2000 to \$538 million at year-end, which shows a pretty solid creation of value during the period, despite these accounting losses.

Also, included in capital losses were \$1.86 per share from traditional hedging activities that we have now discontinued. Changes in the treasury market and in the accounting rules for insurance companies have made obsolete what was a conventional insurance company strategy for managing risk. Many of our industry counterparts suffered disappointments from this strategy during 2000, as a host of changes conspired to make it unworkable. Like most insurance companies, we do not foresee using such a technique again.

We view our net loss for 2000 as the disappointing consequence of our clearing the decks to strengthen the Company significantly, reducing risk and making Delphi more investor-friendly in every way. We are confident that before long, as investors come to understand fully the underlying strength and bright prospects of our first-class operating companies, our share price will reflect their approval of the new strategic course we have set.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Robert Rosenkranz". The signature is fluid and cursive, with a long horizontal stroke at the end.

Robert Rosenkranz
Chairman of the Board

Board of Directors

Robert Rosenkranz

*Chairman of the Board, President
and Chief Executive Officer*

Edward A. Fox

*Chairman of the Board
USA Education, Inc.*

Charles P. O'Brien

*Chairman Emeritus
Reliance Standard Life Insurance Company*

Lewis S. Ranieri

*Chairman and Chief Executive Officer
Ranieri & Co., Inc.*

Thomas L. Rhodes

*President and Director
National Review*

Robert M. Smith, Jr.

*Executive Vice President
Delphi Financial Group, Inc.*

B. K. Werner

*Chairman Emeritus
Safety National Casualty Corporation*

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Annual Meeting

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One West 54th Street
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Trading Market

New York Stock Exchange
Symbol: DFG

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Principal Officers

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*Chairman of the Board, President
and Chief Executive Officer*

Chad W. Coulter
Vice President and General Counsel

Lawrence E. Daurelle
Vice President and Treasurer

Linda Eike
Secretary

Robert M. Smith, Jr.
Executive Vice President

Reliance Standard Life Insurance Company

Charles P. O'Brien
Chairman Emeritus

Lawrence E. Daurelle
President and Chief Executive Officer

Thomas W. Burghart
Vice President and Treasurer

Chad W. Coulter
*Vice President, General Counsel and
Assistant Secretary*

Charles T. Denaro
*Assistant Vice President, Secretary and
Deputy General Counsel*

Christopher A. Fazzini
*Senior Vice President,
Sales and Marketing*

Dan R. Green
Vice President, Underwriting

Kenneth R. Hamm
Vice President, Actuarial

Frank W. Newdeck
Vice President, Information Services

Debra G. Staples
Vice President, Claims Administration

Safety National Casualty Corporation

B. K. Werner
Chairman Emeritus

Harold F. Ilg
Chairman of the Board

Terrence T. Schoenering
President and Chief Executive Officer

John P. Csik
*Vice President of Finance,
Assistant Treasurer*

Duane A. Hercules
Executive Vice President and Treasurer

Eugene R. Maier
*Vice President,
Workers' Compensation Underwriting*

Jeffrey W. Otto
*Senior Vice President,
General Counsel and Secretary*

Stuart M. Presson
Senior Vice President, Marketing

Carleton S. Reynolds, III
*Vice President,
Workers' Compensation Claims*

Gerald R. Scott
*Executive Vice President,
Assistant Secretary*

Mark A. Wilhelm
Executive Vice President

Matrix Absence Management, Inc.

David F. Nolan
Chairman

Martin A. Grable
President and Chief Executive Officer

Ivars Zvirbulis
*Executive Vice President and
Chief Operating Officer*