

# Press Release

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**For Immediate Release**  
**4/26/05**

## **Delphi Financial Announces First Quarter 2005 Operating EPS of \$0.87 and Net Income per Share of \$0.91**

Wilmington, Delaware – April 26, 2005 – Delphi Financial Group, Inc. (NYSE: DFG) announced today that net income in the first quarter of 2005 was \$30.1 million, or \$0.91 per share, compared to \$30.6 million, or \$0.94 per share, in the first quarter of 2004. Net income in the first quarter of 2005 included after-tax realized investment gains of \$1.2 million, or \$0.04 per share, while net income in the first quarter of 2004 included after-tax realized investment gains of \$3.4 million, or \$0.11 per share.

Operating earnings<sup>(1)</sup> in the first quarter of 2005 were \$28.9 million, or \$0.87 per share, compared with operating earnings of \$27.2 million, or \$0.83 per share, in the first quarter of 2004.

Core group employee benefit premiums in the first quarter of 2005 grew 19% from the first quarter a year ago, reaching \$225.7 million. This growth was driven by a 38% increase in group disability premiums at Delphi's Reliance Standard Life subsidiary and a 15% increase in premiums from excess workers' compensation insurance for self-insured employers, the leading product of Delphi's Safety National subsidiary. The combined ratio in group employee benefits insurance in the first quarter of 2005 was 94.4%, compared with 95.5% in the first quarter of 2004 and 94.7% for the full-year 2004.

Robert Rosenkranz, Chairman and Chief Executive Officer, commented, "Delphi continued to achieve excellent financial results in the first quarter of 2005, as operating earnings per share were at the top end of our range of guidance. We capitalized on ongoing favorable market conditions in our insurance businesses and continued strong earnings in our asset accumulation business, which is benefiting from wider spreads. In our group disability line at Reliance Standard, we achieved a 15% increase in production while continuing to focus intensely on smaller cases where we have historically achieved higher margins. Our premium growth in disability was boosted by a new strategic alliance with several health insurers in which Reliance Standard is responsible for underwriting, pricing and claims management on group disability policies we assume under a new reinsurance arrangement. This strategic alliance, which is primarily focused on employers with less than 300 employees, provides us with significant alternative distribution to our small case niche."

Mr. Rosenkranz added, "Safety National achieved a 47% increase in excess workers' compensation production, as a continued firm market in primary workers' compensation insurance is driving employers to self-insure or remain self-insured. In the first quarter, which included our important January renewal season, Safety National achieved moderate rate increases and 8% average increases in self-insured retentions, the critical point where risk shifts from our client to us. We continue to see few signs that the market for excess workers' compensation will soften any time soon."

Delphi's net investment income in the first quarter of 2005 was \$53.4 million compared to \$52.5 million a year ago. Invested assets at March 31, 2005 were \$3.6 billion compared to \$3.3 billion at March 31, 2004. The pre-tax equivalent yield on the Company's investment portfolio in the first quarter of 2005 was 6.2% compared to 6.7% for the first quarter of 2004. Delphi's book value per share was \$29.22 at March 31, 2005 compared with \$29.36 at December 31, 2004.

### **Conference Call**

On April 27, 2005 at 11:00 AM (Eastern time), Delphi will broadcast the Company's first quarter 2005 earnings teleconference live on the Internet, hosted by Robert Rosenkranz, Chairman and Chief Executive Officer. Investors can access the broadcast at [www.delphifin.com](http://www.delphifin.com) by clicking on the webcast icon on the home page. It is advisable to register at least 15 minutes prior to the call to download and install any necessary audio software. The online replay will be available on Delphi's website for one week beginning at approximately 1:00 PM (Eastern time) on April 27, 2005. Investors can also download Delphi's first quarter 2005 statistical supplement from the Company's website at [www.delphifin.com](http://www.delphifin.com).

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 "expect," "believe," "plan," "outlook," "goal" 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, 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.

Delphi Financial Group, Inc. 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 insurance coverages: group life, long-term and short-term disability, excess workers' compensation for self-insured employers, travel accident and dental. 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).

(1) Operating earnings, which is a non-GAAP financial measure, consist of net income excluding after-tax realized investment gains and losses, as applicable. After-tax net realized investment gains were \$1.2 million and \$3.4 million, or \$0.04 per share and \$0.11 per share, for the first quarter of 2005 and 2004, respectively. The Company believes that because realized investment gains and losses 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 impact is useful in analyzing the Company's operating trends. Investment gains and losses may be realized based on management's decision to dispose of an investment or management's judgment that a decline in the market value of an investment is other than temporary. Thus, realized investment gains and losses 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 gains and losses. For these reasons, management uses the measure of operating earnings to assess performance and make operating plans and decisions, and analysts and investors typically utilize measures of this type when evaluating the financial performance of insurers. However, realized investment gains and losses are likely to occur frequently and should not be considered as nonrecurring 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 performance and may not be calculated in the same manner as similarly titled captions in other companies' financial statements. All per share amounts are on a diluted basis.

-tables attached-

**DELPHI FINANCIAL GROUP, INC.**  
**Non-GAAP Financial Measures**  
**Reconciliation to GAAP**  
(Unaudited; in thousands, except per share data)

	<u>Three Months Ended</u>	
	<u>03/31/05</u>	<u>03/31/04</u>
<b><u>Income Statement Data</u></b>		
<b>Operating earnings (Non-GAAP measure)</b>	\$ 28,926	\$ 27,227
Net realized investment gains, net of taxes	<u>1,181</u>	<u>3,394</u>
<b>Net income (GAAP measure)</b>	<u>\$ 30,107</u>	<u>\$ 30,621</u>
<b>Diluted results per share of common stock:</b>		
<b>Operating earnings (Non-GAAP measure)</b>	\$ 0.87	\$ 0.83
Net realized investment gains, net of taxes	<u>0.04</u>	<u>0.11</u>
<b>Net income (GAAP measure)</b>	<u>\$ 0.91</u>	<u>\$ 0.94</u>
 <b><u>Balance Sheet Data</u></b>		
	<u>03/31/05</u>	<u>12/31/04</u>
Shareholders' equity, excluding accumulated other comprehensive income	\$ 917,387	\$ 882,477
Add: Accumulated other comprehensive income	<u>24,558</u>	<u>57,371</u>
Shareholders' equity (GAAP measure)	<u>\$ 941,945</u>	<u>\$ 939,848</u>
 <b>Diluted book value per share of common stock, excluding accumulated other comprehensive income (Non-GAAP measure)</b>		
	\$ 28.53	\$ 27.73
Add: Accumulated other comprehensive income	<u>0.69</u>	<u>1.63</u>
<b>Diluted book value per share of common stock (GAAP measure)</b>	<u>\$ 29.22</u>	<u>\$ 29.36</u>

Please see note 1 of the press release for a discussion regarding the usefulness of the non-GAAP financial measure "operating earnings." The Company believes that the non-GAAP financial measure "diluted book value per share excluding accumulated other comprehensive income" provides useful supplemental information because accumulated other comprehensive income fluctuates from period to period primarily due to changes in the value of its assets resulting from variations in market interest rates, while the values of its liabilities are not similarly marked to market under GAAP.

**DELPHI FINANCIAL GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited; in thousands, except per share data)

	Three Months Ended	
	03/31/05	03/31/04
Revenue:		
Premium and fee income	\$ 239,600	\$ 200,710
Net investment income	53,437	52,543
Net realized investment gains	1,817	5,221
	294,854	258,474
Benefits and expenses:		
Benefits, claims and interest credited to policyholders	178,573	150,102
Commissions and expenses	67,594	59,775
	246,167	209,877
Operating income	48,687	48,597
Interest expense:		
Corporate debt	3,670	3,436
Junior subordinated deferrable interest debentures	1,171	1,105
Income tax expense	13,739	13,435
Net income	\$ 30,107	\$ 30,621
Basic results per share of common stock:		
Net income	\$ 0.93	\$ 0.97
Weighted average shares outstanding	32,309	31,691
Diluted results per share of common stock:		
Net income	\$ 0.91	\$ 0.94
Weighted average shares outstanding	33,262	32,706
Dividends paid per share of common stock	\$ 0.09	\$ 0.08

**DELPHI FINANCIAL GROUP, INC.**  
**SUMMARIZED CONSOLIDATED BALANCE SHEETS**  
(Unaudited; in thousands)

	<u>3/31/05</u>	<u>12/31/04</u>
Assets:		
Investments:		
Fixed maturity securities, available for sale	\$3,067,546	\$3,049,013
Short-term investments	138,126	95,761
Other investments	<u>437,863</u>	<u>396,302</u>
	3,643,535	3,541,076
Cash	25,768	24,324
Cost of business acquired	225,030	212,549
Reinsurance receivables	416,709	428,707
Goodwill	93,929	93,929
Securities lending collateral	239,919	236,900
Other assets	237,537	203,777
Assets held in separate account	<u>90,683</u>	<u>88,205</u>
Total assets	<u><u>\$4,973,110</u></u>	<u><u>\$4,829,467</u></u>
Liabilities and Shareholders' Equity:		
Policy liabilities and accruals	\$1,707,106	\$1,663,903
Policyholder account balances	1,027,930	1,024,577
Corporate debt	178,750	157,750
Junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries	59,762	59,762
Securities lending payable	239,919	236,900
Other liabilities and policyholder funds	727,015	658,522
Liabilities related to separate account	<u>90,683</u>	<u>88,205</u>
Total liabilities	4,031,165	3,889,619
Shareholders' equity:		
Class A Common Stock	306	304
Class B Common Stock	39	39
Additional paid-in capital	414,569	406,908
Accumulated other comprehensive income	24,558	57,371
Retained earnings	561,787	534,540
Treasury stock, at cost	<u>(59,314)</u>	<u>(59,314)</u>
Total liabilities and shareholders' equity	<u><u>\$4,973,110</u></u>	<u><u>\$4,829,467</u></u>

**DELPHI FINANCIAL GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited; in thousands)

	<u>3/31/05</u>	<u>03/31/04</u>
Operating activities:		
Net income	\$ 30,107	\$ 30,621
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in policy liabilities and policyholder accounts	75,043	53,665
Net change in reinsurance receivables and payables	11,141	13,330
Amortization, principally the cost of business acquired and investments	14,328	6,094
Deferred costs of business acquired	(25,280)	(25,331)
Net realized gains on investments	(1,817)	(5,221)
Net change in federal income tax liability	10,640	15,374
Other	(35,870)	(25,178)
Net cash provided by operating activities	<u>78,292</u>	<u>63,354</u>
Investing activities:		
Purchases of investments and loans made	(505,340)	(612,501)
Sales of investments and receipts from repayment of loans	383,525	509,625
Maturities of investments	68,474	38,976
Net change in short-term investments	(42,365)	4,751
Change in deposit in separate account	(2,925)	(762)
Net cash used by investing activities	<u>(98,631)</u>	<u>(59,911)</u>
Financing activities:		
Deposits to policyholder accounts	23,351	30,704
Withdrawals from policyholder accounts	(23,545)	(21,618)
Borrowings under revolving credit facility	26,000	11,000
Principal payments under revolving credit facility	(5,000)	-
Change in liability for Federal Home Loan Bank advances	-	(25,000)
Other financing activities	977	6,113
Net cash provided by financing activities	<u>21,783</u>	<u>1,199</u>
Increase in cash	1,444	4,642
Cash at beginning of period	<u>24,324</u>	<u>18,733</u>
Cash at end of period	<u>\$ 25,768</u>	<u>\$ 23,375</u>