

**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 2009**

**DELPHI FINANCIAL GROUP, INC.**  
**Financial Supplement**  
**Fourth Quarter 2009**

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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 full year 2009 and the 2008 and 2009 interim financial statements and related data included herein are unaudited. This report is dated February 11, 2010. 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 income from continuing operations excluding after-tax realized investment gains and losses, and losses on redemptions of junior subordinated deferrable interest debentures, as applicable. The Company believes that because realized investment gains and losses, redemptions of junior subordinated deferrable interest debentures and discontinued operations arise from events that, to a significant extent, are within management’s discretion and can fluctuate significantly, thus distorting comparisons between periods, a measure excluding their impacts is useful in analyzing the Company’s operating trends. Investment gains or losses may be realized based on management’s decision to dispose of an investment, and investment losses may be realized based on management’s judgment that a decline in the market value of an investment is other than temporary. Redemptions of junior subordinated deferrable interest debentures occur based on management’s decision to exercise its ability to redeem the outstanding debentures. Discontinued operations occur based on management’s decision to exit or sell a particular business. Thus, realized investment gains and losses, losses on redemptions of junior subordinated deferrable interest debentures and results from discontinued operations 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 the effects of these items. For these reasons, management uses the measure of operating earnings to assess performance, including, in certain cases, in connection with the performance goals under its incentive compensation plans, and to make operating plans and decisions. The Company believes that analysts and investors typically utilize measures of this type as one element of their evaluations of the financial performance of insurers. However, gains and losses of these types, particularly as to investments, occur regularly and should not be considered as non-recurring items. Further, operating earnings should not be considered a substitute for net income, 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. 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), 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 2009**

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

	Three Months Ended		Year Ended	
	12/31/2009	12/31/2008	12/31/2009	12/31/2007
For period ended:				
Operating earnings <sup>(A)</sup>	\$ 47,739	\$ 17,000	\$ 195,007	\$ 94,387
Per common share, assuming dilution <sup>(A)</sup>	0.86	0.35	3.76	1.93
Weighted average shares outstanding (diluted)	55,385	47,975	51,811	48,963
Annualized operating return on beginning shareholders' equity <sup>(A)</sup>	14.3%	7.6%	23.8%	8.3%
At period ended:				
Assets			12/31/2009	12/31/2008
Corporate debt <sup>(B)</sup>			\$ 6,921,375	\$ 5,953,873
Junior subordinated debentures			365,750	217,750
Junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries			175,000	175,000
Shareholders' equity			-	20,619
Diluted book value per share of common stock <sup>(C)</sup>			1,359,019	820,579
Diluted book value per share of common stock before accumulated other comprehensive loss <sup>(A)</sup>			\$ 24.42	\$ 17.05
Corporate debt to total capitalization ratio <sup>(D)</sup>			25.02	24.27
Corporate debt to total capitalization ratio before accumulated other comprehensive loss <sup>(A)</sup>			19.3%	26.1%
			18.9%	20.7%
				13.6%

<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 consists of \$143.8 million of Senior Notes due in 2033 and outstanding borrowings under the Company's revolving 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 \$1,395.3 million, \$831.2 million and \$1,253.7 million as of 12/31/2009, 12/31/2008 and 12/31/2007, respectively. The number of outstanding shares, as so increased, was 57.1 million, 48.7 million and 53.9 million as of 12/31/2009, 12/31/2008 and 12/31/2007, 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, junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries, and shareholders' equity.

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

	12/31/2009	09/30/2009	06/30/2009	03/31/2009	12/31/2008	09/30/2008	06/30/2008	03/31/2008
Premium and fee income:								
Group employee benefit products	\$ 335,010	\$ 332,136	\$ 341,396	\$ 346,125	\$ 345,307	\$ 334,606	\$ 330,585	\$ 332,525
Asset accumulation products	510	244	368	519	461	445	421	591
Other	12,745	10,230	10,681	11,077	11,030	9,977	9,768	9,174
Total premium and fee income	<u>348,265</u>	<u>342,610</u>	<u>352,445</u>	<u>357,721</u>	<u>356,798</u>	<u>345,028</u>	<u>340,774</u>	<u>342,290</u>
Net investment income:								
Group employee benefit products	44,648	53,673	55,140	35,396	11,938	7,372	36,364	15,556
Asset accumulation products	28,487	32,531	35,096	26,982	8,962	10,073	22,963	15,925
Other	1,492	2,478	1,787	477	1,456	1,962	1,423	856
Total investment income	<u>74,627</u>	<u>88,682</u>	<u>92,023</u>	<u>62,855</u>	<u>22,356</u>	<u>19,407</u>	<u>60,750</u>	<u>32,337</u>
Benefits and expenses:								
Group employee benefit products	312,094	311,131	317,765	322,686	321,943	308,999	303,607	303,631
Asset accumulation products	22,233	18,983	21,797	19,463	17,057	16,764	16,685	12,465
Other	17,101	20,522	21,507	19,583	12,815	18,103	18,146	16,709
Total benefits and expenses	<u>351,428</u>	<u>350,636</u>	<u>361,069</u>	<u>361,732</u>	<u>351,815</u>	<u>343,866</u>	<u>338,438</u>	<u>332,805</u>
Operating income (loss):								
Group employee benefit products	67,564	74,678	78,771	58,835	35,302	32,979	63,342	44,450
Asset accumulation products	6,764	13,792	13,667	8,038	(7,634)	(6,246)	6,699	4,051
Other	(2,864)	(7,814)	(9,039)	(8,029)	(329)	(6,164)	(6,955)	(6,679)
	<u>71,464</u>	<u>80,656</u>	<u>83,399</u>	<u>58,844</u>	<u>27,339</u>	<u>20,569</u>	<u>63,086</u>	<u>41,822</u>
Net realized investment losses	(47,614)	(50,459)	(27,471)	(21,999)	(28,502)	(33,740)	(19,499)	(6,436)
Loss on redemption of junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries								
Operating income (loss)	<u>\$ 23,850</u>	<u>\$ 30,197</u>	<u>\$ 55,928</u>	<u>\$ 36,845</u>	<u>\$ (1,163)</u>	<u>\$ (598)</u>	<u>\$ 43,587</u>	<u>\$ 35,386</u>

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

	Three Months Ended		Year Ended		
	12/31/2009	12/31/2008	12/31/2009	12/31/2008	12/31/2007
Revenue:					
Premium income:					
Core products:					
Disability, principally long-term	\$ 137,551	\$ 147,131	\$ 560,361	\$ 572,630	\$ 527,500
Life	93,041	101,210	393,173	402,928	364,771
Excess workers' compensation	71,952	67,343	277,485	264,244	276,252
Assumed workers' compensation and casualty reinsurance <sup>(A)</sup>	8,728	6,380	34,168	22,369	17,614
Travel accident, dental and other	21,493	18,896	81,016	70,205	59,411
	332,765	340,960	1,346,203	1,332,376	1,245,548
Non-core products	2,245	4,347	8,464	10,647	22,044
	335,010	345,307	1,354,667	1,343,023	1,267,592
Net investment income	44,648	11,938	188,857	71,230	163,701
	379,658	357,245	1,543,524	1,414,253	1,431,293
Benefits and expenses:					
Benefits, claims and interest credited to policyholders	225,595	242,039	927,875	933,215	890,918
Commissions	26,146	24,138	95,953	90,642	85,861
Amortization of cost of business acquired	22,110	22,668	90,792	81,961	72,725
Other operating expenses	38,243	33,098	149,056	132,362	122,302
	312,094	321,943	1,263,676	1,238,180	1,171,806
Operating income	\$ 67,564	\$ 35,302	\$ 279,848	\$ 176,073	\$ 259,487
Production (new annualized gross premium):					
Core products:					
Disability, principally long-term <sup>(B)</sup>	\$ 40,221	\$ 45,486	\$ 109,409	\$ 134,215	\$ 135,375
Life	36,453	35,288	70,526	94,681	87,210
Excess workers' compensation <sup>(C)</sup>	4,248	6,423	45,251	25,832	30,092
Assumed workers' compensation and casualty reinsurance <sup>(A)</sup>	860	783	17,226	12,103	6,742
Travel accident, dental and other	12,725	16,329	50,423	46,945	43,662
	94,507	104,309	292,835	313,776	303,081
Non-core products	1,375	3,349	6,468	10,260	9,825
Total production	\$ 95,882	\$ 107,658	\$ 299,303	\$ 324,036	\$ 312,906
Loss ratio (percent of total premium)	67.3%	70.1%	68.5%	69.5%	70.3%
Expense ratio (percent of total premium)	25.9%	23.1%	24.8%	22.7%	22.1%
Combined ratio (loss and expense ratio)	93.2%	93.2%	93.3%	92.2%	92.4%
Persistency ratio:					
Disability, principally long-term			81.4%	83.1%	84.9%
Life			81.2%	84.6%	84.4%
Travel accident and other			81.4%	87.8%	87.0%
Renewal ratio:					
Excess workers' compensation			92.6%	93.1%	87.6%
Assumed workers' compensation and casualty reinsurance			91.4%	80.2%	95.2%

<sup>(A)</sup> Beginning with the three months ended 09/30/2009, this product is included in the Company's core products. Accordingly, to assist in comparability with prior periods, this product has also been included in core products for prior periods. 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.

<sup>(B)</sup> Beginning with the three months ended 09/30/2009, production from the Company's turnkey disability product is included in disability production. Accordingly, to assist in comparability with prior periods, production from the turnkey disability product has also been included in disability production for prior periods.

<sup>(C)</sup> Total excess workers' compensation production per above,	\$ 4,248	\$ 6,423	\$ 45,251	\$ 25,832	\$ 30,092
less production from ERC renewal rights agreement	-	-	-	-	3,383
Total production excluding ERC renewal rights agreement	\$ 4,248	\$ 6,423	\$ 45,251	\$ 25,832	\$ 26,709

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

	Three Months Ended		Year Ended		
	12/31/2009	12/31/2008	12/31/2009	12/31/2008	12/31/2007
Revenue:					
Premium and fee income	\$ 510	\$ 461	\$ 1,641	\$ 1,918	\$ 2,666
Net investment income	28,487	8,962	123,097	57,923	98,477
	<u>28,997</u>	<u>9,423</u>	<u>124,738</u>	<u>59,841</u>	<u>101,143</u>
Benefits and expenses:					
Benefits, claims and interest credited to policyholders	16,240	15,666	61,422	55,285	52,814
Commissions	725	110	1,576	809	494
Amortization of cost of business acquired	3,079	(716)	10,614	(1,550)	8,497
Other operating expenses	2,189	1,997	8,864	8,427	7,827
	<u>22,233</u>	<u>17,057</u>	<u>82,476</u>	<u>62,971</u>	<u>69,632</u>
Operating income (loss)	<u>\$ 6,764</u>	<u>\$ (7,634)</u>	<u>\$ 42,262</u>	<u>\$ (3,130)</u>	<u>\$ 31,511</u>
Sales	\$ 16,418	\$ 49,319	\$ 248,595	\$ 245,117	\$ 107,145
Funds under management (at end of period)			\$ 1,425,442	\$ 1,327,502	\$ 1,053,221

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

	Three Months Ended		Twelve Months Ended	
	12/31/2009	12/31/2008	12/31/2009	12/31/2008
Revenue:				
Premium and fee income	\$ 348,265	\$ 356,798	\$ 1,401,041	\$ 1,384,890
Net investment income	74,627	22,356	318,187	134,850
Net realized investment losses:				
Total other than temporary impairment losses	(43,184)	(26,147)	(180,191)	(78,626)
Portion of other than temporary impairment losses recognized in other comprehensive income	(6,987)	-	35,480	-
Net impairment losses recognized in earnings	(50,171)	(26,147)	(144,711)	(78,626)
Other net realized investment gains (losses)	2,557	(2,355)	(2,832)	(9,551)
	(47,614)	(28,502)	(147,543)	(88,177)
Loss on redemption of junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries	-	-	-	(598)
	<u>375,278</u>	<u>350,652</u>	<u>1,571,685</u>	<u>1,430,965</u>
Benefits and expenses:				
Benefits, claims and interest credited to policyholders	242,441	258,544	990,802	989,253
Commissions and expenses	108,987	93,271	434,063	377,671
	<u>351,428</u>	<u>351,815</u>	<u>1,424,865</u>	<u>1,366,924</u>
Operating income (loss)	23,850	(1,163)	146,820	64,041
Interest expense:				
Corporate debt	3,818	4,761	15,485	17,701
Junior subordinated debentures	3,240	3,240	12,968	12,966
Junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries	-	-	-	934
Income tax expense (benefit)	2	(7,638)	19,263	(4,243)
Net income (loss)	<u>\$ 16,790</u>	<u>\$ (1,526)</u>	<u>\$ 99,104</u>	<u>\$ 36,683</u>
Basic results per share of common stock:				
Net income (loss)	\$ 0.31	\$ (0.03)	\$ 1.92	\$ 0.76
Weighted average shares outstanding	54,960	47,975	51,532	48,278
Diluted results per share of common stock:				
Net income (loss)	\$ 0.30	\$ (0.03)	\$ 1.91	\$ 0.75
Weighted average shares outstanding	55,385	47,975	51,811	48,963
Dividends paid per share of common stock	\$ 0.10	\$ 0.10	\$ 0.40	\$ 0.39

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

	<u>12/31/2009</u>	<u>12/31/2008</u>
Assets:		
Investments:		
Fixed maturity securities, available for sale	\$ 4,875,681	\$ 3,773,382
Short-term investments	406,782	401,620
Other investments	<u>466,855</u>	<u>479,921</u>
	5,749,318	4,654,923
Cash	65,464	63,837
Cost of business acquired	250,311	264,777
Reinsurance receivables	355,030	376,731
Goodwill	93,929	93,929
Other assets	293,835	409,103
Assets held in separate account	<u>113,488</u>	<u>90,573</u>
Total assets	<u>\$ 6,921,375</u>	<u>\$ 5,953,873</u>
Liabilities and Equity:		
Policy liabilities and accruals	\$ 2,803,189	\$ 2,574,050
Policyholder account balances	1,454,114	1,356,932
Corporate debt	365,750	350,750
Junior subordinated debentures	175,000	175,000
Other liabilities and policyholder funds	647,269	581,954
Liabilities related to separate account	<u>113,488</u>	<u>90,573</u>
Total liabilities	<u>5,558,810</u>	<u>5,129,259</u>
Equity:		
Class A Common Stock	560	489
Class B Common Stock	60	60
Additional paid-in capital	661,895	522,596
Accumulated other comprehensive loss	(33,956)	(351,710)
Retained earnings	927,706	846,390
Treasury stock, at cost	<u>(197,246)</u>	<u>(197,246)</u>
Total shareholders' equity	1,359,019	820,579
Noncontrolling interest	<u>3,546</u>	<u>4,035</u>
Total equity	<u>1,362,565</u>	<u>824,614</u>
Total liabilities and equity	<u>\$ 6,921,375</u>	<u>\$ 5,953,873</u>

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

	Twelve Months Ended		
	12/31/2009	12/31/2008	12/31/2007
<b>Operating activities:</b>			
Net income	\$ 99,104	\$ 36,683	\$ 164,512
Adjustments to reconcile net income to net cash provided by operating activities:			
Change in policy liabilities and policyholder accounts	234,615	233,116	245,031
Net change in reinsurance receivables and payables	18,513	30,746	5,335
Amortization, principally the cost of business acquired and investments	53,914	63,438	73,084
Deferred costs of business acquired	(123,152)	(124,529)	(108,574)
Net realized losses on investments	147,543	88,177	1,897
Net change in federal income tax liability	(11,347)	(68,689)	23,757
Other	41,357	137,390	(21,723)
Net cash provided by operating activities	<u>460,547</u>	<u>396,332</u>	<u>383,319</u>
<b>Investing activities:</b>			
Purchases of investments and loans made	(1,859,365)	(1,474,661)	(1,210,252)
Sales of investments and receipts from repayment of loans	1,014,200	537,328	550,991
Maturities of investments	159,525	336,417	171,927
Net change in short-term investments	(5,162)	(115,587)	114,206
Change in deposit in separate account	4,845	12,429	8,948
Net cash used by investing activities	<u>(685,957)</u>	<u>(704,074)</u>	<u>(364,180)</u>
<b>Financing activities:</b>			
Deposits to policyholder accounts	267,499	388,419	116,729
Withdrawals from policyholder accounts	(162,494)	(120,984)	(159,035)
Borrowings under revolving credit facility	17,000	139,000	112,000
Principal payments under revolving credit facility	(2,000)	(6,000)	(158,000)
Proceeds from the issuance of junior subordinated debentures	-	-	172,309
Redemptions of junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries	-	(20,619)	(37,728)
Proceeds from issuance of common stock	120,696	-	-
Acquisition of treasury stock	-	(42,729)	(62,417)
Cash dividends paid on common stock	(20,160)	(18,409)	(17,229)
Other financing activities	6,496	1,661	17,268
Net cash provided (used) by financing activities	<u>227,037</u>	<u>320,339</u>	<u>(16,103)</u>
Increase in cash	1,627	12,597	3,036
Cash at beginning of period	63,837	51,240	48,204
Cash at end of period	<u>\$ 65,464</u>	<u>\$ 63,837</u>	<u>\$ 51,240</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, 2004	\$ 166,337	\$ 46,212	\$ 212,549
Deferred	83,324	6,277	89,601
Amortized	(62,120)	(7,161)	(69,281)
Equity adjustment	-	15,269	15,269
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	<u>\$ 156,334</u>	<u>\$ 93,977</u>	<u>\$ 250,311</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 provisions 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, 2009**  
**(Dollars in Thousands)**

Sub-Prime Residential Mortgage Backed Securities - Carrying Value								
Vintage	Aaa	Aa	A	Baa	Ba	B and Below	Total	% of Total
2001 & Prior	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0%
2002	-	-	-	-	-	-	-	0%
2003	8,900	-	-	-	-	-	8,900	15%
2004	13,166	520	988	4,324	511	56	19,565	35%
2005	23,829	-	447	-	-	-	24,276	42%
2006	3,194	117	-	825	-	84	4,220	7%
2007	-	-	-	-	-	553	553	1%
2008	-	-	-	-	-	-	-	0%
2009	-	-	-	-	-	-	-	0%
<b>Total</b>	<b>\$ 49,089</b>	<b>\$ 637</b>	<b>\$ 1,435</b>	<b>\$ 5,149</b>	<b>\$ 511</b>	<b>\$ 693</b>	<b>\$ 57,514</b>	<b>100%</b>
% of Total	86%	1%	2%	9%	1%	1%	100%	

Alt-A Residential Mortgage Backed Securities - Carrying Value								
Vintage	Aaa	Aa	A	Baa	Ba	B and Below <sup>(A)</sup>	Total	% of Total
2001 & Prior	\$ 2,156	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,156	1%
2002	420	-	-	-	-	-	420	0%
2003	39,711	-	-	-	-	4,811	44,522	14%
2004	16,103	1,156	128	888	16	2,236	20,527	6%
2005	18,715	-	8,815	-	389	27,446	55,365	17%
2006	21,880	32	-	9,410	2,577	62,638	96,537	30%
2007	-	-	-	9	1,056	100,220	101,285	32%
2008	-	-	-	-	-	-	-	0%
2009	-	-	-	-	-	-	-	0%
<b>Total</b>	<b>\$ 98,985</b>	<b>\$ 1,188</b>	<b>\$ 8,943</b>	<b>\$ 10,307</b>	<b>\$ 4,038</b>	<b>\$ 197,351</b>	<b>\$ 320,812</b>	<b>100%</b>
% of Total	31%	0%	3%	3%	1%	62%	100%	

Commercial Mortgage Backed Securities - Carrying Value								
Vintage	Aaa	Aa	A	Baa	Ba	B and Below	Total	% of Total
2001 & Prior	\$ 3,621	\$ 4,667	\$ 3,609	\$ -	\$ -	\$ -	\$ 11,897	45%
2002	3,484	493	-	2,037	2,728	-	8,742	34%
2003	-	-	-	-	-	-	-	0%
2004	-	-	-	-	-	-	-	0%
2005	-	-	-	-	59	48	107	0%
2006	-	-	-	-	103	119	222	1%
2007	-	-	-	-	816	1,427	2,243	9%
2008	1,429	-	-	619	438	312	2,798	11%
2009	-	-	-	-	-	-	-	0%
<b>Total</b>	<b>\$ 8,534</b>	<b>\$ 5,160</b>	<b>\$ 3,609</b>	<b>\$ 2,656</b>	<b>\$ 4,144</b>	<b>\$ 1,906</b>	<b>\$ 26,009</b>	<b>100%</b>
% of Total	33%	20%	14%	10%	16%	7%	100%	

Municipal Securities - Underlying Issuer Rating - Carrying Value								
	Aaa	Aa	A	Baa	Ba and Below	Not Rated <sup>(B)</sup>	Total	% of Total
Insured	\$ 386,170	\$ 423,120	\$ 289,325	\$ 34,045	\$ 9,230	\$ 63,469	\$ 1,205,359	66%
Uninsured	125,025	256,462	213,833	38,539	659	-	634,518	34%
<b>Total</b>	<b>\$ 511,195</b>	<b>\$ 679,582</b>	<b>\$ 503,158</b>	<b>\$ 72,584</b>	<b>\$ 9,889</b>	<b>\$ 63,469</b>	<b>\$ 1,839,877</b>	<b>100%</b>
% of Total	28%	37%	27%	4%	1%	3%	100%	

<sup>(A)</sup> Includes \$168,681 of securities with an NAIC designation of 1 or 2.

<sup>(B)</sup> Includes \$38,909 of securities to which an investment grade rating has been assigned by an NRSRO but whose issuers are not rated by any NRSRO.

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

<b><u>Income Statement Data</u></b>	Three Months Ended		Year Ended		
	12/31/2009	12/31/2008	12/31/2009	12/31/2008	12/31/2007
<b>Operating earnings</b>	\$ 47,739	\$ 17,000	\$ 195,007	\$ 94,387	\$ 167,170
Net realized investment losses <sup>(A)</sup>	(30,949)	(18,526)	(95,903)	(57,315)	(1,233)
Loss on redemption of junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries <sup>(B)</sup>	-	-	-	(389)	(1,425)
<b>Net income (loss) (GAAP measure)</b>	<b>\$ 16,790</b>	<b>\$ (1,526)</b>	<b>\$ 99,104</b>	<b>\$ 36,683</b>	<b>\$ 164,512</b>
<b>Diluted results per share of common stock:</b>					
<b>Operating earnings</b>	\$ 0.86	\$ 0.35	\$ 3.76	\$ 1.93	\$ 3.24
Net realized investment losses <sup>(A)</sup>	(0.56)	(0.38)	(1.85)	(1.17)	(0.02)
Loss on redemption of junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries <sup>(B)</sup>	-	-	-	(0.01)	(0.03)
<b>Net income (loss) (GAAP measure)</b>	<b>\$ 0.30</b>	<b>\$ (0.03)</b>	<b>\$ 1.91</b>	<b>\$ 0.75</b>	<b>\$ 3.19</b>
<b>Annualized operating return on beginning shareholders' equity</b>	14.3%	7.6%	23.8%	8.3%	15.3%
<b>Annualized net income return on beginning shareholders' equity (GAAP measure)</b>	5.0%	-0.7%	12.1%	3.2%	15.1%
<p>(A) Net of an income tax benefit of \$16.7 million, \$10.0 million, \$51.6 million, \$30.9 million and \$0.7 million, or \$0.30 per diluted share, \$0.21 per diluted share, \$1.00 per diluted share, \$0.63 per diluted share and \$0.01 per diluted share for the three months ended 12/31/2009 and 12/31/2008, and the full year ended 12/31/2009, 12/31/2008 and 12/31/2007, respectively. The tax effect is calculated using the Company's statutory tax rate of 35%.</p> <p>(B) Net of an income tax benefit of \$0.2 million and \$0.8 million, or \$0.00 per diluted share and \$0.01 per diluted share for the full year ended 12/31/2008 and 12/31/2007, respectively. The tax effect is calculated using the Company's statutory tax rate of 35%.</p>					
<b><u>Balance Sheet Data</u></b>			12/31/2009	12/31/2008	12/31/2007
<b>Shareholders' equity, excluding accumulated other comprehensive loss</b>			\$ 1,392,975	\$ 1,172,289	\$ 1,183,887
Add: Accumulated other comprehensive loss			(33,956)	(351,710)	(42,497)
<b>Shareholders' equity (GAAP measure)</b>			<b>\$ 1,359,019</b>	<b>\$ 820,579</b>	<b>\$ 1,141,390</b>
<b>Diluted book value per share of common stock, excluding accumulated other comprehensive loss</b>			\$ 25.02	\$ 24.27	\$ 24.07
Add: Accumulated other comprehensive loss			(0.60)	(7.22)	(0.79)
<b>Diluted book value per share of common stock (GAAP measure)</b>			<b>\$ 24.42</b>	<b>\$ 17.05</b>	<b>\$ 23.28</b>
<b>Corporate debt to total capitalization ratio, excluding accumulated other comprehensive loss</b>			18.9%	20.7%	13.6%
<b>Corporate debt to total capitalization ratio (GAAP measure)</b>			19.3%	26.1%	14.0%