

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

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

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**FINANCIAL  
SUPPLEMENT**

**FOURTH QUARTER 2010**

**DELPHI FINANCIAL GROUP, INC.**  
**Financial Supplement**  
**Fourth Quarter 2010**

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Delphi Financial Group, Inc. (“Delphi”) is an integrated employee benefit services company. Delphi is a leader in managing all aspects of employee absence to enhance the productivity of its clients and provides the related group insurance coverages: long-term and short-term disability, life, excess workers’ compensation for self-insured employers, large casualty programs including large deductible workers’ compensation, travel accident, dental and limited benefit health insurance. Delphi’s asset accumulation business emphasizes individual fixed annuity products. Delphi’s common stock is listed on the New York Stock Exchange under the symbol DFG and its corporate website address is [www.delphifin.com](http://www.delphifin.com).

This report is for informational purposes only. It should be read in conjunction with documents filed by Delphi with the Securities and Exchange Commission, including the most recent Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and earnings press releases furnished on Form 8-K. The interim financial statements and related data included herein are unaudited. This report is dated February 15, 2011. Information contained in this report may not be accurate after such date. Delphi disclaims any duty to update this information after such date.

In addition to financial measures presented in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”), Delphi also uses certain non-GAAP financial measures to analyze and report its financial results. These non-GAAP financial measures are not a substitute for GAAP financial measures and may not be calculated in the same manner as similarly titled captions in other companies’ financial statements. Management believes these non-GAAP financial measures are informative when analyzing the trends relating to Delphi’s insurance operations. Management uses these non-GAAP financial measures to assess performance and make operating plans and decisions, and believes that these measures enhance the understanding of Delphi’s results by enhancing focus on the financial performance of Delphi’s insurance operations.

Operating earnings, which is a non-GAAP financial measure, consist of net income attributable to shareholders excluding after-tax realized investment gains and losses, losses on early retirement of senior notes and junior subordinated deferrable interest debentures and results from discontinued operations, as applicable. The Company believes that because these excluded items arise from events that are largely within management’s discretion and whose fluctuations can distort comparisons between periods, a measure excluding their impact is useful in analyzing the Company’s operating trends. Investment gains or losses are realized based on management’s decision to dispose of an investment, and investment losses are realized based on management’s judgment that a decline in the market value of an investment is other than temporary. Early retirement of senior notes and junior subordinated deferrable interest debentures occurs based on management’s decision to redeem or repurchase these notes and debentures. Discontinued operations result from management’s decision to exit or sell a particular business. Thus, these excluded items are not reflective of the Company’s ongoing earnings capacity, and trends in the earnings of the Company’s underlying insurance operations can be more clearly identified without their effects. For these reasons, management uses the measure of operating earnings to assess performance and make operating plans and decisions, and the Company believes that analysts and investors typically utilize measures of this type as one element of their evaluations of insurers’ financial performance. However, gains or losses from the excluded items, particularly as to investments, can occur frequently and should not be considered as nonrecurring items. Further, operating earnings should not be considered a substitute for net income attributable to shareholders, the most directly comparable GAAP measure, as an indication of the Company’s overall financial performance and may not be calculated in the same manner as similarly titled measures utilized by other companies. For reconciliations of the respective operating earnings amounts to the corresponding net income amounts for the indicated periods, see the table captioned “Non-GAAP Financial Measures – Reconciliation to GAAP” which follows. All per share amounts are on a diluted basis.

Annualized operating return on beginning equity, which is a non-GAAP financial measure, is based on operating earnings, as defined in the preceding paragraph (rather than the most directly comparable GAAP measure, net income attributable to shareholders), divided by beginning shareholders’ equity. For the reasons that Delphi believes that the calculation of this non-GAAP measure based upon operating earnings is useful, see such paragraph.

For purposes of the calculations of diluted book value per share before accumulated other comprehensive income and loss and the corporate debt to total capitalization ratio before accumulated other comprehensive income and loss, which are non-GAAP financial measures, the effect of accumulated other comprehensive income and loss is excluded from shareholders’ equity. Delphi believes that, because accumulated other comprehensive income and loss fluctuates from period to period primarily due to changes in the value of its assets resulting from fluctuations in interest rates and other market conditions, while the values of its liabilities are not similarly marked to market in determining diluted book value per share and corporate debt to total capitalization ratio (the most directly comparable GAAP measures), these non-GAAP measures are useful in analyzing Delphi’s operating trends and capital structure.

Reconciliations of each of the non-GAAP measures discussed above to their most directly comparable GAAP measures are contained in the table captioned “Non-GAAP Financial Measures – Reconciliation to GAAP” on page 10.

**DELPHI FINANCIAL GROUP, INC.**  
**Financial Supplement**  
**Fourth Quarter 2010**

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

	Three Months Ended		Year Ended	
	12/31/2010	12/31/2009	12/31/2010	12/31/2008
For period ended attributable to shareholders:				
Operating earnings <sup>(A)</sup>	\$ 53,554	\$ 47,739	\$ 194,949	\$ 94,387
Per common share, assuming dilution <sup>(A)</sup>	0.96	0.86	3.50	1.93
Weighted average shares outstanding (diluted)	55,978	55,385	55,750	48,963
Annualized operating return on beginning shareholders' equity <sup>(A)</sup>	13.0%	14.3%	14.3%	8.3%
At period ended:				
Assets				
Corporate debt <sup>(B)</sup>	\$ 7,760,376	\$ 6,921,375	\$ 7,760,376	\$ 5,953,873
Junior subordinated debentures	375,000	365,750	375,000	350,750
Shareholders' equity	175,000	175,000	175,000	175,000
	1,594,733	1,359,019	1,594,733	820,579
Diluted book value per share of common stock <sup>(C)</sup>	\$ 28.16	\$ 24.42	\$ 28.16	\$ 17.05
Diluted book value per share of common stock before accumulated other comprehensive income (loss) <sup>(A)</sup>	27.64	25.02	27.64	24.27
Corporate debt to total capitalization ratio <sup>(D)</sup>	17.5%	19.3%	17.5%	26.1%
Corporate debt to total capitalization ratio before accumulated other comprehensive income (loss) <sup>(A)</sup>	17.7%	18.9%	17.7%	20.7%

<sup>(A)</sup> Please see page 10 for reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures.

<sup>(B)</sup> Corporate debt as of 12/31/2010 consists of Senior Notes of \$250.0 million due in 2020 and outstanding borrowings under the Company's bank credit facility. Corporate debt as of 12/31/2009 and 12/31/2008 consist of \$143.8 million of Senior Notes due in 2033 and outstanding borrowings under the Company's bank credit facility.

<sup>(C)</sup> Diluted book value per share is calculated by dividing shareholders' equity, as increased by the proceeds and tax benefit from the assumed exercise of outstanding in-the-money stock options and the tax benefit from the assumed issuance of the shares underlying outstanding deferred share awards, by the number of total shares outstanding, increased by shares issued as result of such assumed option exercises and deferred share issuances. Shareholders' equity, as so increased, was \$1,689.3 million, \$1,395.3 million and \$831.2 million as of 12/31/2010, 12/31/2009 and 12/31/2008, respectively. The number of outstanding shares, as so increased, was 60.0 million, 57.1 million and 48.7 million as of 12/31/2010, 12/31/2009 and 12/31/2008, respectively.

<sup>(D)</sup> The corporate debt to total capitalization ratio is calculated by dividing corporate debt by the sum of corporate debt, junior subordinated debentures and shareholders' equity.

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

	12/31/2010	09/30/2010	06/30/2010	03/31/2010	12/31/2009	09/30/2009	06/30/2009	03/31/2009
Premium and fee income:								
Group employee benefit products	\$ 348,636	\$ 344,625	\$ 340,072	\$ 335,174	\$ 335,010	\$ 332,136	\$ 341,396	\$ 346,125
Asset accumulation products	530	641	474	359	510	244	368	519
Other	13,048	11,753	12,020	12,230	12,745	10,230	10,681	11,077
Total premium and fee income	<u>362,214</u>	<u>357,019</u>	<u>352,566</u>	<u>347,763</u>	<u>348,265</u>	<u>342,610</u>	<u>352,445</u>	<u>357,721</u>
Net investment income:								
Group employee benefit products	63,662	55,351	46,800	51,117	44,648	53,673	55,140	35,396
Asset accumulation products	37,224	31,379	30,016	31,238	28,487	32,531	35,096	26,982
Other	1,171	156	1,418	1,695	1,492	2,478	1,787	477
Total investment income	<u>102,057</u>	<u>86,886</u>	<u>78,234</u>	<u>84,050</u>	<u>74,627</u>	<u>88,682</u>	<u>92,023</u>	<u>62,855</u>
Benefits and expenses:								
Group employee benefit products	337,278	326,905	318,029	315,459	312,094	311,131	317,765	322,686
Asset accumulation products	22,661	21,424	19,174	21,185	22,233	18,983	21,797	19,463
Other	25,473	19,865	20,429	21,307	17,101	20,522	21,507	19,583
Total benefits and expenses	<u>385,412</u>	<u>368,194</u>	<u>357,632</u>	<u>357,951</u>	<u>351,428</u>	<u>350,636</u>	<u>361,069</u>	<u>361,732</u>
Operating income (loss) attributable to shareholders:								
Group employee benefit products	75,020	73,071	68,843	70,832	67,564	74,678	78,771	58,835
Asset accumulation products	15,093	10,596	11,316	10,412	6,764	13,792	13,667	8,038
Other	(11,254)	(7,956)	(6,991)	(7,382)	(2,864)	(7,814)	(9,039)	(8,029)
	<u>78,859</u>	<u>75,711</u>	<u>73,168</u>	<u>73,862</u>	<u>71,464</u>	<u>80,656</u>	<u>83,399</u>	<u>58,844</u>
Net realized investment losses	1,913	1,192	(13,874)	(15,106)	(47,614)	(50,459)	(27,471)	(21,999)
Loss on early retirement of senior notes	(3,694)	(3,760)	(212)	-	-	-	-	-
Operating income attributable to shareholders	<u>\$ 77,078</u>	<u>\$ 73,143</u>	<u>\$ 59,082</u>	<u>\$ 58,756</u>	<u>\$ 23,850</u>	<u>\$ 30,197</u>	<u>\$ 55,928</u>	<u>\$ 36,845</u>

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

	Three Months Ended		Year Ended		
	12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2008
Revenue:					
Premium income:					
Core products:					
Disability, principally long-term	\$ 136,197	\$ 137,551	\$ 542,386	\$ 560,361	\$ 572,630
Life	96,466	93,041	388,247	393,173	402,928
Excess workers' compensation	76,268	71,952	289,548	277,485	264,244
Assumed workers' compensation and casualty reinsurance	14,767	8,728	51,538	34,168	22,369
Limited benefit health insurance	10,561	8,727	40,772	31,987	24,698
Accident and dental	11,911	12,766	46,307	49,029	45,507
	<u>346,170</u>	<u>332,765</u>	<u>1,358,798</u>	<u>1,346,203</u>	<u>1,332,376</u>
Non-core products	2,466	2,245	9,709	8,464	10,647
	<u>348,636</u>	<u>335,010</u>	<u>1,368,507</u>	<u>1,354,667</u>	<u>1,343,023</u>
Net investment income	63,662	44,648	216,930	188,857	71,230
	<u>412,298</u>	<u>379,658</u>	<u>1,585,437</u>	<u>1,543,524</u>	<u>1,414,253</u>
Benefits and expenses:					
Benefits, claims and interest credited to policyholders	246,094	225,595	940,291	927,875	933,215
Commissions	24,683	26,146	98,317	95,953	90,642
Amortization of cost of business acquired	26,114	22,110	99,462	90,792	81,961
Other operating expenses	40,387	38,243	159,601	149,056	132,362
	<u>337,278</u>	<u>312,094</u>	<u>1,297,671</u>	<u>1,263,676</u>	<u>1,238,180</u>
Operating income attributable to shareholders:	<u>\$ 75,020</u>	<u>\$ 67,564</u>	<u>\$ 287,766</u>	<u>\$ 279,848</u>	<u>\$ 176,073</u>
Production (new annualized gross premium):					
Core products:					
Disability, principally long-term	\$ 44,574	\$ 40,221	\$ 108,302	\$ 109,409	\$ 134,215
Life	40,044	36,453	90,626	70,526	94,681
Excess workers' compensation	8,439	4,248	47,434	45,251	25,832
Assumed workers' compensation and casualty reinsurance <sup>(A)</sup>	2,409	860	14,606	17,226	12,103
Limited benefit health insurance	1,551	3,748	13,324	20,141	12,530
Accident and dental	11,072	8,977	26,611	30,282	34,415
	<u>108,089</u>	<u>94,507</u>	<u>300,903</u>	<u>292,835</u>	<u>313,776</u>
Non-core products	2,318	1,375	8,055	6,468	10,260
Total production	<u>\$ 110,407</u>	<u>\$ 95,882</u>	<u>\$ 308,958</u>	<u>\$ 299,303</u>	<u>\$ 324,036</u>
Loss ratio (percent of total premium)	70.6%	67.3%	68.7%	68.5%	69.5%
Expense ratio (percent of total premium)	26.1%	25.9%	26.1%	24.8%	22.7%
Combined ratio (loss and expense ratio)	96.7%	93.2%	94.8%	93.3%	92.2%
Persistency ratio:					
Disability, principally long-term			81.2%	81.4%	83.1%
Life			82.0%	81.2%	84.6%
Travel accident and other			73.1%	81.4%	87.8%
Renewal ratio:					
Excess workers' compensation			94.8%	92.6%	93.1%
Assumed workers' compensation and casualty reinsurance			91.3%	91.4%	80.2%

<sup>(A)</sup> Effective 12/31/2009, production for this product is determined by reference to the inception of a reinsurance assumed arrangement with a third party with which the Company previously had no such arrangements. Production for this product was previously determined by reference to the effectuation of a reinsurance assumed treaty with a third party, whether or not other reinsurance assumed arrangements were already in place with such third party. Accordingly, prior period numbers were restated.

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

	Three Months Ended		Year Ended		
	12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2008
<b>Revenue:</b>					
Premium and fee income	\$ 530	\$ 510	\$ 2,004	\$ 1,641	\$ 1,918
Net investment income	37,224	28,487	129,857	123,097	57,923
	<u>37,754</u>	<u>28,997</u>	<u>131,861</u>	<u>124,738</u>	<u>59,841</u>
<b>Benefits and expenses:</b>					
Benefits, claims and interest credited to policyholders	17,067	16,240	63,448	61,422	55,285
Commissions	711	725	1,532	1,576	809
Amortization of cost of business acquired	2,893	3,079	11,406	10,614	(1,550)
Other operating expenses	1,990	2,189	8,058	8,864	8,427
	<u>22,661</u>	<u>22,233</u>	<u>84,444</u>	<u>82,476</u>	<u>62,971</u>
Operating income (loss) attributable to shareholders	<u>\$ 15,093</u>	<u>\$ 6,764</u>	<u>\$ 47,417</u>	<u>\$ 42,262</u>	<u>\$ (3,130)</u>
Sales	\$ 106,912	\$ 16,418	\$ 377,358	\$ 248,595	\$ 245,117
Funds under management (at end of period)			\$ 1,725,785	\$ 1,425,442	\$ 1,327,502

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

	Three Months Ended		Twelve Months Ended	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Revenue:				
Premium and fee income	\$ 362,214	\$ 348,265	\$ 1,419,562	\$ 1,401,041
Net investment income	102,057	74,627	351,227	318,187
Net realized investment gains (losses):				
Total other than temporary impairment losses	(14,585)	(43,184)	(77,403)	(180,191)
Portion of other than temporary impairment losses recognized in other comprehensive income	3,697	(6,987)	16,296	35,480
Net impairment losses recognized in earnings	(10,888)	(50,171)	(61,107)	(144,711)
Other net realized investment gains (losses)	12,801	2,557	35,232	(2,832)
Net realized investment gains (losses)	1,913	(47,614)	(25,875)	(147,543)
Loss on early retirement of senior notes	(3,694)	-	(7,666)	-
Total revenue	<u>462,490</u>	<u>375,278</u>	<u>1,737,248</u>	<u>1,571,685</u>
Benefits and expenses:				
Benefits, claims and interest credited to policyholders	263,783	242,441	1,005,385	990,802
Commissions and expenses	120,568	108,933	462,628	433,783
	<u>384,351</u>	<u>351,374</u>	<u>1,468,013</u>	<u>1,424,585</u>
Operating income	78,139	23,904	269,235	147,100
Interest expense:				
Corporate debt	6,732	3,818	30,102	15,485
Junior subordinated debentures	3,241	3,240	12,971	12,968
Income tax expense	14,709	2	51,839	19,263
Net income	53,457	16,844	174,323	99,384
Less: Net income attributable to noncontrolling interest	1,061	54	1,176	280
Net income attributable to shareholders	<u>\$ 52,396</u>	<u>\$ 16,790</u>	<u>\$ 173,147</u>	<u>\$ 99,104</u>
Basic results per share of common stock				
Net income attributable to shareholders	\$ 0.94	\$ 0.31	\$ 3.13	\$ 1.92
Weighted average shares outstanding	55,458	54,960	55,327	51,532
Diluted results per share of common stock:				
Net income attributable to shareholders	\$ 0.94	\$ 0.30	\$ 3.11	\$ 1.91
Weighted average shares outstanding	55,978	55,385	55,750	51,811
Dividends paid per share of common stock	\$ 0.11	\$ 0.10	\$ 0.42	\$ 0.40

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

	<u>12/31/2010</u>	<u>12/31/2009</u>
Asset:		
Investments:		
Fixed maturity securities, available for sale	\$ 5,717,090	\$ 4,875,681
Short-term investments	334,215	406,782
Other investments	<u>498,678</u>	<u>466,855</u>
	6,549,983	5,749,318
Cash	72,806	65,464
Cost of business acquired	248,152	250,311
Reinsurance receivables	360,255	355,030
Goodwill	93,929	93,929
Other assets	311,577	293,835
Assets held in separate account	<u>123,674</u>	<u>113,488</u>
Total assets	<u>\$ 7,760,376</u>	<u>\$ 6,921,375</u>
Liabilities and Equity:		
Policy liabilities and accruals	\$ 2,970,389	\$ 2,803,189
Policyholder account balances	1,753,744	1,454,114
Corporate debt	375,000	365,750
Junior subordinated debentures	175,000	175,000
Other liabilities and policyholder funds	763,202	647,269
Liabilities related to separate account	<u>123,674</u>	<u>113,488</u>
Total liabilities	<u>6,161,009</u>	<u>5,558,810</u>
Equity:		
Class A Common Stock	565	560
Class B Common Stock	60	60
Additional paid-in capital	682,816	661,895
Accumulated other comprehensive income (loss)	30,932	(33,956)
Retained earnings	1,077,606	927,706
Treasury stock, at cost	<u>(197,246)</u>	<u>(197,246)</u>
Total shareholders' equity	1,594,733	1,359,019
Noncontrolling interest	<u>4,634</u>	<u>3,546</u>
Total equity	<u>1,599,367</u>	<u>1,362,565</u>
Total liabilities and equity	<u>\$ 7,760,376</u>	<u>\$ 6,921,375</u>

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

	Twelve Months Ended		
	12/31/2010	12/31/2009	12/31/2008
<b>Operating activities:</b>			
Net income attributable to shareholders	\$ 173,147	\$ 99,104	\$ 36,683
Adjustments to reconcile net income attributable to shareholders to net cash provided by operating activities:			
Change in policy liabilities and policyholder accounts	213,687	234,615	233,116
Net change in reinsurance receivables and payables	(5,322)	18,513	30,746
Amortization, principally the cost of business acquired and investments	85,504	53,914	63,438
Deferred costs of business acquired	(133,739)	(123,152)	(124,529)
Net realized losses on investments	25,875	147,543	88,177
Net change in federal income taxes	26,410	(11,347)	(68,689)
Other	(22,760)	41,357	137,390
Net cash provided by operating activities	<u>362,802</u>	<u>460,547</u>	<u>396,332</u>
<b>Investing activities:</b>			
Purchases of investments and loans made	(2,451,199)	(1,859,365)	(1,474,661)
Sales of investments and receipts from repayment of loans	1,463,446	1,014,200	537,328
Maturities of investments	291,475	159,525	336,417
Net change in short-term investments	72,567	(5,162)	(115,587)
Change in deposit in separate account	-	4,845	12,429
Net cash used by investing activities	<u>(623,711)</u>	<u>(685,957)</u>	<u>(704,074)</u>
<b>Financing activities:</b>			
Deposits to policyholder accounts	389,720	267,499	388,419
Withdrawals from policyholder accounts	(113,241)	(162,494)	(120,984)
Proceeds from issuance of 2020 Senior Notes	250,000	-	-
Borrowings under bank credit facility	175,000	17,000	139,000
Principal payments under bank credit facility	(272,000)	(2,000)	(6,000)
Early retirement of senior notes	(143,750)	-	-
Early retirement of junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries	-	-	(20,619)
Proceeds from issuance of common stock	-	120,696	-
Acquisition of treasury stock	-	-	(42,729)
Cash dividends paid on common stock	(23,247)	(20,160)	(18,409)
Other financing activities	5,769	6,496	1,661
Net cash provided by financing activities	<u>268,251</u>	<u>227,037</u>	<u>320,339</u>
Increase in cash	7,342	1,627	12,597
Cash at beginning of year	65,464	63,837	51,240
Cash at end of year	<u>\$ 72,806</u>	<u>\$ 65,464</u>	<u>\$ 63,837</u>

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

	Group Employee Benefit Products	Asset Accumulation Products <sup>(A)</sup>	Total
Balance as of December 31, 2005	\$ 187,541	\$ 60,597	\$ 248,138
Deferred	92,449	7,811	100,260
Amortized	(70,560)	(10,208)	(80,768)
Equity adjustment	-	290	290
Balance as of December 31, 2006	209,430	58,490	267,920
Cumulative effect adjustment <sup>(B)</sup>	(127,004)	-	(127,004)
Balance as of January 1, 2007	82,426	58,490	140,916
Deferred	101,284	7,290	108,574
Amortized	(72,725)	(8,497)	(81,222)
Equity adjustment	-	6,162	6,162
Balance as of December 31, 2007	110,985	63,445	174,430
Deferred	110,675	13,854	124,529
Amortized	(81,961)	1,550	(80,411)
Equity adjustment	-	46,229	46,229
Balance as of December 31, 2008	139,699	125,078	264,777
Deferred	107,427	15,725	123,152
Amortized	(90,792)	(10,614)	(101,406)
Equity adjustment	-	(36,212)	(36,212)
Balance as of December 31, 2009	156,334	93,977	250,311
Deferred	109,135	24,604	133,739
Amortized	(99,462)	(11,406)	(110,868)
Equity adjustment	-	(25,030)	(25,030)
Balance as of December 31, 2010	<u>\$ 166,007</u>	<u>\$ 82,145</u>	<u>\$ 248,152</u>

<sup>(A)</sup> The equity adjustment reflects increases or decreases in cost of business acquired in relation to changes in unrealized gains or losses on fixed maturity securities available for sale, which are reported as a separate component of equity.

<sup>(B)</sup> The cumulative effect adjustment represents the decrease in cost of business acquired as a result of the Company's adoption of certain provision of Accounting Standards Codification Subtopic 944-30, "Financial Services - Insurance - Acquisition Costs." This adjustment also resulted in a corresponding decrease to beginning retained earnings of \$82.6 million, net of the related tax benefit of \$44.4 million.

**DELPHI FINANCIAL GROUP, INC.**  
**Certain Investment Portfolio Data**  
**As of December 31, 2010**  
**(Dollars in Thousands)**

The following table contains information, as of December 31, 2010, regarding the portions of the Company's investments in non-agency residential mortgage-backed securities represented by securities whose underlying mortgage loans are categorized as prime, Alt-A and subprime, respectively, and the distributions of the securities within these categories by the years in which they were issued (vintages) and the highest of their ratings from Standard & Poor's, Moody's and Fitch. All dollar amounts in this table are based upon the fair values of these securities as of December 31, 2010.

Vintage	Non-Agency Prime Residential Mortgage Backed Securities - Fair Value					Total
	AAA	AA	A	BBB	BB and Below <sup>(A)</sup>	
2001 and prior	\$ 2,136	\$ -	\$ -	\$ -	\$ -	\$ 2,136
2002	8,064	899	2,303	-	28	11,294
2003	78,383	2,055	2,712	6,698	6,157	96,005
2004	42,154	1,106	-	4,653	5,348	53,261
2005	11,562	6,036	1,708	18,487	65,079	102,872
2006	15,077	749	-	-	26,960	42,786
2007	5,782	-	-	-	80,520	86,302
2008	950	-	-	-	582	1,532
<b>Total</b>	<b>\$ 164,108</b>	<b>\$ 10,845</b>	<b>\$ 6,723</b>	<b>\$ 29,838</b>	<b>\$ 184,674</b>	<b>\$ 396,188</b>

<sup>(A)</sup> The securities enumerated in this column include securities having a total of \$149.0 million in fair value that have received the equivalent of an investment grade rating from the National Association of Insurance Commissioners (the "NAIC") under the process initiated by the NAIC in 2009 which takes into account, among other things, the discounts at which the Company originally purchased the securities and modeling of the potential losses with respect to the securities' underlying loans.

Vintage	Non-Agency Alt-A Residential Mortgage Backed Securities - Fair Value					Total
	AAA	AA	A	BBB	BB and Below <sup>(B)</sup>	
2001 and prior	\$ -	\$ -	\$ -	\$ 1,773	\$ -	\$ 1,773
2002	203	1,709	-	-	-	1,912
2003	46,789	-	-	-	1,790	48,579
2004	21,967	2,547	132	198	1,518	26,362
2005	2,366	17,580	-	1,132	39,688	60,766
2006	14,481	-	-	8,695	75,170	98,346
2007	299	-	-	-	125,204	125,503
<b>Total</b>	<b>\$ 86,105</b>	<b>\$ 21,836</b>	<b>\$ 132</b>	<b>\$ 11,798</b>	<b>\$ 243,370</b>	<b>\$ 363,241</b>

<sup>(B)</sup> The securities enumerated in this column include securities having a total of \$194.7 million in fair value that have received the equivalent of an investment grade rating from the NAIC under the process initiated by the NAIC in 2009 which takes into account, among other things, the discounts at which the Company originally purchased the securities and modeling of the potential losses with respect to the securities' underlying loans.

Vintage	Non-Agency Sub-Prime Residential Mortgage Backed Securities - Fair Value					Total
	AAA	AA	A	BBB	BB and Below <sup>(C)</sup>	
2003	\$ 9,148	\$ 1,298	\$ -	\$ -	\$ -	\$ 10,446
2004	11,636	-	512	2,774	478	15,400
2005	17,648	17,784	515	-	-	35,947
2006	-	-	-	2,148	989	3,137
2007	-	-	-	-	1,350	1,350
<b>Total</b>	<b>\$ 38,432</b>	<b>\$ 19,082</b>	<b>\$ 1,027</b>	<b>\$ 4,922</b>	<b>\$ 2,817</b>	<b>\$ 66,280</b>

<sup>(C)</sup> The securities enumerated in this column include securities having a total of \$2.4 million in fair value that have received the equivalent of an investment grade rating from the NAIC under the process initiated by the NAIC in 2009 which takes into account, among other things, the discounts at which the Company originally purchased the securities and modeling of the potential losses with respect to the securities' underlying loans.

Vintage	Commercial Mortgage Backed Securities - Fair Value					Total
	AAA	AA	A	BBB	BB and Below	
2001 and prior	\$ 3,836	\$ 8,166	\$ -	\$ -	\$ -	\$ 12,002
2002	5,169	555	-	2,440	2,879	11,043
2003	824	-	-	-	-	824
2004	539	-	-	-	-	539
2005	-	-	-	-	36	36
2006	5,807	-	-	-	77	5,884
2007	-	-	-	-	638	638
2008	1,302	-	-	-	736	2,038
<b>Total</b>	<b>\$ 17,477</b>	<b>\$ 8,721</b>	<b>\$ -</b>	<b>\$ 2,440</b>	<b>\$ 4,366</b>	<b>\$ 33,004</b>

	Municipal Securities - Underlying Rating - Fair Value					
	AAA	AA	A	BBB	BB and Below	Not Rated <sup>(D)</sup>
Agency Collateral	\$ 447,156	\$ -	\$ -	\$ -	\$ -	\$ -
Insured	45,433	410,141	225,614	30,553	6,392	39,313
Uninsured	240,012	392,228	240,645	26,112	1,984	747
<b>Total</b>	<b>\$ 732,601</b>	<b>\$ 802,369</b>	<b>\$ 466,259</b>	<b>\$ 56,665</b>	<b>\$ 8,376</b>	<b>\$ 40,060</b>
						<b>\$2,106,330</b>

<sup>(D)</sup> Includes \$22,451 of securities to which an investment grade rating has been assigned by a nationally recognized statistical rating organization but whose issuers are not rated by any such organization.

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

<b>Income Statement Data</b>	<b>Three Months Ended</b>		<b>Year Ended</b>		
	<b>12/31/2010</b>	<b>12/31/2009</b>	<b>12/31/2010</b>	<b>12/31/2009</b>	<b>12/31/2008</b>
<b>Operating earnings</b>	\$ 53,554	\$ 47,739	\$ 194,949	\$ 195,007	\$ 94,387
Net realized investment gains (losses) <sup>(A)</sup>	1,243	(30,949)	(16,819)	(95,903)	(57,315)
Loss on early retirement of senior notes and junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries (B)	(2,401)	-	(4,983)	-	(389)
<b>Net income attributable to shareholders (GAAP measure)</b>	<b>\$ 52,396</b>	<b>\$ 16,790</b>	<b>\$ 173,147</b>	<b>\$ 99,104</b>	<b>\$ 36,683</b>
<b>Diluted results per share of common stock attributable to shareholders:</b>					
<b>Operating earnings</b>	\$ 0.96	\$ 0.86	\$ 3.50	\$ 3.76	\$ 1.93
Net realized investment gains (losses) <sup>(A)</sup>	0.02	(0.56)	(0.30)	(1.85)	(1.17)
Loss on early retirement of senior notes and junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries (B)	(0.04)	-	(0.09)	-	(0.01)
<b>Net income attributable to shareholders (GAAP measure)</b>	<b>\$ 0.94</b>	<b>\$ 0.30</b>	<b>\$ 3.11</b>	<b>\$ 1.91</b>	<b>\$ 0.75</b>
<b>Annualized operating return on beginning shareholders' equity</b>	13.0%	14.3%	14.3%	23.8%	8.3%
<b>Annualized net income return on beginning shareholders' equity (GAAP measure)</b>	12.7%	5.0%	12.7%	12.1%	3.2%

<sup>(A)</sup> Net of an income tax expense (benefit) of \$0.7 million, \$(16.7) million, \$(9.1) million, \$(51.6) million and \$(30.9) million, or \$0.01 per diluted share, \$(0.30) per diluted share, \$(0.16) per diluted share, \$(1.00) per diluted share and \$(0.63) per diluted share for the three months ended 12/31/2010 and 12/31/2009, and the full year ended 12/31/2010, 12/31/2009 and 12/31/2008, respectively. The tax effect is calculated using the Company's statutory tax rate of 35%.

<sup>(B)</sup> Net of an income tax benefit of \$1.3 million or \$0.02 per diluted share and \$2.7 million or \$0.05 per diluted share for the three and twelve months ended 12/31/2010, respectively, and \$0.2 million or \$0.00 per diluted share for the full year ended 12/31/2008. The tax effect is calculated using the Company's statutory tax rate of 35%.

**Balance Sheet Data**

	<b>12/31/2010</b>	<b>12/31/2009</b>	<b>12/31/2008</b>
<b>Shareholders' equity, excluding accumulated other comprehensive income (loss)</b>	\$ 1,563,801	\$ 1,392,975	\$ 1,172,289
Add: Accumulated other comprehensive income (loss)	30,932	(33,956)	(351,710)
<b>Shareholders' equity (GAAP measure)</b>	<b>\$ 1,594,733</b>	<b>\$ 1,359,019</b>	<b>\$ 820,579</b>
<b>Diluted book value per share of common stock, excluding accumulated other comprehensive income (loss)</b>	\$ 27.64	\$ 25.02	\$ 24.27
Add: Accumulated other comprehensive income (loss)	0.52	(0.60)	(7.22)
<b>Diluted book value per share of common stock (GAAP measure)</b>	<b>\$ 28.16</b>	<b>\$ 24.42</b>	<b>\$ 17.05</b>
<b>Corporate debt to total capitalization ratio, excluding accumulated other comprehensive income (loss)</b>	17.7%	18.9%	20.7%
<b>Corporate debt to total capitalization ratio (GAAP measure)</b>	17.5%	19.3%	26.1%