

# Press Release

Contact: Bernard J. Kilkelly  
Vice President, Investor Relations  
Phone: 212-303-4349  
E-mail: [bernie-kilkelly@dlfi.com](mailto:bernie-kilkelly@dlfi.com)

**For Immediate Release**  
**7/25/06**

## **Delphi Financial Reports 22% Increase in Second Quarter Operating EPS to \$0.71; Net Income per Share Reaches \$0.65**

Wilmington, Delaware – July 25, 2006 – Delphi Financial Group, Inc. (NYSE: DFG) announced today that net income in the second quarter of 2006 was \$32.9 million or \$0.65 per share, compared to \$32.0 million or \$0.64 per share in the second quarter of 2005. Net income in the second quarter of 2006 included after-tax realized investment losses of \$(0.2) million or \$0.00 per share and losses from discontinued operations of \$(2.9) million or \$(0.06) per share. Net income in the second quarter of 2005 included after-tax realized investment gains of \$2.2 million or \$0.04 per share and income from discontinued operations of \$1.0 million or \$0.02 per share. Prior period per share amounts have been restated to reflect the 3-for-2 common stock split effected on June 1, 2006.

Operating earnings<sup>(1)</sup> in the second quarter of 2006 increased 25% to \$36.0 million from \$28.8 million in the second quarter of 2005, while operating earnings per share rose 22% to \$0.71 from \$0.58 a year ago. Operating earnings for the first half of 2006 increased 22% to \$69.7 million from \$56.9 million in the first half of 2005, while operating earnings per share grew 20% to \$1.37 from \$1.14 a year ago.

Net income for the first half of 2006 was \$65.7 million or \$1.29 per share, compared with net income in the first half of 2005 of \$62.1 million or \$1.24 per share. Net income in the first half of 2006 included after-tax realized investment losses of \$(1.0) million or \$(0.02) per share and losses from discontinued operations of \$(2.9) million or \$(0.06) per share. Net income in the first half of 2005 included after-tax realized investment gains of \$3.3 million or \$0.07 per share and income from discontinued operations of \$1.8 million or \$0.03 per share.

Core group employee benefit premiums in the second quarter of 2006 grew 16% from the second quarter a year ago, reaching \$267 million. This growth was driven by a 15% increase in group disability premiums at Delphi's Reliance Standard Life subsidiary and a 24% increase in premiums from excess workers' compensation insurance at Delphi's Safety National subsidiary. The combined ratio for the Company's group employee benefit products in the second quarter of 2006 declined to 92.4% from 94.7% in the second quarter of 2005 and 94.1% for the full-year 2005.

Robert Rosenkranz, Chairman and Chief Executive Officer, commented, “Delphi’s excellent second quarter results were driven by strong underwriting profits at both Reliance Standard and Safety National. We continue to capitalize on the ongoing favorable market conditions in our two largest insurance lines, group disability and excess workers’ compensation. Reliance Standard is benefiting from its strategic focus on smaller cases, which have historically produced higher margins. Safety National achieved strong growth in production, including a significant contribution from renewals of former excess workers’ compensation clients of Employers Re, for which we purchased renewal rights in July 2005.”

Mr. Rosenkranz added, “We remain confident about our long-term growth prospects based on the positive outlook for our insurance businesses. We see no signs that the market for Safety National’s excess workers’ compensation line will soften significantly any time soon. The small-case market for Reliance Standard’s group employee benefits lines should continue to benefit from the favorable climate for small businesses, the tight labor market and a rational pricing environment.”

Delphi’s net investment income in the second quarter of 2006 rose 10% to \$60.8 million from \$55.1 million in the same quarter a year ago. Invested assets at June 30, 2006 were \$4.1 billion, an increase of 8% from \$3.8 billion at June 30, 2005. The pre-tax equivalent yield on the Company’s investment portfolio in the second quarter of 2006 was 6.3% compared to 6.2% for the second quarter of 2005. Delphi’s shareholders’ equity was \$1.04 billion at June 30, 2006 and book value per share before accumulated other comprehensive (loss) income<sup>(2)</sup> rose to \$21.75 at June 30, 2006 compared with \$20.58 at December 31, 2005.

### **Conference Call**

On July 26, 2006 at 11:00 AM (Eastern time), Delphi will broadcast the Company’s second quarter 2006 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 July 26, 2006. Investors can also download Delphi’s second quarter 2006 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 statements 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, 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).

<sup>(1)</sup>Operating earnings, which is a non-GAAP financial measure, consist of income from continuing operations excluding after-tax realized investment gains and losses, as applicable. After-tax net realized investment (losses) gains were \$(0.2) million and \$2.2 million, or \$0.00 per share and \$0.04 per share, for the second quarter of 2006 and 2005, respectively, and \$(1.0) million and \$3.3 million, or \$(0.02) per share and \$0.07 per share for the first half of 2006 and 2005, respectively. After-tax (loss) income from discontinued operations was \$(2.9) million and \$1.0 million, or \$(0.06) per share and \$0.02 per share, for the second quarter of 2006 and 2005, respectively, and \$(2.9) million and \$1.8 million, or \$(0.06) per share and \$0.03 per share for the first half of 2006 and 2005, respectively. The Company believes that because realized investment gains and losses 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 impact 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. Discontinued operations occur based on management's decision to exit or sell a particular business. Thus, realized investment gains and losses 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 and make operating plans and decisions, and analysts and investors typically utilize measures of this type when evaluating the financial performance of insurers. However, gains and losses of these types, particularly as to investments, 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 financial 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.

<sup>(2)</sup>Diluted book value per share before accumulated other comprehensive (loss) income, which is a non-GAAP financial measure, is based on shareholders' equity excluding the effect of accumulated other comprehensive (loss) income. The Company believes that, 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, this non-GAAP measure is useful in analyzing the Company's operating trends.

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>06/30/06</u>	<u>06/30/05</u>	<u>06/30/06</u>	<u>06/30/05</u>
<b><u>Income Statement Data</u></b>				
<b>Operating earnings (Non-GAAP measure)</b>	\$ 36,015	\$ 28,832	\$ 69,660	\$ 56,898
Net realized investment (losses) gains, net of taxes	<u>(191)</u>	<u>2,158</u>	<u>(1,004)</u>	<u>3,339</u>
Income from continuing operations	35,824	30,990	68,656	60,237
Discontinued operations, net of taxes	<u>(2,923)</u>	<u>987</u>	<u>(2,933)</u>	<u>1,847</u>
<b>Net income (GAAP measure)</b>	<u><u>\$ 32,901</u></u>	<u><u>\$ 31,977</u></u>	<u><u>\$ 65,723</u></u>	<u><u>\$ 62,084</u></u>
<b>Diluted results per share of common stock:</b>				
<b>Operating earnings (Non-GAAP measure)</b>	\$ 0.71	\$ 0.58	\$ 1.37	\$ 1.14
Net realized investment (losses) gains, net of taxes	<u>-</u>	<u>0.04</u>	<u>(0.02)</u>	<u>0.07</u>
Income from continuing operations	0.71	0.62	1.35	1.21
Discontinued operations, net of taxes	<u>(0.06)</u>	<u>0.02</u>	<u>(0.06)</u>	<u>0.03</u>
<b>Net income (GAAP measure)</b>	<u><u>\$ 0.65</u></u>	<u><u>\$ 0.64</u></u>	<u><u>\$ 1.29</u></u>	<u><u>\$ 1.24</u></u>
<b><u>Balance Sheet Data</u></b>				
			<u>06/30/06</u>	<u>12/31/05</u>
<b>Shareholders' equity, excluding accumulated other comprehensive (loss) income</b>			\$ 1,070,582	\$ 1,012,775
Add: Accumulated other comprehensive (loss) income			<u>(33,916)</u>	<u>20,264</u>
<b>Shareholders' equity (GAAP measure)</b>			<u><u>\$ 1,036,666</u></u>	<u><u>\$ 1,033,039</u></u>
<b>Diluted book value per share of common stock, excluding accumulated other comprehensive (loss) income (Non-GAAP measure)</b>			\$ 21.75	\$ 20.58
Add: Accumulated other comprehensive (loss) income			<u>(0.64)</u>	<u>0.38</u>
<b>Diluted book value per share of common stock (GAAP measure)</b>			<u><u>\$ 21.11</u></u>	<u><u>\$ 20.96</u></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 (loss) income" provides useful supplemental information because accumulated other comprehensive income and loss 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.

NOTE: Prior period results have been restated for discontinued operations attributable to assumed property reinsurance. Prior period results per share and applicable share amounts have been restated to reflect the 3-for-2 common stock split effected in the form of a 50% stock dividend distributed on June 1, 2006.

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

	Three Months Ended		Six Months Ended	
	06/30/06	6/30/05	06/30/06	06/30/05
Revenue:				
Premium and fee income	\$ 280,270	\$ 246,097	\$ 543,229	\$ 481,954
Net investment income	60,786	55,067	119,815	108,450
Net realized investment (losses) gains	(294)	3,320	(1,545)	5,137
	<u>340,762</u>	<u>304,484</u>	<u>661,499</u>	<u>595,541</u>
Benefits and expenses:				
Benefits, claims and interest credited to policyholders	204,021	183,912	395,639	360,513
Commissions and expenses	78,879	70,170	154,640	137,263
	<u>282,900</u>	<u>254,082</u>	<u>550,279</u>	<u>497,776</u>
Operating income	57,862	50,402	111,220	97,765
Interest expense:				
Corporate debt	5,093	4,261	9,779	7,931
Junior subordinated deferrable interest debentures	1,297	1,199	2,568	2,370
Income tax expense	<u>15,648</u>	<u>13,952</u>	<u>30,217</u>	<u>27,227</u>
Income from continuing operations	35,824	30,990	68,656	60,237
Discontinued operations, net of taxes	<u>(2,923)</u>	<u>987</u>	<u>(2,933)</u>	<u>1,847</u>
Net income	<u>\$ 32,901</u>	<u>\$ 31,977</u>	<u>\$ 65,723</u>	<u>\$ 62,084</u>
Basic results per share of common stock:				
Income from continuing operations	\$ 0.72	\$ 0.64	\$ 1.39	\$ 1.24
Discontinued operations	(0.06)	0.02	(0.06)	0.04
Net income	0.66	0.66	1.33	1.28
Weighted average shares outstanding	49,462	48,639	49,471	48,552
Diluted results per share of common stock:				
Income from continuing operations	\$ 0.71	\$ 0.62	\$ 1.35	\$ 1.21
Discontinued operations	(0.06)	0.02	(0.06)	0.03
Net income	\$ 0.65	\$ 0.64	\$ 1.29	\$ 1.24
Weighted average shares outstanding	50,722	49,953	50,773	49,923
Dividends paid per share of common stock	\$ 0.08	\$ 0.06	\$ 0.15	\$ 0.12

NOTE: Prior period results have been restated for discontinued operations attributable to assumed property reinsurance. Prior period results per share and applicable share amounts have been restated to reflect the 3-for-2 common stock split effected in the form of a 50% stock dividend distributed on June 1, 2006.

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

	<u>6/30/06</u>	<u>12/31/05</u>
Assets:		
Investments:		
Fixed maturity securities, available for sale	\$3,250,672	\$3,244,764
Short-term investments	203,944	94,308
Other investments	<u>606,490</u>	<u>573,532</u>
	4,061,106	3,912,604
Cash	35,744	28,493
Cost of business acquired	272,374	248,138
Reinsurance receivables	397,170	413,113
Goodwill	93,929	93,929
Securities lending collateral	250,725	244,821
Other assets	250,227	235,644
Assets held in separate account	<u>105,633</u>	<u>99,428</u>
Total assets	<u><u>\$5,466,908</u></u>	<u><u>\$5,276,170</u></u>
Liabilities and Shareholders' Equity:		
Policy liabilities and accruals	1,942,755	\$1,862,872
Policyholder account balances	1,131,330	1,039,610
Corporate debt	261,750	234,750
Junior subordinated deferrable interest debentures underlying company-obligated mandatorily redeemable capital securities issued by unconsolidated subsidiaries	59,762	59,762
Securities lending payable	250,725	244,821
Other liabilities and policyholder funds	678,287	701,888
Liabilities related to separate account	<u>105,633</u>	<u>99,428</u>
Total liabilities	4,430,242	4,243,131
Shareholders' equity:		
Class A Common Stock	476	313
Class B Common Stock	57	39
Additional paid-in capital	458,152	442,531
Accumulated other comprehensive (loss) income	(33,916)	20,264
Retained earnings	694,867	636,285
Treasury stock, at cost	<u>(82,970)</u>	<u>(66,393)</u>
Total liabilities and shareholders' equity	<u><u>\$5,466,908</u></u>	<u><u>\$5,276,170</u></u>

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

	<u>06/30/06</u>	<u>06/30/05</u>
Operating activities:		
Net income	\$ 65,723	\$ 62,084
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in policy liabilities and policyholder accounts	90,667	105,025
Net change in reinsurance receivables and payables	15,233	8,593
Amortization, principally the cost of business acquired and investments	32,861	30,522
Deferred costs of business acquired	(49,607)	(44,481)
Net realized losses (gains) on investments	1,545	(5,137)
Net change in federal income tax liability	11,034	13,171
Other	<u>(18,313)</u>	<u>(34,896)</u>
Net cash provided by operating activities	<u>149,143</u>	<u>134,881</u>
Investing activities:		
Purchases of investments and loans made	(711,078)	(1,018,057)
Sales of investments and receipts from repayment of loans	481,740	793,179
Maturities of investments	97,393	115,663
Net change in short-term investments	(109,554)	(45,873)
Change in deposit in separate account	217	(4,325)
Net cash used by investing activities	<u>(241,282)</u>	<u>(159,413)</u>
Financing activities:		
Deposits to policyholder accounts	148,809	52,148
Withdrawals from policyholder accounts	(63,290)	(49,151)
Borrowings under revolving credit facility	29,000	32,000
Principal payments under revolving credit facility	(2,000)	(5,000)
Other financing activities	<u>(13,129)</u>	<u>3,240</u>
Net cash provided by financing activities	<u>99,390</u>	<u>33,237</u>
Increase in cash	7,251	8,705
Cash at beginning of period	<u>28,493</u>	<u>24,324</u>
Cash at end of period	<u>\$ 35,744</u>	<u>\$ 33,029</u>