

Definity Financial Corporation**Third Quarter 2025 Results Conference Call**

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Definity Financial Corporation Third Quarter of 2025 Financial Results Conference Call and Webcast Conference Call.

At this time all lines are in a listen-only mode. Following the presentation we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press star, zero for the operator.

This call is being recorded on Friday, November 7, 2025.

I would now like to turn the call over to Vice President of Investor Relations, Dennis Westfall. Please go ahead.

Dennis Westfall – Vice President, Investor Relations, Definity Financial Corporation

Thank you. Good morning everyone. Thank you for joining us on the call today. A link to our live webcast and background information for the call is posted on our website at definity.com under the Investors tab. As a reminder, the slide presentation contains a disclaimer on forward-looking statements, which also applies to our discussion on the conference call.

Joining me on the call today are Rowan Saunders, President and CEO; Philip Mather, EVP and CFO; and Paul MacDonald, EVP of Personal Insurance and Digital Channels; and Fabian Richenberger, EVP of

Commercial Insurance and Insurance operations. We'll start with formal remarks from Rowan and Philip, followed by a Q&A session during which Paul and Fabi will also be available to answer your questions.

With that, I will ask Rowan to begin his remarks.

Rowan Saunders – President and Chief Executive Officer, Definity Financial Corporation

Thanks, Dennis, and good morning. Last night, we reported record third quarter results that continue the momentum for Definity in what has truly been an exciting year for the Company. During the quarter, we made further progress towards the closing of the announced Travelers transaction, including finalizing the required financing via our inaugural \$1 billion bond offering while maintaining our focus on delivering the targeted performance of our existing business, as you can see on Slide 5.

Our strong underwriting performance, higher net investment income and continued momentum in our insurance broker platform combined to produce third quarter operating net income of \$125.2 million or \$1.03 a share. We delivered a sub-90 combined ratio in the quarter, well ahead of our expectations as our reported COR of 89.4 percent reflected ongoing actions to improve our operational efficiency and included only 1.9 points of CAT losses.

From a top line perspective, we continue to deliver growth in line with our expectations as gross written premiums increased 7.5 percent in the quarter to exceed \$4.7 billion over the last 12 months. We ended the third quarter with book value per share of \$33.43, 24 percent higher than a year ago, inclusive of strong financial results as well as our private placements of common shares to fund part of the Travelers

transaction. We generated an operating return on equity of 12.5 percent over the past 12 months, reflective of the continued delivery against our organic levers.

Sonnet continues to generate a profit for the year, while we remain on track to deliver the targeted improvements from expenses by the end of 2026. Early experience from our claims transformation is encouraging, and we are well positioned to achieve the targeted claims improvements by the end of 2027.

I'd note that the improvement in our operating ROE has come along with a 17 percent increase in our average adjusted equity over the past year.

Moving to Slide 6, our industry outlook is largely unchanged. We expect conditions in auto lines to remain firm as insurers aim to keep pace with the combined impact of loss cost trends, ongoing regulatory constraints in Alberta, and uncertainty related to the extent and impact of potential U.S. tariffs and retaliatory actions.

We expect market conditions in personal property to also remain firm over the next 12 months, particularly following last year's record level of industry catastrophe losses and the structural move to higher reinsurance attachment points.

In Commercial insurance, while we expect overall market conditions to remain attractive, we are continuing to see that some commercial segments have become more competitive. We expect overall pricing in Commercial insurance to keep pace with loss cost trends, which have normalized to low to mid-single digits.

Slide 7 shows our key financial targets for 2025. As you can see, both top line growth and underwriting profitability are at or better than target through nine months, while our operating ROE of 12.5 percent puts us at the upper end of our target range. We remain confident in our ability to reach a sustainable mid-teens operating ROE post integration of the Travelers transaction.

Slide 8 illustrates the composition of our national broker platform. We've made great progress with M&A activity and solid organic growth, which has us ahead of where we thought we'd be as we close in on our target for at least \$1.5 billion of managed premiums by the end of next year. We continue to view our national broker platform as a vehicle to diversify and strengthen the earnings profile of the business. Year-to-date, this platform has delivered more than \$73 million in aggregate contribution to operating results, well ahead of our objective to increase it by 20 percent for 2025.

With that, I'll turn the call over to our CFO, Phil Mather.

Philip Mather – Executive Vice-President and Chief Financial Officer, Definity Financial Corporation

Thanks, Rowan. I'll begin on Slide 10 with Personal Auto. Gross written premiums were up 6.2 percent in the third quarter in line with our mid-single-digit growth guidance for the second half of 2025 that we provided on our Q2 call. This result reflects our proactive approach to rates and unit growth, partially offset by the outsized impacts of portfolio transfers in the prior year. Early indications for growth in the fourth quarter suggests the slowdown may prove to be more short-lived than expected.

The combined ratio for Personal Auto improved to 94 percent in the third quarter from 98.3 percent last year, driven by earned rate increases, improved Sonnet profitability and lower catastrophe

losses. We continue to expect Personal Auto will generate a mid-90s combined ratio for the full year. While tariff-related policy changes have not materially impacted performance to date, we remain diligent and are ready to take additional actions where necessary to protect our profitability.

Turning to Slide 11, Personal Property continues to show momentum with Q3 premium growth of 9.3 percent, benefitting from increases in average written premiums and improved unit growth. Past efforts to proactively address regions with CAT exposure have proven successful from an underwriting perspective, and now that they are largely complete, we have begun to see a return to unit growth. We believe we are well positioned to maintain our growth momentum in the fourth quarter given the conditions prevalent in our industry.

The combined ratio for Personal Property was robust at 83.6 percent in Q3 2025 compared to 124.9 percent in Q3 2024, driven by lower catastrophe losses. Though the most recent quarter experienced a benign level of catastrophe losses, the 9.2 points of cat year-to-date is only a couple of points less than expected for this line of business. As such, we are very pleased with our year-to-date combined ratio of 90.5 percent and believe we are well positioned to outperform our sub-95 percent combined ratio targets for the Personal Property line of business in 2025.

Slide 12 outlines the highlights in the quarter for our Commercial business with premium growth of 7.5 percent in Q3 and 9.2 percent year-to-date, driven by strong retention and rate achievement and continued expansion in small business and specialty. Industry growth is trending to the low to mid-single digits, driven by normalized loss trends. We continue to expect that we can deliver growth at roughly

twice the pace of the industry or better, which should translate into high single-digit growth for the remainder of 2025 due to our strong broker support, digital capabilities and specialty expansion.

Commercial lines continue to benefit from our focus on underwriting execution and discipline with a strong combined ratio of 88.1 percent in Q3 2025 compared to 89.9 percent in Q3 2024. The improvement in the combined ratio was driven by lower catastrophe losses, partially offset by an increase in the core accident year claims ratio. The decrease in catastrophe losses and the corresponding increase in the core accident year claims ratio was impacted by the change in definition for a single claim catastrophe loss in 2025. We continue to run our commercial insurance business with the intent to operate at an annual combined ratio in the low 90s through the cycle.

Putting it all together on Slide 13, consolidated premiums grew 7.5 percent in Q3 and 8.7 percent year-to-date, adjusted for exited lines. At the same time, underwriting results were well ahead of expectations with an overall combined ratio of 89.4 percent in Q3, a substantial improvement from Q3 of last year reflecting the strength of underlying improvements in our business, supported by a much lower level of CAT losses.

As you can see on Slide 14, operating results in the quarter were strong with net investment income of \$54.1 million, supported by higher interest income from continued growth in our portfolio size. Given the contribution from proceeds of our private placements of common shares and senior unsecured notes, we now expect net investment income to exceed \$210 million in 2025.

Distribution income of \$18.2 million reflected another impressive quarter from our broker distribution platform, which continues to deliver both organic growth and strategic expansion. The

aggregate contribution from our national broker platform, including distribution income and the beneficial impact of the commission offset has increased by approximately 26 percent so far in 2025 and positions us well to achieve our financial target of delivering an increase of approximately 20 percent in 2025.

These results, combined with healthy underwriting income contributed to an operating return on equity of 12.5 percent over the past 12 months, a clear step forward on our path to sustainable mid-teen operating ROE post integration of Travelers.

As you can see on Slide 15, we ended the third quarter with shareholders equity above \$4 billion for the first time, a significant milestone for Definity and a testament to our continued strong performance and the capital generative nature of our business. On a per share basis, this represents 24 percent increase year-over-year, reflecting both robust operating results and the impact of our private placements of common shares. We successfully completed a \$1 billion private placement of senior unsecured notes in September, marking our inaugural bond offering and the final piece of our financing strategy for the Travelers transaction. The issuance was well received by the market at better than our modeled interest rates and further enhances our financial flexibility as we prepare for closing in the first half of Q1 2026. We currently expect a leverage ratio of approximately 30 percent upon close of the Travelers transaction with a plan to get that back to our target level of 25 percent within 24 months.

Turning to Slide 16, our financial position remains strong with ample capacity to support both organic and inorganic growth initiatives. We continue to deploy capital in a disciplined manner, prioritizing ongoing broker acquisitions and investments that enhance long-term shareholder value.

With that, I will turn the call back over to Rowan.

Rowan Saunders – President and Chief Executive Officer, Definity Financial Corporation

Thanks, Phil. Let me end with an update on the Travelers transaction on Slide 17.

As I mentioned last quarter, I believe this is a concrete demonstration of our commitment to build a Canadian champion in the P&C insurance industry. Integration planning is nearing completion as our joint transition planning team has made tremendous progress. Employee and broker sentiment has been and remains overwhelmingly positive. Employees are excited at the prospect of our scaled capabilities and the expanded opportunities that they will bring. Our brokers are enthusiastic and are showing a clear interest in our enhanced product offering post close. We now expect the transaction to close in the first half of Q1 2026 following a receipt of customary regulatory approvals ahead of our initial expectations.

An important deliverable to ease integration process was to finalize our claims transformation. Just last month, we successfully implemented the Guidewire Property & Casualty module, marking the completion of a Guidewire Claims Centre rollout. We are now on Guidewire Cloud for the majority of claims administered by Definity. The implementation of Claim Centre is part of a broader effort to reduce friction by modernizing and digitizing key steps in the claims journey. This enhances our ability to deliver on our commitment of providing up to 2 points of operating ROE contribution by having a robust platform for scalable growth, ongoing innovation and a seamless end-to-end customer experience.

As a proof point, since implementation of Claims Centre for auto claims in April of 2024, our cycle time has improved by 19 percent, driving better operational efficiency, enhanced indemnity outcomes and higher Net Promoter Scores. We look forward to seeing similar benefits on the Property & Casualty side.

As we approach the end of 2025, the Company is performing strongly and is in a great position to begin the process of integrating our upcoming acquisition.

And with that, I'll turn the call back over to Dennis to begin the Q&A session.

Dennis Westfall – Vice President, Investor Relations, Definity Financial Corporation

Thanks, Rowan. With that, we are now ready to take questions.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press the star button followed by the number one on your touch-tone phone. You will hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press the star button followed by the number two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

The first question comes from Stephen Boland of Raymond James. Go ahead.

Stephen Boland — Analyst, Raymond James

Could you just break down—you're usually pretty good at breaking out in personal auto inflation between the different buckets that are causing that. Maybe just your outlook for inflation over the next 12 months?

Rowan Saunders – President and Chief Executive Officer, Definity Financial Corporation

Steve, thanks very much for the question. Happy to take that and have Paul give you the flavour. I think the big picture for us would be we like where the market is at this stage, and we've got to a position where it's pretty stable, and when we see stable loss cost trends we're able to underwrite, we're able to get our pricing points at the right level. And then that gives us a pretty favourable outlook. And I think when we go back to—the market is still putting significant prices through as they strive to get to profitability, we're in a good position because we're rate adequate, and we are profitable. We have the Vyne scalable platform and so as we think forward, we're quite bullish on this line of business.

But Paul, could you give more colour on to the cost trends and the breakouts?

Paul MacDonald – Executive Vice-President, Personal Insurance and Digital Channels, Definity Financial Corporation

Absolutely, yes. So, Stephen, as I've previously shown there are components of it between the property damage and the casualty. Casualty, we've been fairly consistent throughout the last few quarters in that mid-single digit and we're not really seeing any changes in that. Maybe it's a bit more stable. BI is a little bit more volatile, but overall, it's still that mid-single-digit range.

The one that we've spoken about consistently is on the property damage side, which includes, obviously, comprehensive and collision. We also include theft in that element. And there, we've seen a more stabilization of the trends around that mid-single-digit range. This is fairly consistent with pre-pandemic levels, and that really represents the natural cost inflation of vehicles that have more higher

content in the vehicles, more expensive vehicles, cost of repairing them. The good news is, as I said, that, that stabilized to that mid-single-digit range.

I mentioned theft. Theft has come down quarter-over-quarter. Pre-pandemic, it was about 2 points of loss ratio at its peak, it went up to almost 7 points of loss ratio and it's down to about 2.6 to 2.7. So still a little elevated, but certainly much improved over the last year.

Really, when you take all those things together, we're really talking about a mid-single-digit trend. The good news is we believe that we are well placed to cover that trend with our natural rate filings, and we've essentially caught that trend over the last while, so we're in a good position to be at a stable place.

We do believe the industry as a whole isn't there yet and so the industry as a whole will have to continue to take rate to cover that trend, but we're well positioned in that.

Stephen Boland — Analyst, Raymond James

Okay. That's really helpful. The second question is still on personal auto. You mentioned in the MD&A, just about the Ontario reforms coming in. Is that going to put pressure on premium growth? I mean there's lots of articles going around about that. I'm just wondering what your thoughts are.

Paul MacDonald – Executive Vice-President, Personal Insurance and Digital Channels, Definity Financial Corporation

We are certainly very involved in getting ourselves ready for the auto reforms. There's extensive activity in this space. These are things that the industry has gone through, so this isn't new to the industry

and certainly not new to us, and we have reforms going in Alberta as well. But we believe that this is a good place for the industry to go.

Really, what we're talking about, most of these reforms focus on the casualty side of the equation. They don't really have a lot of focus on the property damage side of the equation, which, as I just mentioned, has over the last few quarters being the one that's put pressure on the results. But the reforms are a good way for the industry to reset every few years. You will see a slight increase in trends, reforms come in, the industry responds and then there's a period of onboarding the benefits from those reforms for the couple of years thereafter.

In terms of your question around overall pressure on premiums, we don't believe it's going to be a significant pressure on premiums. What these things will do is offset increases. So instead of seeing a pressure or a decrease in premiums, what you're going to see is less need for additional rate beyond that to cover the trend that had disclosed.

It does give some clients a bit more ability to control their overall premiums, but we believe it's going to end up still maintaining a well-balanced portfolio. So, it doesn't cause us any concern from a top line perspective.

Stephen Boland — Analyst, Raymond James

I appreciate that. Thanks so much.

Operator

Next question comes from Alex Scott of Barclays. Please go ahead.

Alex Scott — Analyst, Barclays Bank

Hey, thanks for taking the question. The first one I had is on the Travelers acquisition. Just now that you've had some more time with it and so forth and at closing reasonably soon, can you talk about just the influence it would have on your combined ratios initially? Appreciating that there'll be some repricing of remediation over time. I just want to make sure I understand sort of the starting point that we should expect next year.

Rowan Saunders — President and Chief Executive Officer, Definity Financial Corporation

Thanks for that. Firstly, a quick update on the progress. I mean, I think as we said in the materials, this is proceeding very well. We do think that it will close a little earlier than originally anticipated, so that's exciting for us. We've also made great progress on things like getting the financing complete with our inaugural bond offering, which again went very, very well. And I will say that the teams are working very well together and with the very advanced stages of the integration planning. So, we're pretty excited about that.

I think when it comes to the impact that it will have on us next year, what we've kind of said is, look, we have a good sense of the size of business that's coming. We know that it's very complementary to our portfolio. Of course, it moves us from the sixth largest to the fourth largest performer, so clearly it will have a significant impact on our overall revenue going into next year.

We also said that this is essentially a breakeven business and we have a plan that to integrate this and to get cost synergies of \$100 million. That takes a couple of years to work its way into the portfolio.

So, as we roll through the year-end, as we close the transaction, we update our guidance for 2026, we'll be able to kind of give more colour in that. But clearly, I think from our perspective, this business is something we're very excited to get. We know more about it now that we are getting closer to the transaction date. And we're as excited about it as we were before. We're getting exactly what we think we expected. And I think more to come in the new year.

Alex Scott — Analyst, Barclays Bank

That's really helpful. Next, I wanted to see if you could dig a little deeper into the distribution income trajectory. I mean it sounds like you expect a continued strong growth rate there. Just interested in where you're seeing the opportunities, what the M&A environment is like there for the bolt-ons?

Rowan Saunders — President and Chief Executive Officer, Definity Financial Corporation

Yes. I think this is something that we're very pleased about and I think that it's worked extremely well for us over the last couple of years, and it's becoming quite a meaningful number.

The way we look at this is that the broker platform, these are high-quality brokers. They're doing really well in the marketplace. As they've got kind of scale, they've got more capability and that's allowed them to increase their growth rates. So this is a strong organic growth platform. And then on top of that, you add a pretty active M&A market, where there is a significant amount of consolidation that has occurred and we still believe will occur going forward.

So when we looked at this year, originally, we said that we had a 15 percent guidance in the national broker platform operating earnings. They were doing well and they accelerated some acquisitions and so we upped our guidance. And actually, they're even—they're outperforming that at this stage. So, the latest guidance that we had left in place is 20 percent year-on-year. That's a combination of strong organic growth and a healthy pipeline. And as far as we can see out, we don't see a change in that environment for the next number of quarters, there is still a pretty healthy pipeline available.

Alex Scott — Analyst, Barclays Bank

Great. Thank you.

Operator

Next question comes from Paul Holden of CIBC. Please go ahead.

Paul Holden — Analyst, CIBC World Markets

Thanks. Good morning. I want to follow up on a comment that Phil made regarding personal auto. You said that a slowdown of personal auto, maybe more short-lived than expected. Maybe you can drill down about simply asking why—like what are the indicators that make you believe it's potentially more short-lived?

Rowan Saunders — President and Chief Executive Officer, Definity Financial Corporation

Yes. Go ahead, Paul.

Paul MacDonald – Executive Vice-President, Personal Insurance and Digital Channels, Definity Financial Corporation

Thank you, Paul. It's Paul here. I'll take you back to comments I made in previous quarters. This is very much deliberate. We had indicated at the beginning of the year that we'd be pushing hard on gaining unit growth and rate growth at the beginning of the year on auto, but we did expect to see that slow down a bit in the back half of the year. And the reason is quite simple. It's that we knew we were taking significant rate in the back half of the year.

You may recall in previous years when we took rate in the back half of the year, that was followed by a little bit of a period of lack of competitiveness or reduced competitiveness and then that came back to us. So, the exact same thing happened this year, very deliberate. We took 5 percent rate—additional rate in our Ontario portfolio, which is our largest. That was on top of an existing 7.5 that was already flowing through that portfolio. In effect, what that meant was a 12.5 percent increase on customers in that jurisdiction.

We knew that that would reduce competitiveness very deliberately and it has, in fact, done so. But what we're pleased to see is unlike the previous years where it took a couple of quarters for some of the growth to come back, it's actually come back faster. So even within that quarter, what we saw is July and August, the top line was reduced a little and then in September, it's come back quite healthily. So, we expect that trajectory of healthy growth to maintain into Q4.

And so, we really manage this portfolio to the full year. The full year growth is at 8.6, which is exactly in line with our guidance, and we expect to close the year close to that. That upper single digit in the full year guidance is what we expect.

I will say at the same time, remember that the inverse is true for Property. We indicated at the beginning of the year that we were taking extensive actions to improve the concentration and accumulation in our Personal Property portfolio, and we were redesigning our Property wordings. And what we did not want to do is accumulate a lot of units in advance of a CAT season until that work had been completed. That work has, in fact, completed and so as I indicated in previous quarters, we expected healthy growth in the Property portfolio in the back half of the year to offset that slight reduction on the Auto, and that's exactly what we're seeing. We're seeing very healthy growth in Q3. And even the months within the quarter, steady improvement month-over-month in our Property earnings.

So really, what we're looking for is a full year high single-digit result, both Auto, both Property combined, we're very pleased with the performance of these portfolios.

Paul Holden – Analyst, CIBC World Markets

Got it. That all makes sense. I know you haven't given 2026 guidance or outlook yet officially, but I kind of want to follow up, particularly on auto, how to think about '26? So, I hear you on the—you take more recently rate of 5 percent in Ontario, which is in line with the mid-single digits claims inflation you highlighted earlier, so that makes sense and that projects stable margins. If we extend that 5 percent out to 2026 and then combine that with the indication you said industry is still catching up, does that mean

premium growth could be in excess of 5 percent next year because you get the 5 percent on rates plus picking up a little bit of market share? Is that a reasonable way to think about it?

Paul MacDonald – Executive Vice-President, Personal Insurance and Digital Channels, Definity Financial Corporation

Yes, it's Paul again. I think that's a reasonable way. Just remember that when we have written rate, not all of that flows directly to the results because there's natural drift that occurs in the portfolios. But really, what we're talking about is mid-single-digit rate probably take an extra point or 2 above that to maintain parity with the trend. So it's reasonable to assume that the industry as a whole will be growing at that from a rate perspective. And then, of course, on top of that, you add unit growth depending on the market.

So, in our case, we still feel confident about the rate achievement and also the unit growth and targeting that high single-digit range.

Paul Holden – Analyst, CIBC World Markets

Okay. That's helpful. And then I'll ask one more if that's okay. I want to drill down a little bit more on the—on Commercial and sort of the same line of question, right? So saw a slowdown to 7.5 percent growth this quarter, which is consistent with the guidance you gave last quarter, so maybe no surprise there. Like how should we think about that just in terms of rate versus market share gain? That's what I'm trying to get a better sense of.

Fabian Richenberger – Executive Vice-President, Commercial Insurance and Insurance Operations,
Definity Financial Corporation

Thank you, Paul. This is Fabian Richenberger answering your question. So maybe I'll give you a little bit of a big picture assessment of how we view the marketplace overall. So, while we've seen more competition this year, especially in the large account segment, I would say that the commercial insurance overall remains a very attractive segment for us. And we are very pleased with the results that we have achieved in Q3 and year-to-date as well.

I want to share two or three data points with you that illustrates why we are so confident about our commercial business.

The first one, and I think that's the most important one is that in our core business, which, as you know, is a small business and lower end commercial business and which makes up actually the vast majority of our portfolio. We don't view market conditions in that segment as being soft.

Across our core business, we are achieving mid-single-digit rate increases, which we are happy with. Our retention numbers, both in terms of policy count and premium are in the high 80s and we're actually writing new business at adequate margins and gaining market share, which is very much in line with our strategic aspirations.

Our core business is also benefitting from strong portfolio management capabilities and our digital enablement of that business allows us to renew that business in an automated manner, and that is protecting our margin as well.

I know that there's a concern about what's happening in the large account segment and, for sure, the large accounts segment has been more competitive, but we are guiding our underwriters to make the adequate decisions and if the margin equation does make sense, we are quite happy to let those larger accounts go. And again, because that large account is the smallest portion of our Commercial business overall, we don't really see those decisions to have a material impact on our business.

I think the other thing that is important throughout is that the cycle that we are in today is happening in the different structural context than any cycle before. What I mean by that is that what we've seen over the last 10 years, we've seen a lot of consolidation happening and in the core business, in our core business—again, small business, lower and middle market business that makes up the majority of our portfolio—that business now is concentrated on four or five large domestic carriers and all of them are very disciplined as well.

So overall, we like the underlying profitability trends. As you've seen from our Q3 reporting, the rate achieved is 7.5 percent. That continues to cover the loss trend that we have in our portfolio. If our profitability remains stable if you look at the combined ratio on a year-to-date basis, it was 89.4 percent. That same number last year was 89.5 percent, which means that our front line underwriters are doing a really good job sustaining our margin position overall. So, I would say that in relation to your question, we are confident that we'll be able to sustain our combined ratios in the low 90s and sustain the growth rate that we have posted in Q3.

Paul Holden – Analyst, CIBC World Markets

I have to ask one follow-up question on that because the point on the consolidation of the market was really interesting. That's specific to SME. Does a large account market look different, i.e., far more competitors than the four to five?

Fabian Richenberger – Executive Vice-President, Commercial Insurance and Insurance Operations, Definity Financial Corporation

Yes, very different. Dozens, dozens of large account underwriters. And what we have seen in past cycles as well is that a lot of new capacity, foreign capacity, reinsurance capacity is coming into that large account segment and obviously, having been in that business for over 25 years now, we know that dynamic happening at every cycle, so what we've done every five, six years, we have been very deliberate in terms of how we've been constructing our portfolio. And as I mentioned before, the vast amount of our portfolio is in the lower end of the commercial marketplace in terms of account size and premium levels, and that gives us a much better opportunity to sustain the profitability in our Commercial segment. What we do as experienced operators in that large account segment, when market conditions are firm we are going to be quite opportunistic and we are going to generate growth rates in the 25 percent, 30 percent range. But when the market turns, which is the case this year, is you're going to switch from driving profitable growth more into margin preservation mode. What this means, as I mentioned, is that you're guiding underwriters to let accounts go if the margin equation doesn't make sense and then the growth rate is more flat and again, because that large account segment is the smallest portion of our portfolio overall, we don't see those decisions having a material impact on our portfolio. But over the cycle, over a 10-year period, we are quite happy that we can drive profitable growth and adequate margin in the large account segment as well.

Paul Holden – Analyst, CIBC World Markets

Got it. Okay. That's helpful. I'll leave it there. Thank you very much.

Operator

Next question comes from Jaeme Gloyn of National Bank Capital Markets. Please go ahead.

Jaeme Gloyn — Analyst, National Bank Financial, Inc.

Yes. Thank you. Just wanted to dig in on the property [growth] accelerated this quarter. It sounds like some of those initiatives to remove some of the concentration risks are done. Is the view that we should continue to see this acceleration through Q4 and into 2026, or do you anticipate maybe some more competition or pricing adjustments as you're picking up that unit growth in the coming quarters?

Rowan Saunders – President and Chief Executive Officer, Definity Financial Corporation

Jaeme, I think that for us, as you see Paul's initial comment, we're pretty confident that this kind of growth is going to continue. If you think about the last couple of years, it was still high single-digit, but it was all rate and what we would do is effectively churning the portfolio by shift new business to less CAT-exposed areas and reducing concentration in those areas at the higher CAT peril scores. That will continue, but the vast majority of that is that's just ongoing good portfolio management.

So, I think that we feel with that heavy lifting behind us, we now benefit from a hard market, continued rate increases, but also unit count. And we've seen a pickup in the unit count as we're gaining share.

This line of business should continue to perform very strongly for us, both rate, which will continue, and that protects and adds to the margin, but also now taking share.

Jaeme Gloyn – Analyst, National Bank Financial, Inc.

Okay. Great. Then just to go back to auto for a bit, it does sound a little bit like you're expecting rates to sort of just align with loss cost trends as we get into 2026. There's obviously a lot of rate written in '25 that will end up earned in '26 and so that will support premiums at the top line, but it does seem like rates are now kind of going to move more towards flat with loss cost trends and so margin expansion may be a little more challenging to get in '26 and '27. Is that fair? Do I kind of understand that correctly? Then I guess there's probably some other things that are going to help on the margin expansion side specific to Definity you can outline.

Paul MacDonald – Executive Vice-President, Personal Insurance and Digital Channels, Definity Financial Corporation

Yes. So Jaeme, it's Paul. I just want to highlight the nuances of that.

A couple of things. First, I said that the trends are stabilizing around that mid-single-digit range overall. I also indicated that the market as a whole hasn't quite caught that trend. So many insurers will have to take rate ahead of that to help them get back to a rate adequate position.

We're in a favourable position relative to that. So, for Definity, specifically, we believe we're at rate adequacy on the whole. What that means for us moving forward is that we will be taking sufficient rate to cover trend, as you mentioned, and then maybe some to focus on avoiding volatility.

However, your second question around margin expansion is that we believe there's still significant opportunities in the marketplace for margin improvement. We mentioned reforms earlier. There are other elements around segmentation, and we believe we have a strength in our ability to segment and chase the right customers. We're still going to maintain our focus on that.

There's also the volatility aspect of tariffs. Right now, we have a fairly muted response to tariffs. We're not seeing a significant impact rolling to the portfolio yet. We believe our current rate trajectory is sufficient to cover the current tariff impact, but we remain diligent. If this changes significantly, to your question around '26 and '27, there may be a commensurate increase if tariffs jump up. Insurers like us will then file for tariff-specific rate increases and that can change the trajectory of the rate environment quite significantly.

Jaeme Gloyn – Analyst, National Bank Financial, Inc.

Understood. That's clear. Then last, just wanted to get more details on Sonnet. I think in the MD&A talking about driving profitability for the auto portfolio. Can you give us a little bit more detail as to how well it's growing and that profit contribution and what you see in '26 for that platform?

Rowan Saunders – President and Chief Executive Officer, Definity Financial Corporation

Yes, Jaeme, if you'll recall, what we were trying to do there is make sure that Sonnet could get to breakeven. Remember, we had the target of can it sub-100 percent combined ratio and can it do that sustainably. And so that's really been our focus for this year. Sonnet once again produced an underwriting profit in the quarter, and that makes four consecutive quarters in a row. So, the task we set ourselves is

can we scale this business and can it run contributive underwriting results. And the answer is yes. And so that's very good news for us because we are able to now have confidence that we can retain the right customers. We can attract the right customers. And then the next step for us is to return to growth.

So, there isn't any growth in the portfolio this year. That really was our intention that this would be more of a flat year as we make sure we were comfortable with the quality and the operating model itself. Now we have, we'll look to return that portfolio to growth, but that really will only occur as we get into 2026.

Jaeme Gloyn – Analyst, National Bank Financial, Inc.

That's good. Thank you.

Operator

Next question comes from Mario Mendonca out of TD Securities. Please go ahead.

Mario Mendonca – Analyst, TD Securities

Good morning. I have two broad questions. One for Phil, one for Rowan.

First, Phil, I'm not going to hold you to something you said a year ago, but you did offer in the Q3 '24 call that you thought ROE could reach 12 percent in 2026. So much has changed since then, not the least of which is the 17 percent increase in capital that I don't think anyone could have anticipated. And Travelers, as you said, is breakeven in the early going. But a lot of other things have gone well like

Guidewire, Sonnet turning some profitable expense saves, that's a lot of moving parts. Could you revisit your 12 percent ROE in 2026 outlook in the context of all those changes?

Philip Mather – Executive Vice-President and Chief Financial Officer, Definity Financial Corporation

Yes. Thanks, Mario. I think the first comment I'd make is, you're right, there are a lot of moving parts. If we look at those that are driving continued expansion as the operating earnings, we're really pleased with the progress that we've made. Obviously, the core business is doing very well. We're below our sub-95 objective for the current year. And if we look at the three operating levers that we've talked about in the past, we're making really good progress against all of them.

As Rowan has said, Sonnet is now there, I would say. If you look at the past quarter, the year-to-date and the past 12 months, it's made a positive contribution across all of those periods. So that is performing well and reflected in the numbers.

On OPEX, we've still got some benefit ahead of us. If you look at the overall goal, we wanted to get to 11.5 percent this year over up 11.4 percent year-to-date, so gliding very nicely. We still think on our core Definity business, there's still about a 0.5 point of opportunity ahead of us in 2026. There's no change in view on that.

Then if we look at the claims Guidewire implementation, as you mentioned, there's—we're probably halfway into that. We've just had a successful launch of the Property Casualty side of that platform a couple of weeks ago ahead of plan. So that's good news that it's coming in earlier, but we've not tapped any benefits on that side of the business yet, and there's probably a couple of years until you

get to full run-rate. So, I would say on all of those contributive levers, really pleased with the progress that we've made.

You rightly point out that we've had very significant book value expansion at the same time, so that's a lovely problem to have. We'd be really able to grow the scale of the business, and that denominator, some of that is still ahead of next year.

And you're right also on the Travelers transaction. We've raised the capital this year. We'll only take ownership in the—our expectation is the first half of 2026 and then there'll be a period of time until you actually get the synergies actions taken and then earned in. So, a lot of moving parts.

What I would say though is, without talking to next year specifically, we're really pleased with the progress that's been made on that journey into the mid-teens operating ROE on a sustainable basis. We do need the Travelers transaction to optimize our position and break us into the teen criteria. And as I say on that one, what you'll see next year is you'll see the levers being pulled to untap the synergies, but there'll be more of a lag on an earning pattern. So more of that contribution to driving the operating ROE up and into the teens is more likely to come in '27 than it is in '26.

Mario Mendonca – Analyst, TD Securities

So, the reference to 12 percent last year, you'd have us think of that as more of a maybe exit 2026 or into 2027. Is that more appropriate? Like is it no longer appropriate for us to rely on the 12 percent for 2026 that you offered last year?

Philip Mather – Executive Vice-President and Chief Financial Officer, Definity Financial Corporation

I think I'd say, look, our current range is in that 10 percent to below teens prior to the deployment into Travelers and getting the accretive benefit of those synergies coming through. There's no change in our view on that. The underlying business continues to track forward comfortably, but we don't see a breakthrough into the teen period until you get the earnings pattern of the synergies. What you'll see next year is we'll be able to pull levers on the synergies from a run rate basis, but they won't earn in until they get the insurance math behind them.

So, I would tell you, we're very happy with the progress we're making on the core business. We wouldn't change our outlook on operating ROEs for the core business, but we just have to recognize that the great news is we've generated a lot of capital. We've deployed that capital or we expect to do so in the first half of Q1. And it will just be a bit of a lag impact until you can get the synergies earned in and then get us to cross into that teen period. But we're very positive in terms of where the business is going.

Mario Mendonca – Analyst, TD Securities

Yes. I certainly wouldn't question the fundamentals. I think things have changed, and I think your comments reflect that change in how much the book has grown on.

Rowan, can we go to another broad topic here? From about the middle of this year onward, all the P&C names in the U.S. and Canada really lost a lot of momentum in terms of the share price. The concern, of course, was that the cycle was changing, it was softening and things were going to be much worse. What I'm hopeful you can do is address the notion that in Canada, the sort of the large high-quality P&C companies—I put your company in that category—can cope with a moderating, a softer cycle? Like what

makes the large, high-quality P&C companies in Canada different and capable of coping with a softer cycle? Is there a reasonable argument to be made there?

Rowan Saunders – President and Chief Executive Officer, Definity Financial Corporation

Yes. Thank you for that, Mario. I mean I think a couple of points we'd kind of offer on that topic. Number one would be, this isn't a surprise that P&C industry goes through a couple of cycles from time to time. And so, I think that good operators anticipate that and structure their business to be resilient and able to operate well through the cycle. And so we've thought about that in terms of our mix of business, which segments we play in, what propositions we bring to the marketplace.

The other part that I would make is that there isn't just one cycle. And so, if you think about periods of more competitiveness, we have now some parts of commercial that are definitely more competitive but not all verticals, not all parts of Commercial. And as Fabi said on the call earlier, the market is structurally different in Commercial than it was many years ago. And that's why our portfolio, particularly, that is heavily skewed to the smaller accounts—there isn't a soft market. We're actually getting rate on the portfolio, and that's ahead of trends, so we're actually increasing some margin on that part of the portfolio.

There are some other areas, even in the specialty areas that we continue to grow in, we're rate adequate, there's good opportunities, and what you see us doing in commercial lines is that where there are segments that are more competitive, we just slowed down a bit of putting new business capital forward. And so, what you therefore see is us maybe not growing at 10 percent, but growing at high

single—10 percent-plus like we did, but more high single-digit. That's still good growth and it still protects the margin. And I think that's, to me, the main point that we could take out of this.

Could there be a period of time where we're not growing Commercial at double digit? Yes, they could be, but we will still be holding our margins, and it will still be outperforming the industry, it will still be growing at twice the rate of the industry.

And particularly in that small business segment, it's not just a price play. This is a product that's an experience. It's an automation play, it's digital, it's the Vyne business. So, I think that's an important piece.

If I just flip quickly to the other part of the business, 70 percent of our business is personal lines. You heard Paul talk, it's hard. We're getting higher rate on Personal Property and actually adding margin to that business. In Personal Auto, we're in a good position. We're sub-95. We plan on being sub-95 even including the Sonnet business and we'll start to get some growth in that Sonnet story up there.

And then the final thing, which is, I think, a strategic differentiator for us in the business is we've also built a top 10 insurance broker, so now we had stable, repeatable distribution income. And so, Mario, that's why I think we feel very confident that we could manage the cycle.

I go back to our big picture. Our big picture is we wanted to be a top 5 player. We will, pro forma with Travelers now be in the top 4 player. Of course, we'll set a new target, top 3 or something like that. We are an operating ROE expansion. You had a discussion with Phil there. We're very confident about all of those levers. Some of them are already reflected like Sonnet. The others are still earning in and

particularly the claims transformation, which we're really confident about, there's another couple of points that really has just started to come into the business.

Then the Travelers story is a good one because even if the market and the cycle gets a bit more difficult, this is a good time for us to pick up a large portfolio and embed a significant amount of premium on our platforms and our terms and our conditions.

So, I do think, in aggregate, it would be silly to say when you shift from one cycle to another part of the cycle, there's no impact, but what I can say is we absolutely think we could do a very good job of managing it. We're structured resiliently. And we will continue to—we'll update our guidance next year, but it's still going to be—we think we can grow at twice the rate of the industry. We think we could run this business into the low 90s. And we're very confident that as we integrate the Travelers business, we end up in the mid-teens operating ROE in the next few years. So that's, I guess, a level of confidence we're expressing today.

Mario Mendonca – Analyst, TD Securities

So, barring some kind of meltdown—and I don't think anyone is calling for a meltdown like a really bad cycle—you're saying things like getting ahead on pricing, addressing it through mix, managing expenses, building distribution, being conservatively reserved, allocating capital? You're saying all those things, you put them all together, high-quality companies can grow and thrive in a somewhat softer cycle?

Rowan Saunders – President and Chief Executive Officer, Definity Financial Corporation

I do. Yes.

Mario Mendonca – Analyst, TD Securities

Thank you.

Operator

Next question comes from Bart Dzarski out of RBC. Please go ahead.

Bart Dziarski – Analyst, RBC Capital Markets

Great. Thanks and good morning. I wanted to follow up on Mario's questioning around the ROE. When we look at your operating ROE last 12 months, 12.5 percent, there's probably some benefit there from benign CATs and Q3 '24 CATs coming off. But I guess my question is, why couldn't that reach the 13 percent just organically in the sense that you still have 1 to 2 points coming a benefit from claims and OPEX? Are there other factors that may slow down that trajectory? I'm asking because you're unique in the sense that you have an ROE expansion story organically, so I just wanted to understand that a little bit better.

Philip Mather – Executive Vice-President and Chief Financial Officer, Definity Financial Corporation

Yes, no problem. Yes, I'd say if you break it into the two components, you've got the operating contribution and then you've got the equity story. On the operating contribution, you're absolutely right. We still have several levers that are not fully reflected in the operating results. We're helped a little bit by CAT losses. It looks pretty dramatic on the quarter. If you look at the year-to-date, we're about 3.6 points of CAT losses. It's just under a point less than we would expect for a full year, so it helps us, but it's not

the whole story by any stretch. And really the big part of the contribution towards that 12.5 percent we're seeing in this quarter is those operating levers coming through. So, I'd agree with you that we still have progress to be made on that, and that should drive the operating contribution.

I think the factors that we're looking at on the other side of the equation, net investment income, we know yields have drifted down a little bit. We've done a very good job of sustaining book yields, but as we reinvest, there's some natural dynamic there. Where we're going to get upside opportunity is the cash flow coming into the portfolio as opposed to yield. So, we still are positive about our ability to manage those funds and the capital and profitable nature of the organization is helping us deploy more funds in there, but it's not as much of a tailwind as it had been in the past.

I think the thing that we do have to recognize is the equity expansion, which is great, right? Let's be clear. We've been really able to expand that book value through this period of outperformance. That's a lovely challenge to have, if you like, from a denominator perspective, but as we average in that book value, that number is going to climb next year and so that would be the denominator challenge. It's not an operating earnings story, it would be the denominator. So that would be the fact about that just from a math standpoint is the headwind.

That eases because we're now deploying our capital accretively. We believe we are through the Travelers transaction. But in Year 1, we expect it to be about a breakeven business. We will start making progress on the synergy capture. But with insurance math, showing that up in earnings takes a little bit of time because you're deferring cost, amortizing it in and getting to a run rate view is a little different.

So that's why when we talked about the transaction—and we'll do this next year as we start giving updates on progress, we'll give you a lens of the actions taken on the synergies and what is our run-rate view versus what is in the distinct quarter. I think that's important because that's the pathway into that kind of teen expansion.

Bart Dziarski – Analyst, RBC Capital Markets

Great. Thanks. That's very helpful.

Then I had a question around sort of data insights and market share, if you will. Last year, we had, call it, three or four outsized CAT events maybe 1 in 50, 1 in 100 years. So have the CAT loss kind of probability models, pricing models that you guys use, have they caught up to that in terms of normalizing for those events? And to the extent they haven't, like is there an ability to kind of leverage some of the insights you're seeing on the ground to take advantage of that and gain some more market share?

Paul MacDonald – Executive Vice-President, Personal Insurance and Digital Channels, Definity Financial Corporation

Hi Bart, it's Paul. Yes, I think the answer to both of your questions is yes. What we've seen, obviously, over the course of the last few years is an increase in severe weather and CAT severity and so we've increased our modeling to reflect them and we've increased our pricing to reflect that. Last year's hopefully and clearly an outlier in terms of the worst one on record. But even outside of that, as we were still profitable last year. I think that reflects the second part of your question, which is, is there an opportunity to gain a benefit from that? And I think, yes, we need to have increasingly sophisticated

modelling and segmentation need to consistently update things like flood maps and wildfire maps, and we do that. And I think our performance has shown over the last few quarters in terms of we are significantly below our natural market share in terms of our CAT costs. So, this is really an area where we believe we excel in terms of being able to utilize that capability to then take share.

I used an example previously, and I'll highlight it again, Bart. There are times where you would imagine, a less sophisticated insurer might be using a large geographic area like FSAs, which are the first 3 digits of a postal code to do their ratings. So, if you have a large area like that and one point of it is exposed to water, you may treat that entire area as a high-risk zone. We have improved our fidelity. We've been able to get from an FSA to a postal code and then down to 100 square metre, and the ability is even to get more refined than that. And if you think about my example, what that means is if we're in a large postal code, we can actually write risks that are not close to that water body source that previously would have been considered to be high-risk. And vice versa, we can get much more sophisticated by making sure that if it's very close to a risk exposure, we can then charge an appropriate premium or not write it.

So, it does, over time, really start to show the benefits of those investments in analytics and capability and the AI capabilities that are coming through to then target particular segments in particular risks and then gain share.

Bart Dziarski – Analyst, RBC Capital Markets

Great. Thanks for that. It's very comprehensive.

Operator

Last question today comes from Tom McKinnon out of BMO. Please go ahead.

Tom MacKinnon — Analyst, BMO Capital Markets Equity Research

Just a question with respect to distribution income growth and what you're seeing really in terms of further acquisition opportunities at McDougall. How much of growth really inorganically augmenting some of the organic growth that you're talking about there?

Rowan Saunders — President and Chief Executive Officer, Definity Financial Corporation

Thanks, Tom. I think that the organic growth generally is high single-digits and I think that this is a business that has a superb sales culture, very entrepreneurial, great products and so I think that the benefit is as they make acquisitions, there are some obvious cost synergies that you get from a bigger platform, which improve their EBITDA, but they also help the acquired businesses improve their ability to win and compete in the marketplace. So, what you get is acquisition earnings that come in and then those businesses tend to operate better than they even did before. That's why I think when we think about the trajectory here, we expect high single-digit organic growth and then that's supplemented with inorganic activity. That really is what's been kind of driving some pretty impressive year-on-year growth rates to date.

Overall, we think that we've done eight transactions this year, and the pipeline still looks pretty full.

Tom MacKinnon — Analyst, BMO Capital Markets Equity Research

All right. Thanks.

Operator

There are no further questions at this time. I'd now like to turn the call back over to Dennis Westfall, Vice President of Investor Relations for final closing comments. Please go ahead.

Dennis Westfall – Vice President, Investor Relations, Definity Financial Corporation

Great. Thank you everyone for participating today. The webcast will be archived on our website for one year. A telephone replay will be available about 2:00 p.m. today until November 14, and a transcript will be made available on our website.

Please note that our fourth quarter and full year results of 2025 will be released on February 12.

That concludes our conference call for today. Thank you, and have a great one.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask you that you please disconnect your lines. Have a great day.