

1 9 9 9 A N N U A L R E P O R T

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.

1999 Highlights

- Operating earnings for 1999 were \$3.73 per share, or \$81 million, up 19% from \$3.13 per share, or \$69 million, in 1998.
- Our group employee benefits combined ratio improved to 95.2% in 1999 from 96.5% in 1998.
- Group employee benefits premium income rose 12% to \$468 million from 1998's \$416 million.
- New premium production for 1999 was \$174.5 million, up 23% from 1998.
- New annuity production for 1999 was \$78 million, up 68% from 1998.

“Delphi is a pioneer in the fast-growing market for integrated employee benefits. We are uniquely capable of providing the full array of products and services that integrate disability insurance, workers' compensation insurance and employee absence management.”

Financial Highlights

DELPHI FINANCIAL GROUP, INC.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

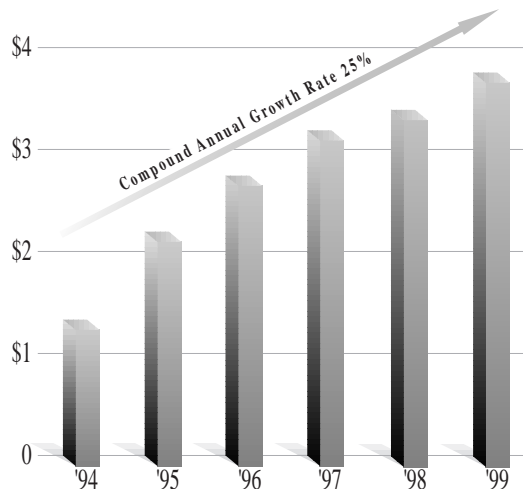
Years Ended December 31,	1999	1998	1997	1996	1995	1994
Income Statement Data:						
Premium and Fee Income	\$ 485,268	\$ 426,874	\$ 360,871	\$ 335,233	\$ 260,902	\$ 248,512
Net Investment Income	180,945	168,692	162,380	157,020	117,112	106,576
Operating Profit Excluding Realized Investment (Losses) Gains	144,995	124,960	118,326	102,270	63,465	39,681
Income from Continuing Operations, Excluding Realized Investment (Losses) Gains	80,850	68,564	65,513	55,577	32,284	19,306
Net Income	50,285	87,035	74,982	47,253	30,464	25,818
Balance Sheet Data:						
Total Assets	3,395,688	3,287,057	3,203,713	2,857,906	2,323,010	2,472,776
Long-Term Debt	283,938	265,165	178,769	231,004	134,611	159,577
Capital Securities of Delphi Funding L.L.C.	100,000	100,000	100,000	—	—	—
Shareholders' Equity	501,417	566,440	509,486	366,965	222,815	170,382
Diluted Per Share Data*:						
Income from Continuing Operations, Excluding Realized Investment (Losses) Gains	3.73	3.13	3.07	2.72	2.03	1.23
Net Income	2.32	3.97	3.51	2.32	1.92	1.64
Book Value	24.52	26.59	24.09	17.43	14.04	10.78
Book Value**	28.96	27.36	22.25	18.25	16.17	14.30
Weighted Average Shares Outstanding (in thousands)	21,674	21,920	21,367	20,407	15,875	15,759

* Prior period results per share and applicable share amounts have been restated to reflect stock dividends distributed in 1999.

** Before net unrealized appreciation and depreciation on investments.

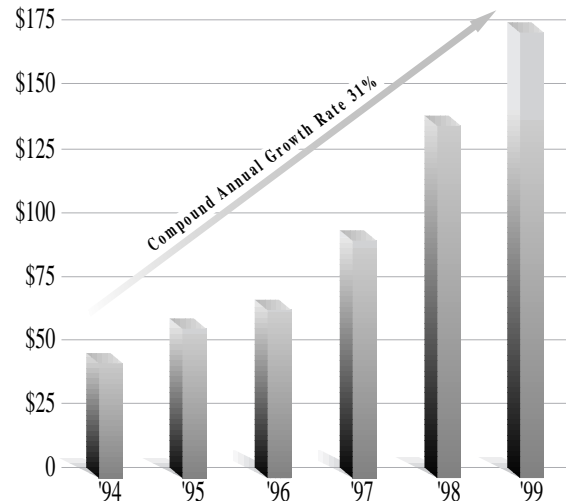
Income Per Share from Continuing Operations

(Excluding realized investment gains and losses)



New Premium Production

(In millions)



Letter to Shareholders



THE MEASURE THAT MOST INVESTORS USE to gauge the performance of insurance companies is income from continuing operations before investment gains and losses. By this measure Delphi had an excellent year: 1999 results were \$3.73, 19% above 1998's level. But another measure is stock price performance and by this standard 1999 was a miserable year for our shareholders. Clearly, the stock market values Delphi at an enormous discount to its underlying industrial value. It seems to us appropriate to use this annual report to articulate the reasons we believe that Delphi is an outstanding investment.

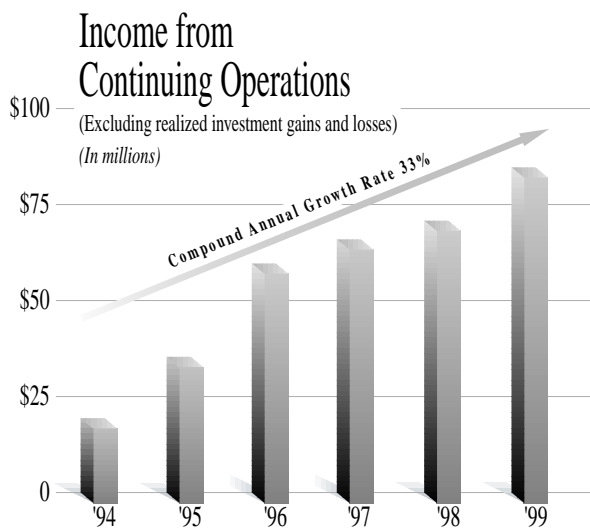
Delphi's Unique Strategy

Delphi is a pioneer in the fast-growing market for integrated employee benefits. We are uniquely capable of providing the full array of products and services that integrate disability insurance,

workers' compensation insurance, and employee absence management. This service gets employees back to work more quickly, enhancing productivity for the employers who are our customers and reducing the amount we have to pay out in claims to insureds.

This concept is a breakthrough idea in our industry, and customers are responding with great interest. Their reasoning is straightforward. Integrating the full array of employee benefits together in one seamless package is much more than a convenience to them. According to the Integrated Employee Benefits Institute (IBI), integration of employee benefits "is now a key component in employers' efforts to control costs and add to the corporate bottom line." In its groundbreaking study, the IBI assessed national interest in the concept across the entire spectrum of employers of all sizes and in all

industries. The results indicate that nearly half of employers are seeking to change the way they provide their employees with benefits such as workers' compensation insurance, group health insurance, and disability insurance. Their goals are administrative efficiency, cost reduction and productivity enhancement.



The opportunity for providers of integrated employee benefits is very large, and Delphi is, for now, the only company that delivers under one roof all the products and services that constitute integrated disability insurance and employee absence management. We provide disability coverage through our life insurance subsidiary, Reliance Standard, and the whole spectrum of workers' compensation coverage through our property-casualty insurance subsidiary, Safety National. Our Matrix subsidiary integrates all these coverages together and provides the additional absence management service that enhances employer productivity by getting employees back to work faster. Delphi now offers a differentiated, higher-value product that justifies a premium price. We call this "Absence Solutions."

"The opportunity for providers of integrated employee benefits is very large."

Delphi's Market-Leading Companies

Safety National is highly profitable and is the leading provider of excess workers' compensation insurance in the country. Workers' comp benefits are mandated by law and primary workers' comp insurance companies provide this coverage. Safety National's approach is very different. Its core clients are employers who self-insure their coverage in order to achieve lower costs. They can keep claims low by training their workers in good safety practices and being vigilant in maintaining a safe workplace; they can save administrative overhead by subcontracting the management of the plan to a private vendor vastly more efficient than the bloated, bureaucratic state insurance funds that provide much of the nation's workers' comp coverage. The only catch is that one or two particularly costly claims, or even an unusual rush of ordinary claims, can hurt an employer's profits in a particularly unlucky year. So no employer can prudently self-insure without buying excess workers' compensation insurance, which insures against precisely this risk.

"Safety National is highly profitable and is the leading provider of excess workers' compensation insurance in the country."

Typically, a Safety National client retains liability for over 10 years of payments to an injured employee, after which Safety National's liability begins. Safety National has consistently earned underwriting profits in this business: its combined costs for losses and expenses are less than premiums. But the bulk of its profits are from investment income on a growing base of reserves. This feature makes the business highly profitable and very predictable.

High barriers to entry protect Safety National's excess workers' compensation business. Because standard industry data don't exist, Safety National has a strategic advantage with the vast reser-

“Reliance Standard, is one of the leading half-dozen providers in its market and one of the most profitable.”

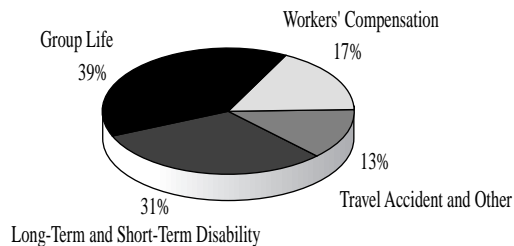
voir of knowledge and experience it has built up during its long and profitable concentration on this niche. In addition, a very large portion of the nation's excess workers' compensation business goes through the hands of a relatively small number of brokers and third party administrators with whom Safety National has developed strong relationships.

Our life insurance subsidiary, Reliance Standard, is one of the leading half-dozen providers in its market and one of the most profitable. Over the past 25 years, it has focused on providing a complete array of group employee benefit coverages, everything from long- and short-term disability insurance to group life insurance, dental insurance, and travel accident insurance to companies with 100 to 1,000 employees. Because companies of this size have created almost all the job growth of the last couple of decades, Reliance Standard's focus on this market has given the company accelerated growth. In this market, moreover, price competition has been less intense than in the market for larger cases, so that Reliance Standard's fast growth has been profitable growth.

Our third operating subsidiary, Matrix Absence Management, Inc., is a front runner in its fast growing field. Matrix provides two crucial services to employers. First, it administers the tangled welter of programs that have to do with employee absence: everything from disability

insurance and workers' compensation to the Family and Medical Leave Act and Social Security, all of which have a multiplicity of forms, rules, and bureaucracies that are difficult to understand and frustrating to navigate. Second, and more important, Matrix enhances the productivity of its clients by making sure that any employee felled by illness or injury quickly gets the best treatment and rehabilitation available, so that he can get back to work as quickly as possible. Matrix typically can document savings of 15% to 20% in the days lost to employee absence.

Group Employee Benefits 1999 Insurance Premiums



This service has special appeal for employers with highly educated professional employees. Matrix clients are the most cutting-edge, fastest growing high-tech companies in the land. Half the Fortune 500 companies in California are Matrix clients, a Who's Who of America's best-run companies, from Intel and Sun Microsystems to AirTouch Communications.

Delphi's Superb Historic Performance

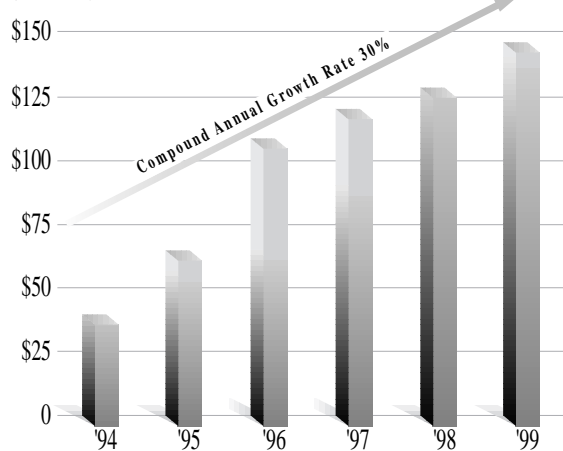
Over the past five years, Delphi's after-tax operating profits have surged at a compound annual rate of 33%. During the five years that ended in 1999, Delphi's after-tax operating return on beginning equity averaged 17.9%. This combination is among the very best record in the insurance industry. If you compare these figures with the results of all the companies in the Standard & Poor's Insurance Composite, Delphi's performance ranks third in terms of profit growth rate, and sixth in terms of return on equity.

What has powered this outstanding performance? First has been Delphi's strong premium and fee income growth over this period; it increased at a compound annual rate of 14.3%. In addition, total assets rose at a compound annual rate of 6.5%, and the company achieved investment yields consistently above peer companies.

Look at Reliance Standard's excellent profit performance over the years, which looks all the more stellar when compared with the rocky results of the company's bigger long-term disability competitors over the past year. Reliance Standard has a well-diversified business mix and long-term disability accounts for around 10% of Delphi's operating profits. We have been conservative in our accounting practices, reporting profits as they develop over several years, rather than loading them onto income at the time of the sale. In addition, Reliance Standard is stringent in its underwriting, meaning that it carefully studies every potential new client to weed out prospects likely to have an above average number of future claims. The company's skilled underwriters and vast data base, along with the involvement of senior management in the pricing and underwriting of all larger cases, result in consistent profitability. Reliance Standard's combined ratio (insurance industry jargon for how well an insurer manages costs and risks) has consistently been under 100%, as has Safety National's. Delphi's overall GAAP combined ratio has averaged 96.6% per year, superb performance by any measure.

Pre-Tax Operating Profit

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



“Over the past five years, Delphi's after-tax operating profits have surged at a compound annual rate of 33%.”

Delphi's Excellent Growth Prospects

Delphi has historically targeted a 15% growth rate in operating income, but it has again and again done substantially better. The outlook for continued growth above the 15% target is bright.

A crucial element that enhances Delphi's future growth prospects is our integrated employee benefits initiative, Absence Solutions. This enables Delphi to target much larger clients than it

has historically done. It has generally been difficult for insurance companies to make adequate profits when selling to large customers because competition for these accounts is so intense. Delphi's advantage is that it is offering a specialized service that adds value for the employer by getting productive employees back to work sooner. This helps Delphi reduce losses, obtain adequate pricing and meet its profit goals.

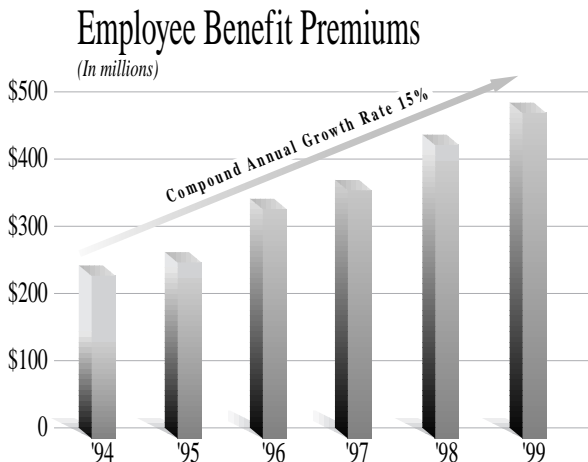
As we roll out Absence Solutions nationwide, our entire company stands to get a substantial boost. That's why we invested heavily to accelerate that expansion in 1999, so that we can now provide Absence Solutions in 33 states, including the big, economically

dominant ones. As separate entities, our three subsidiaries should maintain their historic growth rate. Annealed together in this way, we expect them to produce accelerated, and highly profitable, future growth.

In addition, Safety National has begun to benefit from the recent rise in primary workers' comp rates, which began in June 1999 and accelerated in the January 2000 renewal season, driven by

the weak results reported by primary workers' comp carriers in the last few years and a withdrawal of reinsurance capacity from the market. It's a mark of the irrepressible, growth-enhancing entrepreneurship of Safety National's managers that, when the cycle turned against them over the last couple of years, they didn't rest content merely with harvesting the ample and increasing profits of their exist-

ing business. Instead, they introduced new products, which boosted sales as well as profits. They created a loss portfolio transfer business, which is a perfect counter-cyclical complement to their core product.



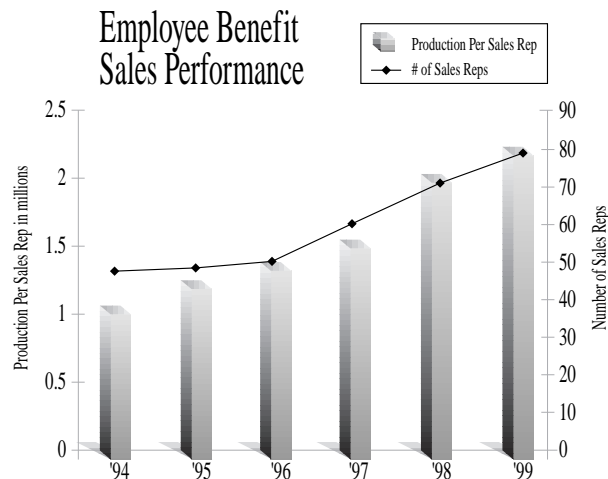
“The outlook for continued growth above the 15% target is bright.”

It works like this: When employers shift from self-insurance to first-dollar coverage, as many have been doing until recently, they are left with a basket of known claims that they are paying off, along with a pool of assets to cover those liabilities. Since they are no longer in the self-insurance business, they are anxious to have some outside vendor take the whole operation, claims and their accompanying assets, off their hands. That's what Safety National does, and it earns its profit in two ways from doing so. It has the skill to manage the cases better, rehabilitating insureds and getting them back to work more quickly than might have happened without our experienced intervention. As a result, the company pays out a smaller amount in total claims. On top of that, we determine premiums by assuming a low level of income on invested assets. We have the expertise to do much better, and the difference drops down to the bottom line.

“As we roll out Absence Solutions nationwide, our entire company stands to get a substantial boost.”

Delphi's Strong Distribution Capacity

Delphi's distribution machine is among its most valuable corporate assets. This unusually professional, extremely well managed team has relationships with insurance brokers and third party administrators in virtually every major market in the U.S.. Management has been successful in adding to the size of its sales force while simultaneously doubling productivity per sales representative. Thus, over the past five years, the number of professional sales representatives has grown from 47 to 79, and new production per person has increased from \$1 million to \$2 million. As a result, new business production has grown from \$46.1 million in 1994 to \$174.5 million last year, a compound growth rate of 31%. Delphi expects to continue to add new sales representatives over the next few years. This expansion will allow appropriate focus on the integrated employee benefit initiative while at the same time accelerating the penetration of the company's traditional market.



In addition, we have taken steps to make this powerful marketing machine as profit-focused as possible. We have revamped Reliance Standard's compensation system, so that sales personnel get rewarded most for selling what most strengthens Delphi's bottom line. To take one obvious example: a salesman's favorite activity is bringing in new clients, but keeping old clients, whose business and claims history we understand inside and out, is more profitable to the company because there are fewer surprises, and because there are fewer costs associated with keeping old business than generating new. Getting price increases on these cases is more profitable still. Our substantially revamped compensation system now reflects these realities with greater precision, aligning the interests of the sales force with the interests of the shareholders.

Delphi's Asset Accumulation Business: An Important Profit Center

Annuities are Delphi's largest reserve category, with \$645 million of account balances. These balances, plus income on allocated capital, provide 20% to 25% of Delphi's operating profit. Gross spreads have averaged 2.9%, among the very highest in the industry. New production, \$46

“Gross spreads have averaged 2.9%, among the very highest in the industry. New production, \$46 million in 1998, grew 68% to \$78 million in 1999 and is targeted for \$125 million in 2000, a further 61% increase.”

million in 1998, grew 68% to \$78 million in 1999 and is targeted for \$125 million in 2000, a further 61% increase. We have achieved this growth by adding both new distribution channels and new products. Within the past year Reliance Standard initiated relationships with 15 wholesaling organizations and created a series of multi-year guaranteed products. Most of these multi-year products have market value adjustments which mitigate the company's interest rate risk. Market conditions also favor accelerated growth in annuity lines. Higher interest rates and a volatile stock market should increase the demand for fixed annuities, and a trend toward wider credit spreads improves profit margins.

Our development of this business over the last four years has provided Delphi with a source of predictable and growing positive cash flow, giving the company a growing asset base and mastery over the timing of our investment moves.

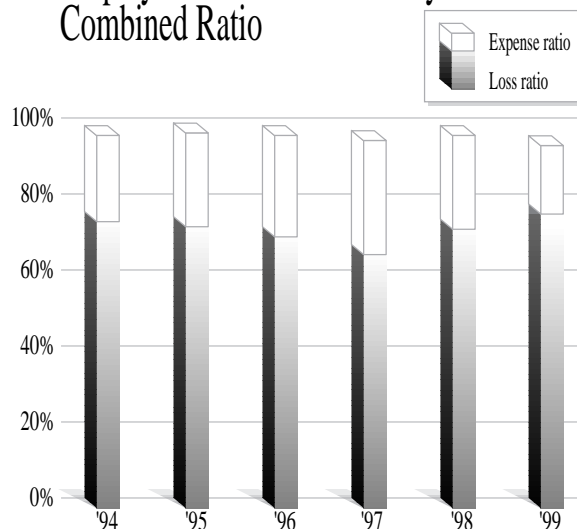
1999 Highlights

All of Delphi's businesses turned in muscular performances in 1999, boosting the company's after-tax operating income (before realized investment gains and losses) to \$3.73 a share, 19% higher than 1998's \$3.13 a share. Total income from continuing operations (excluding realized investment gains and losses) reached \$81 million, compared to \$69 million the year before. Employee benefit premium income rose 12% to \$468 million from 1998's \$416 million, thanks to our resoundingly successful efforts to sign up new business over the last few years. These efforts continued in 1999, with gratifying success: new premium production rose 23% to \$174.5 million from \$142 million the prior year. We kept our expenses and our underwriting under tight control, too. Our combined ratio tightened to 95.2% in 1999 from an already taut 96.5% in 1998.

The year's net income of \$50 million, or \$2.32 per share, showed the effects of some realized investment losses, taken to improve the company's future profits. As interest rates rose during 1999, and bond prices fell across the board, we took the opportunity to sell mortgage-backed securities which we had bought when they were undervalued relative to the fixed-income market as a whole. During 1999, as investors recognized the strength of these instruments, we took the opportunity to sell them and replace them with investment-grade corporate bonds that at that moment represented particularly good value. We will get an above-average return from them while we hold them, and we expect them to rise in value relative to the market by the time we sell them. Had we not made this portfolio adjustment, we would have had much fewer investment losses to report, but at the cost of diminished total return over the long run.

We have taken a series of additional steps during 1999 to see that shareholders get fully rewarded in the price of Delphi stock for the success of their company. We have hired a full-time investor relations executive to make Delphi's case to Wall Street, and top management has spent a greatly increased amount of time and energy meeting with investors to explain what makes Delphi so unique and profitable as a business, and what gives it such bright prospects of continued, and indeed accelerated, profit growth in the future. We have taken advantage of our

Employee Benefit Profitability Combined Ratio



“All of Delphi's businesses turned in muscular performances in 1999... boosting after-tax operating income per share 19%.”

depressed stock price to repurchase 1.1 million shares during 1999. We announced authorization of another one million share repurchase program and have been continued buyers of our own stock this year. By reducing the number of shares outstanding, we can improve per share earnings growth on the remaining shares.

We have taken one further investor-friendly step in 1999. Early in the year, Unicover Managers, Inc., which we had only recently acquired, came in for some serious adverse publicity due to reserve strengthening by one of the major retrocessionaires of its managed reinsurance pools. This proved a burden on Delphi's share price, so, eight weeks after the first adverse news, we sold Unicover back to its managers in a transaction that left us with a breakeven after-tax result. We had previously stated that Delphi faced no legal liability from its temporary involvement with Unicover. But investors incorrectly feared otherwise, and the share price continued to be weighed down by these fears. For that reason, shortly after the end of 1999 we rescinded a profitable reinsurance treaty in exchange for legal releases relating to Unicover from all of the Unicover pool members and retrocessionaires. Investor perception, even when inaccurate, powerfully affects stock prices; therefore, to dispel the cloud that Unicover had cast over Delphi stock, we felt it was in the best interest of Delphi shareholders that there be a global settlement of the Unicover issues. Delphi's modest contribution to that settlement seemed a wise price to pay to put these investor concerns definitively behind us.

After all, we don't want anything to get in the way of the great story we have to tell of superb historic performance, exciting strategic innovation, and bright prospects for even stronger future profitability. Delphi management owns nearly 50% of the outstanding shares. Having a share price that fairly reflects the values we are building is essential.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Robert Rosenkranz", with a stylized flourish 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
SLM Holding Corporation (Sallie Mae)*

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, Inc.*

Robert M. Smith, Jr.

*Executive Vice President
Delphi Financial Group, Inc.*

B. K. Werner

*Chairman Emeritus
Safety National Casualty Corporation*

Corporate Information

Corporate Headquarters

1105 North Market Street, Suite 1230
P.O. Box 8985
Wilmington, DE 19899
(302) 478-5142 • (302) 427-7663 Fax

Registrar and Stock Transfer Agent

First Union National Bank
Corporate Trust Department - 1153
1525 West W.T. Harris Boulevard, 3C3
Charlotte, NC 28288-1153
(800) 829-8432

Annual Meeting

Tuesday, May 9, 2000, at 10:00AM
University Club
One West 54th Street
New York, NY 10019

Trading Market

New York Stock Exchange
Symbol: DFG

Independent Accountants

Ernst & Young LLP
Two Commerce Square, Suite 4000
2001 Market Street
Philadelphia, PA 19103

Investor Relations

David M. Finkelstein
Vice President
153 East 53rd Street
New York, NY 10022
(212) 303-4349
(212) 319-6171 Fax
Email: Invrel@dlfi.com
www.delphifin.com

Principal Subsidiaries

Delphi Capital Management, Inc.

153 East 53rd Street
New York, NY 10022
(212) 838-7000 • (212) 838-7598 Fax • DELPHI@dlfi.com

Safety National Casualty Corporation

2043 Woodland Parkway
St. Louis, MO 63146
(314) 995-5300 • (314) 995-3843 Fax • SNCC@sncc.com
www.sncc.com

Reliance Standard Life Insurance Company

2501 Parkway
Philadelphia, PA 19130
(215) 787-4000 • (215) 787-3944 Fax • RSLIC@rsli.com
www.rsli.com

Matrix Absence Management, Inc.

4777 Hellyer Avenue
San Jose, CA 95138
(408) 360-8370 • (408) 360-9441 Fax • Webmaster@matrixcos.com
www.matrixcos.com

Principal Officers

Delphi Financial Group, Inc.

Robert Rosenkranz
*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

David M. Finkelstein
*Vice President
Investor Relations and
Corporate Finance*

Louis C. Lucido
Vice President, Investments

Robert M. Smith, Jr.
Executive Vice President

**Reliance Standard Life
Insurance Company**

Charles P. O'Brien
Chairman Emeritus

Harold F. Ilg
President and Chief Executive Officer

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

Lawrence E. Daurelle
Vice President and Treasurer

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

Christopher A. Fazzini
Vice President, Sales and Marketing

Dan R. Green
Vice President, Underwriting

Kenneth R. Hamm
Vice President, Strategic Planning

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
Secretary and General Counsel

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
Senior Vice President, Operations

DELPHI

Financial Group, Inc.

Corporate Office:

1105 North Market Street, Suite 1230

P.O. Box 8985

Wilmington, DE 19899

(302) 478-5142

www.delphifin.com