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# **DELPHI**

## **Financial Group, Inc.**

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**NYSE: DFG**

**FBR Investor Conference**

**December 2, 2008**

**[www.delphifin.com](http://www.delphifin.com)**

# **Delphi Financial Group, Inc.**

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- **Integrated employee benefits services company**
- **Core franchise in group employee benefits insurance**
- **Focus on profitable niche market segments**
- **Significant asset accumulation business**

# Execution Through Top-Tier Companies

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**DELPHI**  
Financial Group, Inc.

**RELIANCE STANDARD**  
Life Insurance Company

**SAFETY NATIONAL**  
Casualty Corporation

**MATRIX**  
Absence Management, Inc.

- Long-term and short-term disability insurance
- Group life insurance
- Travel accident insurance
- Dental insurance
- Limited benefit health insurance
  
- Asset accumulation
  - Individual annuities
  - Institutional funding agreements

- Excess workers' compensation insurance for self-insured employers

- Absence management services
- Integrated Employee Benefits program

# Key Points

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- **Positive outlook, high visibility for insurance operations**
- **Favorable market for excess workers' comp at Safety National**
- **Strong premium and profit growth at Reliance Standard**
- **Strategic emphasis on small case market**
- **Unique offering for larger companies allows differentiation**
- **Disciplined focus on underwriting profitability**
- **Reducing investment income volatility**

# Favorable Market in Excess Workers' Comp

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	<u>9M08</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<b>Cumulative since 2001</b>
Rate decrease/increase	-4%	0%	1%	0%	9%	15%	26%	<b>54%</b>
Self-insured retentions	2%	1%	6%	8%	8%	13%	10%	<b>57%</b>

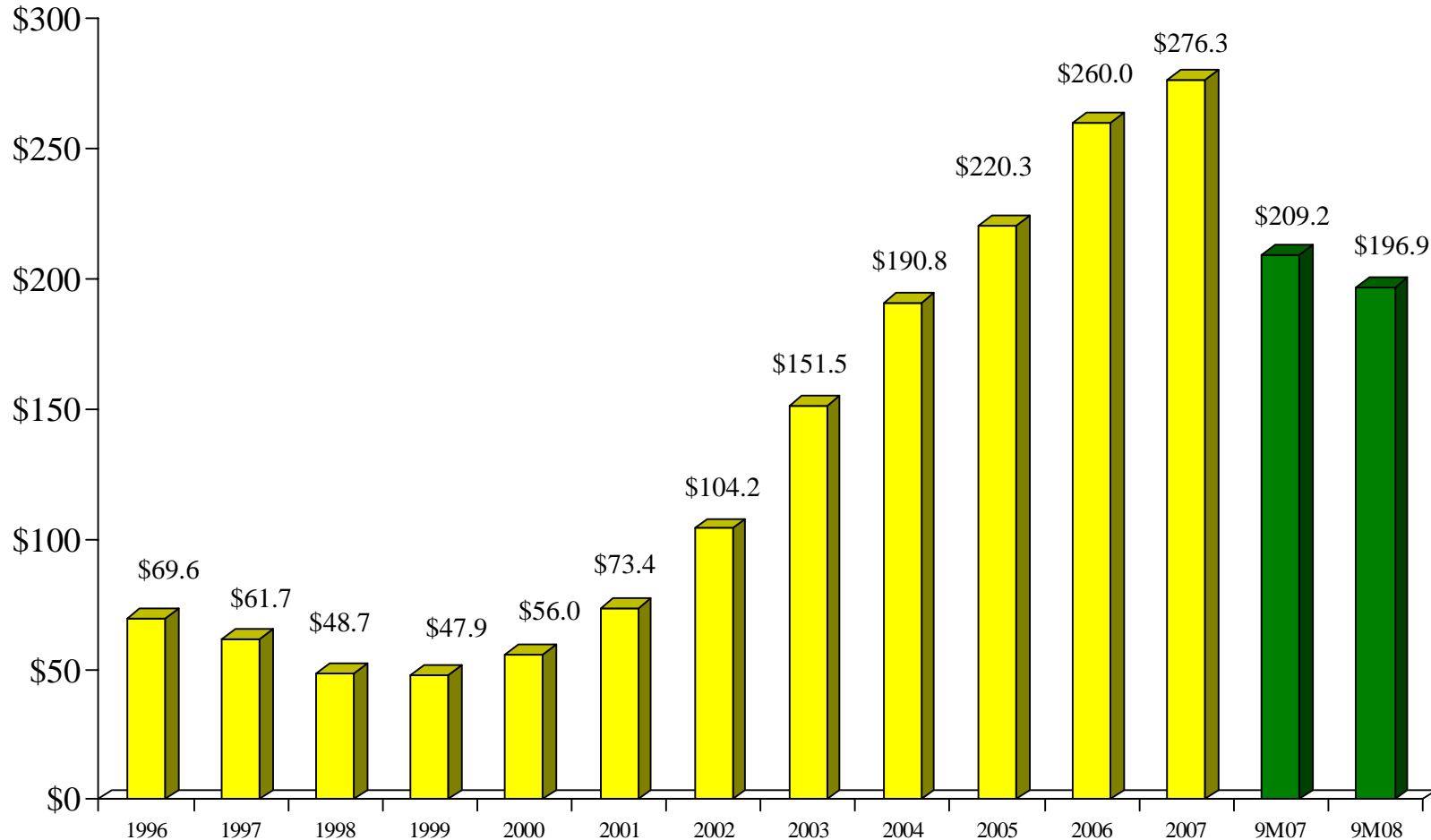


# Excess Workers' Comp Premiums

## Safety National Casualty Corporation

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(Dollars in millions)



# Attractive Business Model in Excess Workers' Comp

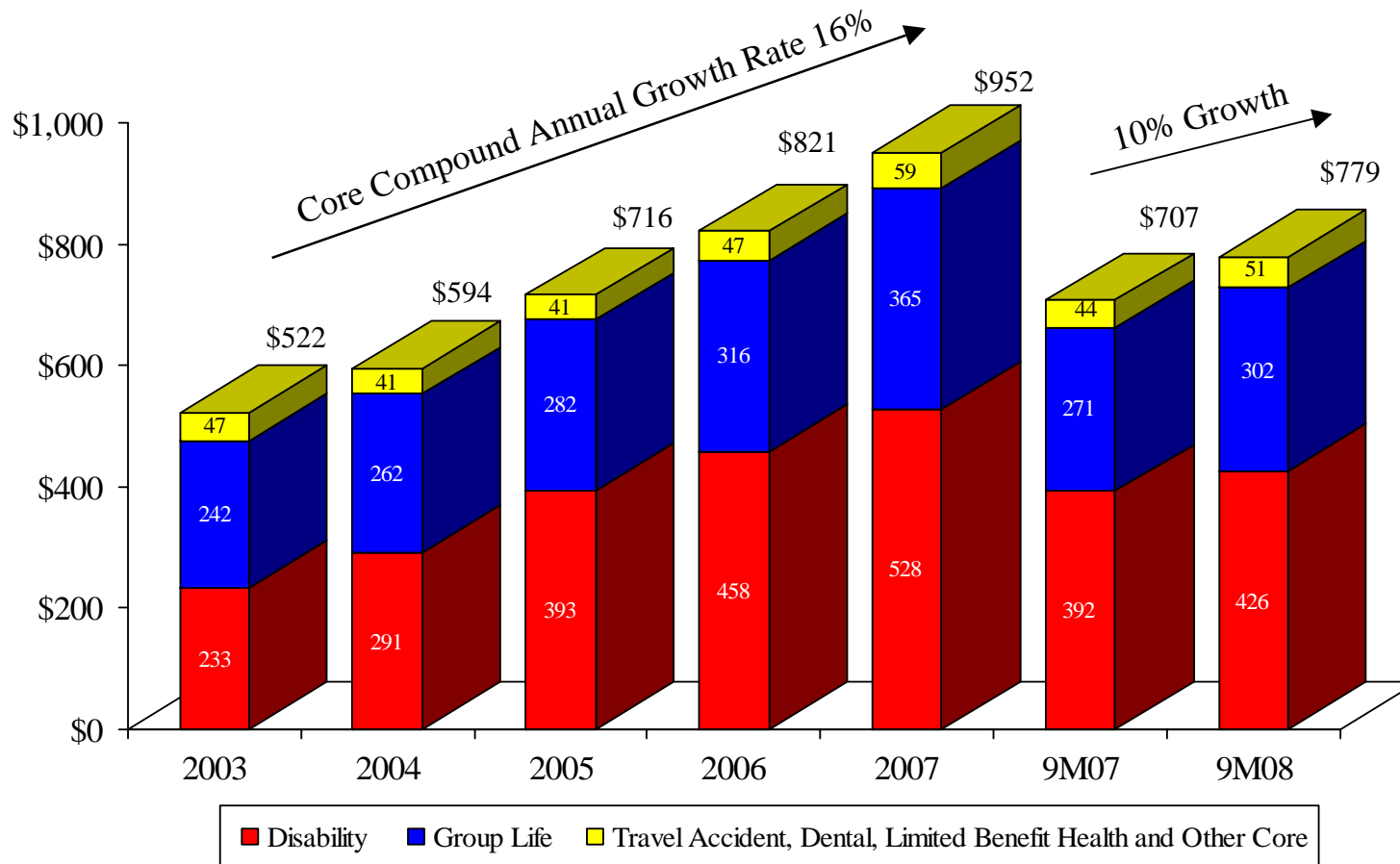
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- **Safety National is market leader**
- **Competitive environment improved since 2000**
  - **High barriers to entry**
  - **Safety National purchased ERC renewal rights in July 2005**
- **Long-tail reserves (10 year avg. duration) means large investable float**
- **Confidence in reserves**
  - **Predictable claim payments**
  - **60+ years of experience**
  - **Stable book of business with high persistency**

# Group Insurance Premiums

Reliance Standard Life Insurance Company

(Dollars in millions)



# Top Tier Carrier in Small Case Niche

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- **Reliance Standard gaining market share:**
  - #6 nationwide in 2007 new sales of Group LTD
  - #9 in 2007 new sales of Group Life
- **Delphi sales management has:**
  - Expanded sales force on average 8% per year
  - Invested in enhanced technology and training
  - Refocused on smaller, more profitable cases

# Focus on Attractive Small Case Market

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- **Higher margins in under-500 employee segment**
  - **Where job growth is occurring – 139,000 new hires in service-providing companies from Jan.-Oct. 2008\***
  - **Smaller brokers - relationship driven**
  - **Less price sensitive**
  - **More conservative plan designs**
- **Successfully penetrating underserved market niche**
  - **\$63 billion of unrealized premiums in RSL's product lines\*\***
  - **20% of RSL's production typically comes from first-time buyers**

\* ADP National Employment Report, November 4, 2008

\*\* LIMRA research briefing "Group Insurance Market Potential," February 2007

# Effective Alternative Distribution

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- **Custom Disability Solutions (CDS) division of RSL**
  - **Turnkey disability business partnering with health insurers**
  - **Primarily targeting < 300-life employers**
  - **Established in April 2006 through purchase of IDR's Portland, Maine operations**
  - **Installed new CEO and management team**
  - **\$37 million of premiums in first nine months of 2008.**

# Growing Contribution from Voluntary Products

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- **18% of RSL's core production in 9M08, 13% of core premiums in 9M08**
  - **Helps employers control costs while still expanding benefits**
  - **RSL offers attractive suite of employee-paid group life, disability, dental and accident coverages**
  - **RSL BasicCare was \$18 million in first nine months of 2008**
- **RSL BasicCare - limited benefit health coverage**
  - **Introduced in 2005 with separate sales force calling on group benefits brokers**
  - **Targets hourly, part-time employees in retail, hotel and restaurant industries**
  - **Estimated 27 million employed Americans are uninsured**

# Differentiated Approach to Larger Cases

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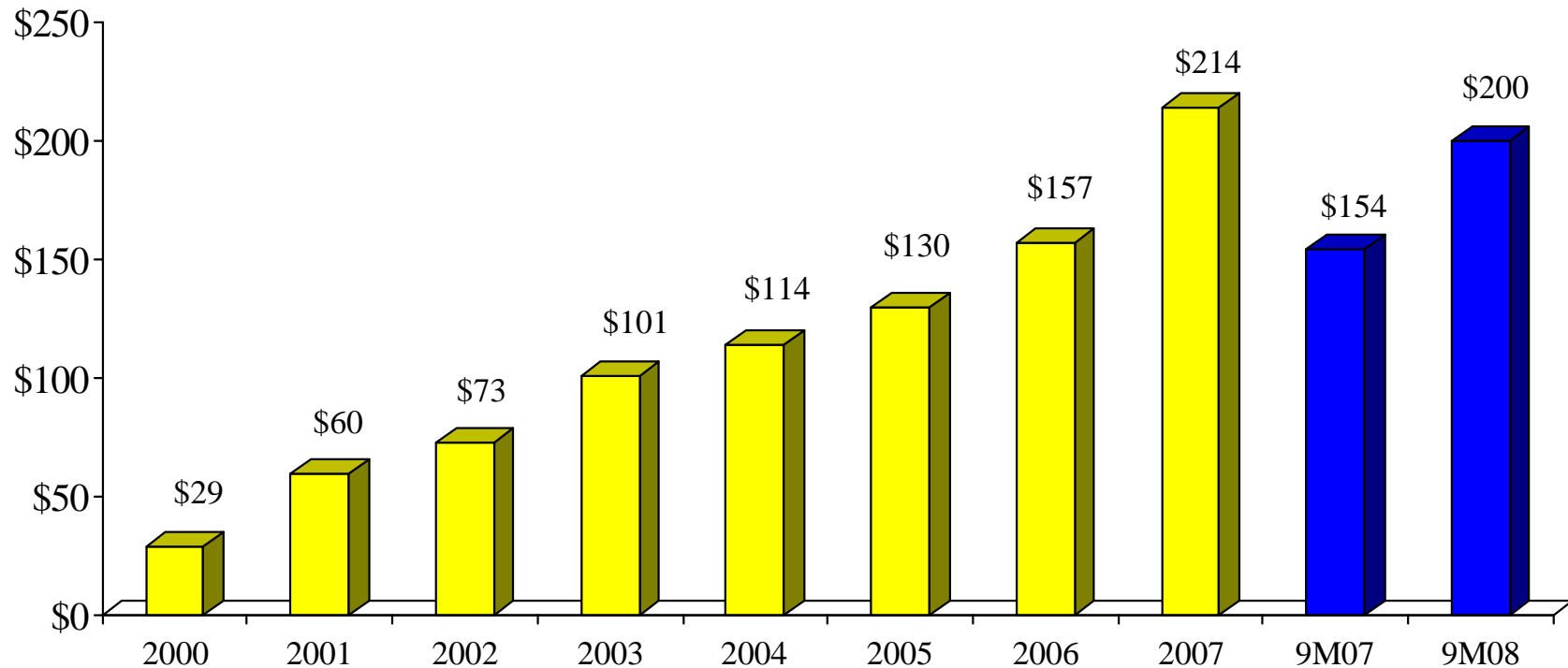
- **Integrated Employee Benefit program**
  - **Unique Delphi competence pairs Matrix Absence Management service platform with RSL and/or SNCC insurance coverage**
  - **Expanded nationwide from solid client base in California**
- **Growing market for integrated disability/workers' comp/FMLA**
  - **Administrative convenience**
  - **Enhance productivity through return-to-work focus**

# Growth in Integrated Employee Benefits Program

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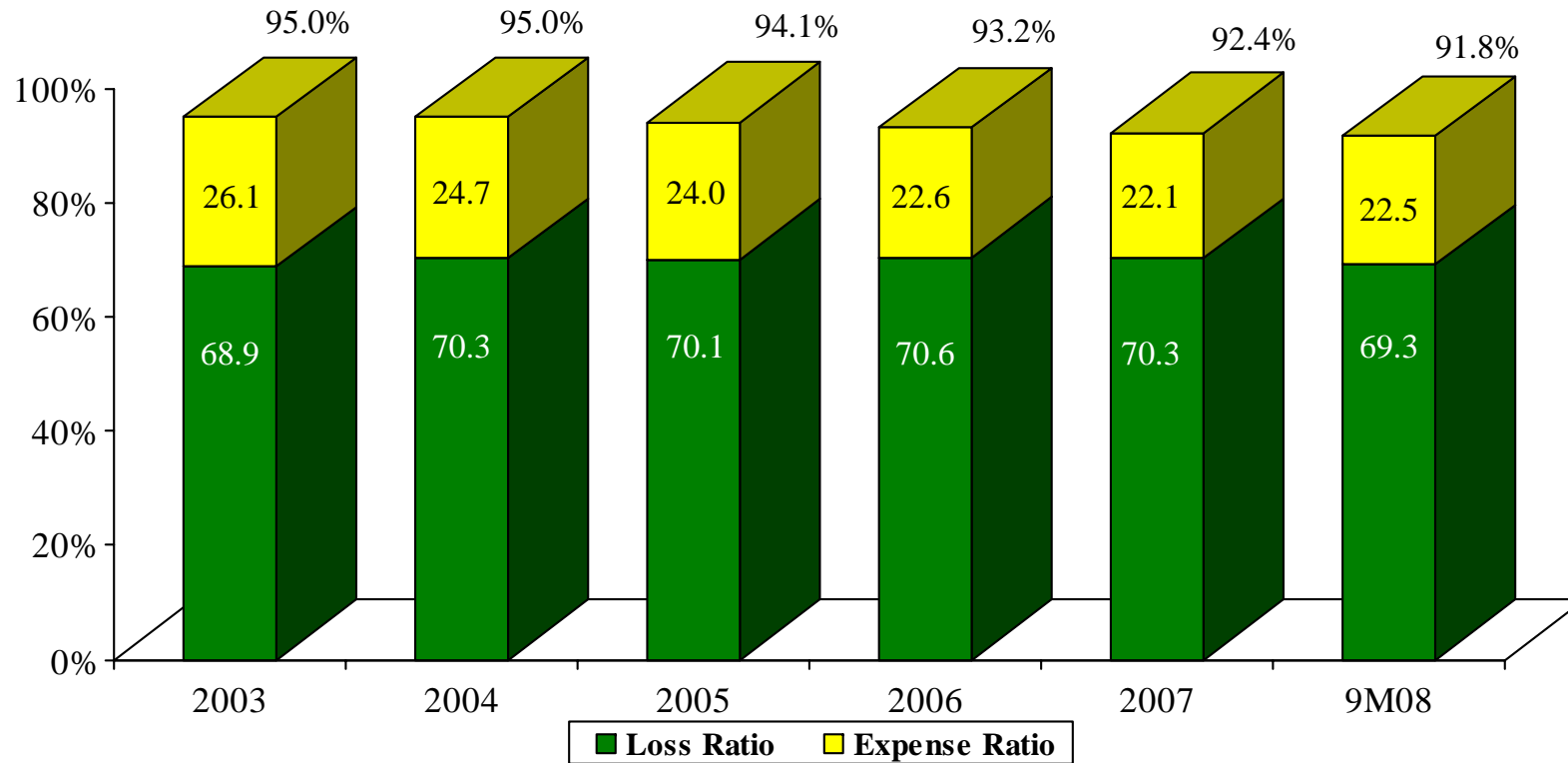
**Total Revenues from IEB Clients  
(Premium and Fees)**

(in millions)



# Focus on Underwriting Profitability

## GAAP Combined Ratio

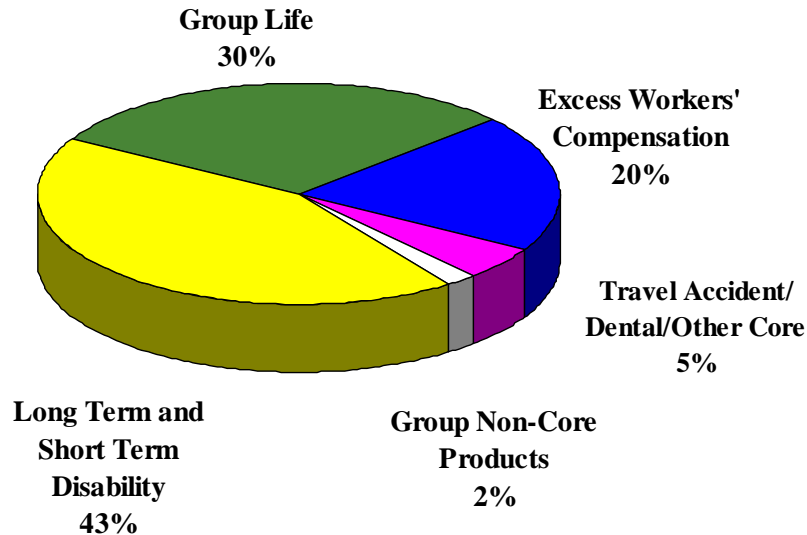


Note: Prior period results have been restated to exclude discontinued operations attributable to assumed property reinsurance.

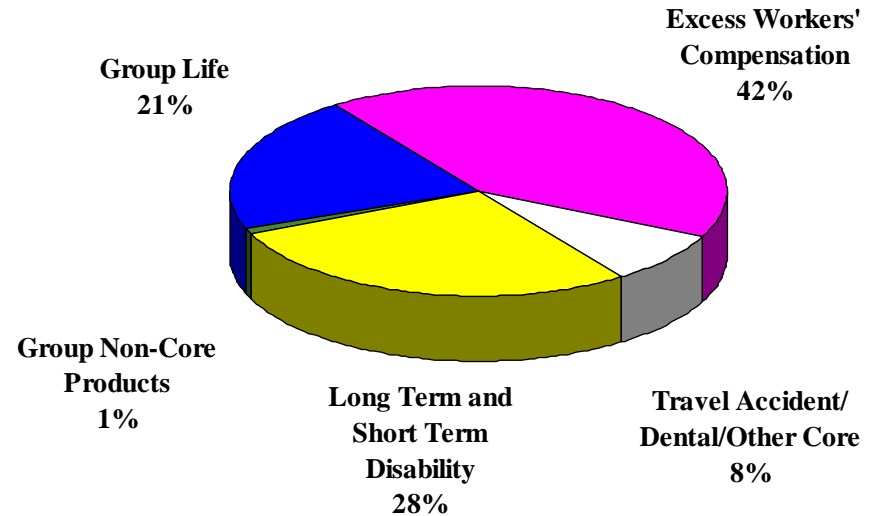
# Profitable Mix of Business

Nine Months ended September 30, 2008

**Group Employee Benefits Premiums**  
**\$997.7 million**



**Group Employee Benefits Operating Income**  
**\$140.8 million**



# Significant Asset Accumulation Business

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- **\$1.3 billion in funds under management at 9/30/08**
- **Primary focus on retail fixed annuities sold through wholesalers**
  - **Opportunistically capitalizing on spread opportunities**
  - **Annuity spreads have averaged 150-250 basis points**
- **Purchased \$135 million block of fixed annuities in 3Q08**
- **Institutional funding agreement program**
  - **Provides attractive new market to source assets**
- **Typically contributes about 10% of Delphi's operating profits**

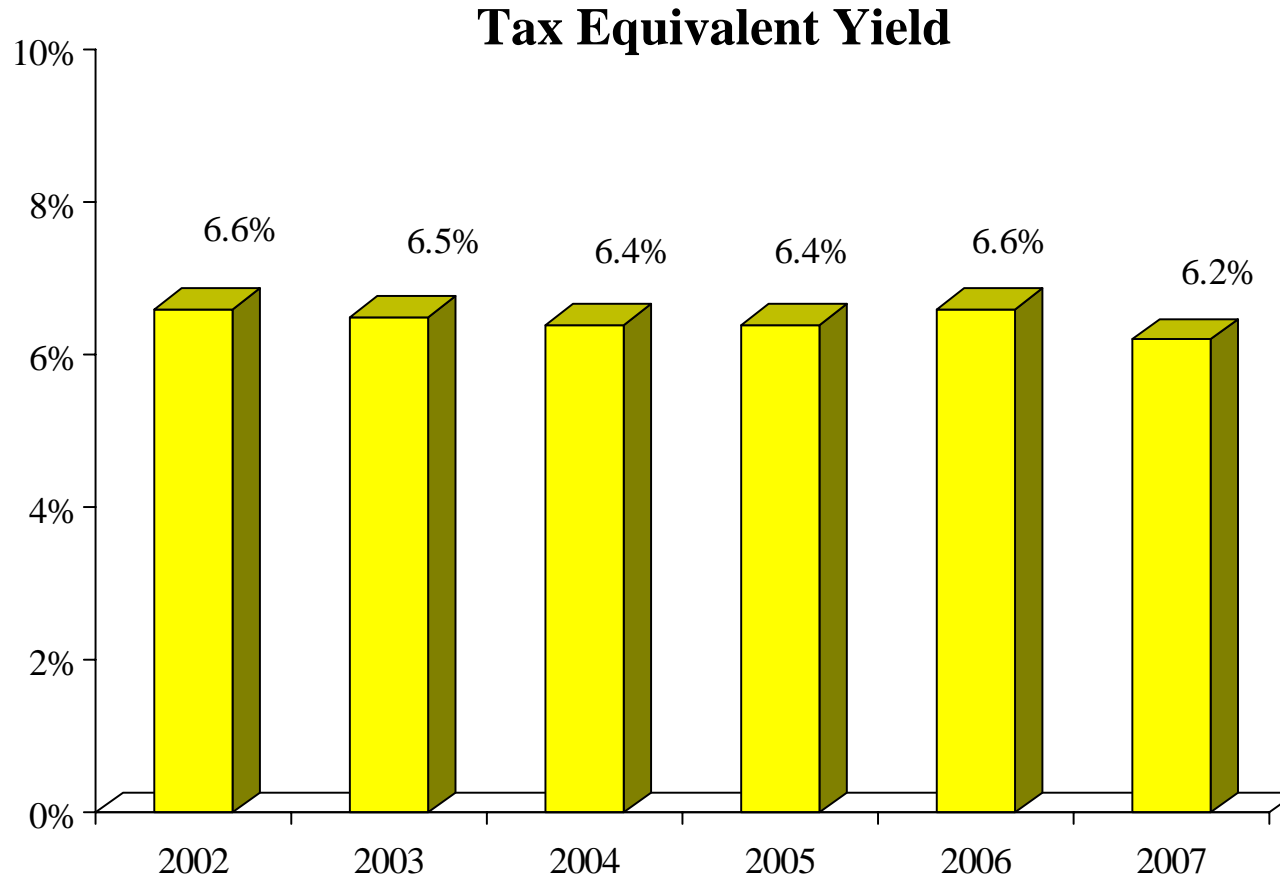
# Solid Investment Operations

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- **12% compound annualized growth in invested assets over past 5 years**
- **Portfolio managed for cash flow and matching of assets and liabilities**
- **Average credit rating of fixed maturity securities = AA**
- **Liquid investments with readily ascertainable value**
- **Approximately 2/3 of liabilities not interest rate sensitive**
- **ERM analysis shows benefits of diversification among multiple asset classes**
- **Repositioning portfolio to maintain attractive yields while reducing volatility**

# Annual Investment Returns

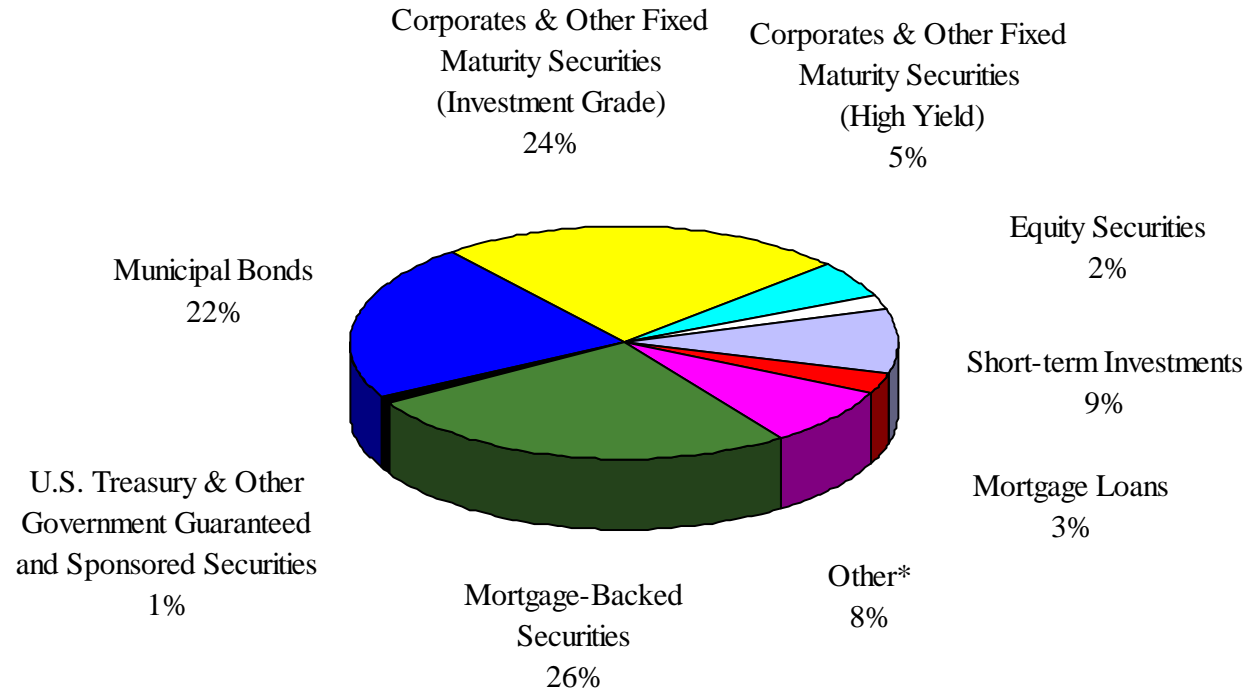
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# Composition of Investment Portfolio

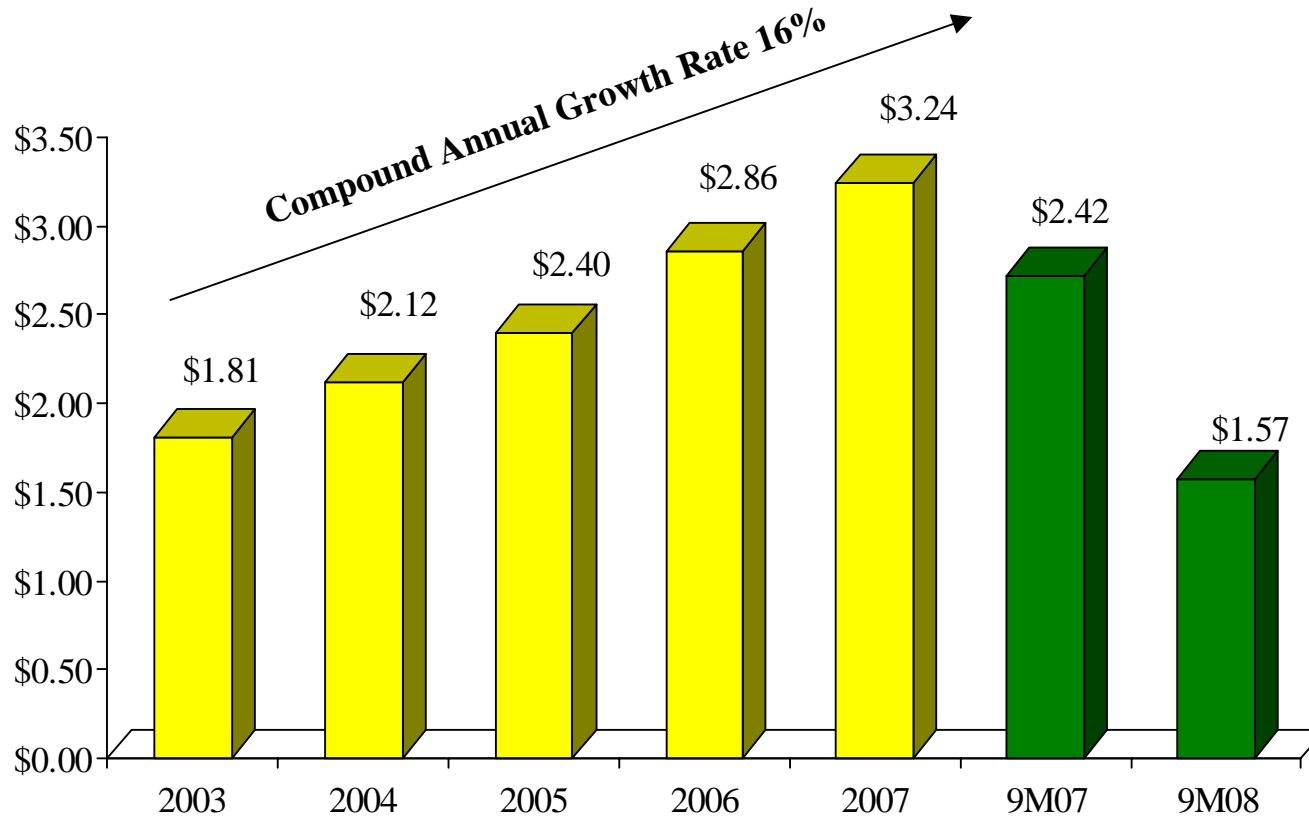
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September 30, 2008 = \$4.8 billion



\* Includes investments in investment funds organized as limited partnerships and limited liability companies, trading account securities and investment accounts receivable

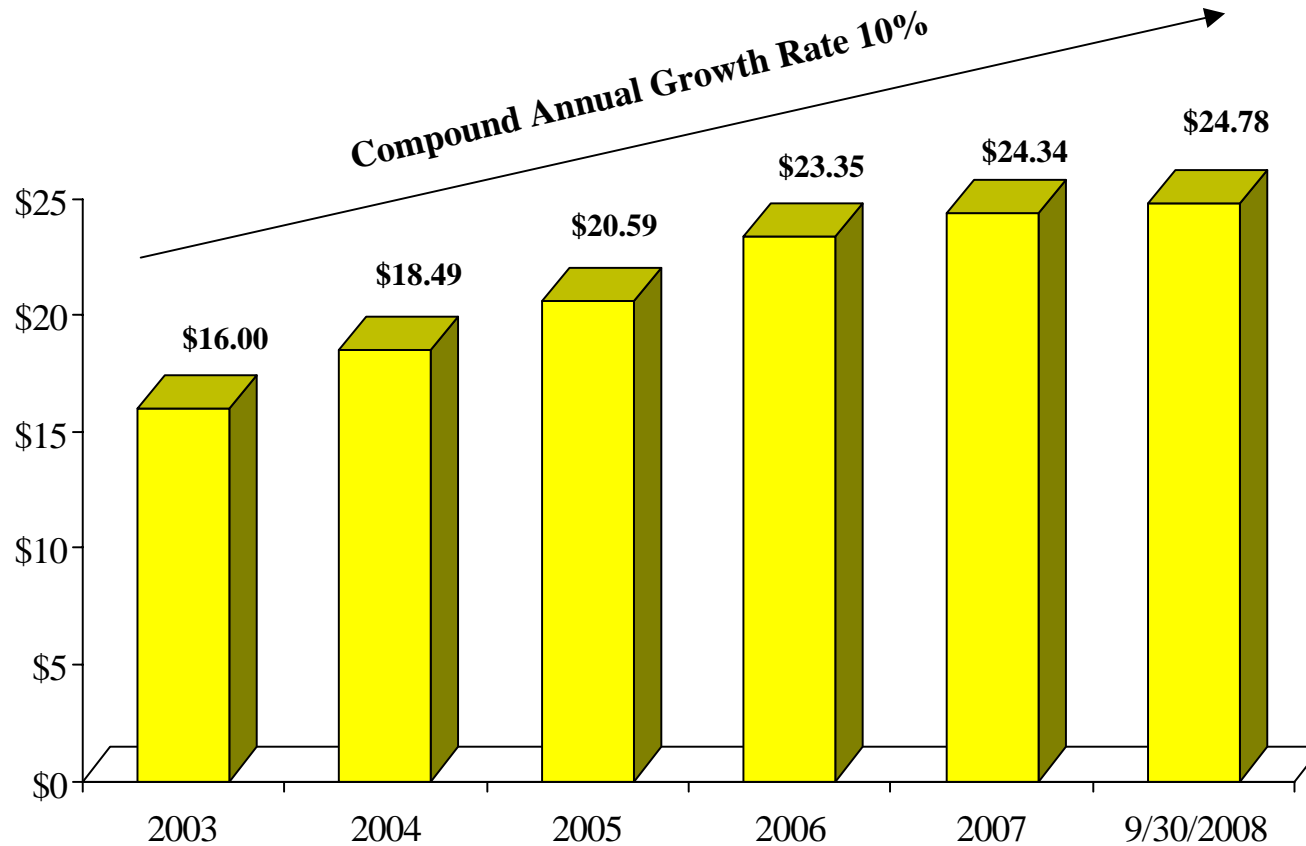
# Operating Earnings per Share\*



\* Excludes one-time tax benefits of \$0.13 per share in 2004. This non-GAAP financial measure excludes after-tax realized investment gains and losses, loss on redemptions of junior subordinated deferrable interest debentures and discontinued operations. See slide #25 for additional information.

# Diluted Book Value per Share\*

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\* Before other accumulated comprehensive income and loss. This non-GAAP financial measure is based on shareholders' equity excluding the effect of accumulated other comprehensive income and loss. See slide #25 for additional information.

# Strong Balance Sheet

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(Dollars in millions)

	<u>9/30/08</u>	<u>12/31/07</u>
<b>Corporate Debt <sup>(1)</sup></b>	<b>\$ 290.8</b>	<b>\$ 217.8</b>
<b>Capital Securities/Jr. Subordinated Debentures</b>	<b>175.0</b>	<b>195.6</b>
<b>Shareholders' Equity</b>	<b>\$ 889.1</b>	<b>\$ 1,141.4</b>
<b>Debt-to-capital ratio <sup>(2)</sup></b>	<b>18%</b>	<b>14%</b>

(1) Corporate debt consists of \$143.8 million of Senior Notes due in 2033 and outstanding borrowings under the Company's revolving credit facility.

(2) The corporate debt to total capitalization ratio is calculated by dividing corporate debt by the sum of corporate debt, capital securities/junior subordinated debentures, and shareholders' equity.

# Strong Liquidity Profile

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- **Low probability of forced asset sales**
  - **Our group insurance liabilities tend to be longer tail and stable; not vulnerable to surrenders or disintermediation**
  - **Low level of institutional liabilities; no puttable funding agreements**
  - **Bulk of fixed annuities protected with surrender charges or MVAs**
  - **No variable annuities with living benefits guarantees**
  - **No derivatives exposures requiring collateralization**
- **\$66.2 million of holding company financial assets at 9/30/08**
- **\$203 million of \$350 million bank credit facility available for use at 9/30/08**
- **\$514 million of cash and short-term investments at 9/30/08**

# Summary

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- **Positive outlook, high visibility for insurance operations**
- **Favorable market continuing in excess workers' comp**
- **Strong growth in group employee benefits**
- **Unique strategic focus on attractive smaller case market**
- **Reducing investment income volatility**
- **Improved capital structure and balance sheet**

# Footnotes

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**Slide 20:** After-tax operating earnings and operating earnings per share are non-GAAP financial measures which exclude after-tax realized investment gains and losses, after-tax loss on redemptions of junior subordinated deferrable interest debentures, and after-tax income and losses from discontinued operations. After-tax realized investment gains (losses) were \$8.3 million, \$10.0 million, \$5.9 million, \$(0.6) million, and \$(1.2) million, or \$0.17 per diluted share, \$0.21 per diluted share, \$0.12 per diluted share, \$(0.01) per diluted share and \$(0.02) per diluted share for the full year of 2003, 2004, 2005, and 2006, and 2007 respectively. After-tax realized investment losses were \$38.8 million or \$0.78 per diluted share and \$0.6 million or \$0.01 per diluted share for the nine months ended September 30, 2008 and 2007 respectively. The after-tax loss on redemption of junior subordinated deferrable interest debentures was \$1.4 million or \$0.03 per share for the full-year ended 2007 and \$0.4 million and \$1.4 million, or \$0.01 per share and \$0.03 per share, for the nine months of 2008 and 2007, respectively.

The after-tax income (loss) from discontinued operations \$3.6 million, \$2.1 million, \$(13.4) million, \$(2.9) million, and \$0 or \$0.08 per diluted share, \$0.04 per diluted share, \$(0.27) per diluted share, \$(0.06) per diluted share and \$0.00 per diluted share for the full year of 2003, 2004, 2005, 2006, and 2007 respectively.

**Slide 21:** Diluted book value per share before accumulated other comprehensive income and loss is a non-GAAP measure that is based on shareholders' equity excluding the effect of accumulated other comprehensive income and loss. Diluted accumulated other comprehensive income (loss) per share was \$0.99, \$1.08, \$0.38, \$0.35 and \$(0.77) at the end of 2003, 2004, 2005, 2006, and 2007 respectively, and \$(5.33) at September 30, 2008. Diluted book value per share calculated in accordance with GAAP was \$16.99, \$19.57, \$20.97, \$23.70 and \$23.57 at the end of 2003, 2004, 2005, 2006 and 2007 respectively, and \$19.45 as of September 30, 2008.

# Safe Harbor Statement

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In connection with, and because it desires to take advantage of, the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, Delphi cautions readers regarding certain forward-looking statements in the foregoing discussion and in any other statement made by, or on behalf of, Delphi, whether in future filings with the Securities and Exchange Commission or otherwise. Forward-looking statements are statements not based on historical information and which relate to future operations, strategies, financial results, prospects, outlooks or other developments. Some forward-looking statements may be identified by the use of terms such as “expects,” “believes,” “anticipates,” “intends,” “judgment,” “outlook” or other similar expressions. Forward-looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic, competitive and other uncertainties and contingencies, many of which are beyond Delphi’s control and many of which, with respect to future business decisions, are subject to change. Examples of such uncertainties and contingencies include, among other important factors, those affecting the insurance industry generally, such as the economic and interest rate environment, federal and state legislative and regulatory developments, including but not limited to changes in financial services, employee benefit and tax laws and regulations, changes in accounting rules and interpretations thereof, market pricing and competitive trends relating to insurance products and services, acts of terrorism or war, and the availability and cost of reinsurance, and those relating specifically to Delphi’s business, such as the level of its insurance premiums and fee income, the claims experience, persistency and other factors affecting the profitability of its insurance products, the performance of its investment portfolio and changes in Delphi’s investment strategy, acquisitions of companies or blocks of business, and ratings by major rating organizations of Delphi and its insurance subsidiaries. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, Delphi. Delphi disclaims any obligation to update forward-looking information.