

Definity Financial Corporation**Second Quarter of 2026 Financial Results Conference Call and Webcast**

Event Date/Time: July 31, 2026 — 11:00 a.m. E.T.

Length: 53 minutes

"While Cision has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. Cision will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Cision ait fait des efforts commercialement raisonnables afin de produire cette transcription, la société ne peut affirmer ou garantir qu'elle ne contient aucune erreur. Cision ne peut être tenue responsable pour toute perte de profits ou autres dommages ou responsabilité causé par ou découlant directement, indirectement, accessoirement ou spécialement de toute erreur liée à l'utilisation de ce texte ou à toute erreur qu'il contiendrait. »

CORPORATE PARTICIPANTS

Dennis Westfall

Definity Financial Corporation — Vice President, Investor Relations

Rowan Saunders

Definity Financial Corporation — President and Chief Executive Officer

Philip Mather

Definity Financial Corporation — Chief Financial Officer

Fabian Richenberger

Definity Financial Corporation — Chief Operating Officer

Paul MacDonald

Definity Financial Corporation — Executive Vice-President, Personal Insurance

Obaid Rahman

Definity Financial Corporation — Executive Vice-President, Commercial Insurance

CONFERENCE CALL PARTICIPANTS

Bart Dziarski

RBC Capital Markets — Analyst

Paul Holden

CIBC — Analyst

Doug Young

Desjardins — Analyst

Jaeme Gloyn

National Bank Capital Markets — Analyst

Mario Mendonca

TD Securities — Analyst

Tom MacKinnon

BMO Capital Markets — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Definity Financial Corporation Second Quarter of 2026 Financial Results 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 need assistance, please press star zero for the Operator.

This call is being recorded on Friday, July 31, 2026.

I would now like to turn the conference over to Dennis Westfall, VP of Investor Relations. Please go ahead.

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

Thanks, and 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 for discussion on the conference call.

Joining me on the call today are Rowan Saunders, President and CEO, Philip Mather, Chief Financial Officer, Fabian Richenberger, Chief Operating Officer, Paul MacDonald, EVP of Personal Insurance and Digital Channels, and Obaid Rahman, EVP of Commercial Insurance.

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

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

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

Thanks, Dennis, and good morning, everyone.

Our second quarter results demonstrate the continued momentum of our business under our expanded scale. Having successfully attained our top five objectives as a leading property and casualty insurer in Canada, we are delighted with our integration progress so far as we continue building a Canadian champion.

If you turn to Slide 5, we have provided a detailed update on our Travelers integration progress and the critical milestones we've achieved over the first six months of the year. Much of this early success is a direct result of the proactive transition planning we conducted prior to close. We've also been impressed by the benefits from the scalability of our platforms and the extent to which we've been able to leverage AI to improve both the efficiency of the conversion process and overall speed of integration.

Financially and strategically, we have executed with high discipline. This began with our transaction financing, which included the rapid repayment of our term loan five months ahead of schedule, saving \$15 million in interest expense. We also aligned the acquired reinsurance structure with Definity's risk appetite from day one, freeing up regulatory capital while reducing volatility in a favourable renewal market. Furthermore, this transaction has expanded our specialised talent and capabilities, increasing our total addressable market and commercial lines by nearly \$7 billion.

Operationally, the integration has been equally successful to date. We have efficiently onboarded our new teammates under a unified leadership team with excellent cultural alignment. Within just one month of closing, we harmonised our new business intake so that all new broker business was being written as a single Definity offering. We are particularly pleased with our customer retention so far, as policies began to renew on Definity systems in the second quarter. We essentially haven't seen any unexpected revenue leakage to date. This early success is a direct reflection of exceptional broker support, with over 40,000 policies successfully converted to Definity systems so far. Moving forward, we expect our broader product offerings and enhanced underwriting capabilities to drive sustained premium growth and profitability, while rationalising our systems and platforms will achieve meaningful economies of scale.

This momentum has translated directly into accelerated progress on our Synergy Plan, which is running well ahead of our initial schedule, as illustrated on Slide 6. Six months in, we have already reached \$52 million of run rate expense synergies. Of this, \$11 million earned into our second quarter underwriting results, bringing our year-to-date realised total to \$17 million. Our strong execution, reflected in our rapid pace of synergy capture, has led us to increase our synergy expense target by 25 percent, raising our post-

integration commitment from \$100 million to \$125 million annually. We expect one-third of these increased synergies to earn into our results in 2026, approximately double our original expectations.

Turning to our performance in the second quarter on Slide 7, we delivered strong results across the board. From a top-line perspective, gross written premiums grew 34.7 percent to \$1.8 billion, representing continued progress towards our full-year guidance of \$6.5 billion. Our overall underwriting profitability remained highly resilient as we successfully managed the initial integration phases of the Travelers transaction, delivering an impressive consolidated combined ratio of 93.9 percent in the quarter, inclusive of the acquired book.

Our diversified earnings power was also on full display, generating operating EPS of \$0.97, representing a 15.5 percent increase over the prior year. The strong profitability supported an 11.5 percent increase in our book value per share, while our trailing 12-month operating ROE was 12.5 percent, inclusive of ongoing capital generation. We ended the quarter with a robust capital position, with our financial capacity exceeding \$1.2 billion, providing us with the financial flexibility to support our organic growth and fund accretive acquisitions of both brokers and carriers.

Turning to the industry outlook on Slide 8, we expect conditions in personal auto to remain firm overall, with some variability between provinces, 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 macroeconomic factors. We expect market conditions to remain firm in personal property over the next 12 months as the industry continues to remain diligent, taking underwriting and pricing actions required to fund weather event losses, amid persistent climate change.

In commercial insurance, while we expect overall commercialised markets to remain attractive, we continue to see intense competition in the large account space. We maintain our expectation for overall industry growth to be in the low to mid-single digits over the next 12 months, varying by segment.

Against this backdrop, our portfolio mix, sophisticated pricing models, modern technology platforms, and disciplined underwriting give us a distinct advantage. Leveraging our strong strategic position and broker support, we are confident in our ability to navigate these industry trends effectively, select the right risks, and price our products appropriately to deliver sustained profitable growth.

In summary, our performance this quarter demonstrates that we're executing exactly as intended. We have maintained our strong underwriting profitability, made rapid progress on our integration and synergy capture, and delivered robust operating results in a dynamic market.

With that, let me turn the call over to our CFO, Phil Mather, to discuss the results in more detail.

Philip Mather — Chief Financial Officer, Definity Financial Corporation

Thanks, Rowan.

Building on that theme, our financial results highlight the benefits of our increased scale and the discipline of our execution as we continue to integrate the acquired business. Slide 10 summarizes our consolidated insurance results. Gross written premiums for the quarter reached \$1.8 billion, representing a 34.7 percent increase compared to Q2-2025, driven by 24.5 percent growth from the acquired renewal book as retention rates continue to converge with the underlying Definity book.

Our underlying growth, representing the renewal of the Definity business and new business written across the entire platform, exceeded 10 percent and included contributions from all three lines. This underlying pace of growth increased sequentially from the 8 percent generated in the first quarter, driven by double-digit levels in personal insurance and a pickup from increased commercial underwriting capacity. Our Q2 combined ratio was 93.9 percent, inclusive of the acquired business. The performance was driven by the strength of our operations, the initial capture of synergies, and catastrophe losses that were somewhat lower than expectations.

I'll now provide some more detail on our lines of business, starting with personal auto on Slide 11. Gross written premiums grew by 35.1 percent in the second quarter, inclusive of 22.6 percent growth from the continued strong retention of the acquired renewal book, as well as robust underlying growth of 12.5 percent. Looking ahead, we expect the growth trajectory in personal auto to remain relatively consistent through the second half of the year. The combined ratio of 95.1 percent was above the 94.2 percent from a year ago, as we absorbed the temporary and expected impact of the acquired business prior to fully realizing synergy benefits, partially offset by a reduction in the expense ratio.

In personal property on Slide 12, we delivered top-line growth of 37.1 percent, inclusive of 25.5 percent growth in the quarter from the strong retention of the acquired renewal book. Continued unit growth and rate achievement led to underlying growth of 11.6 percent. We expect growth in personal property to be in the mid-30s in the back half of 2026, reflecting the smaller relative size of the acquired renewal book. We delivered a combined ratio of 92.8 percent in Q2, improved from the prior year's 94.3 percent, driven by lower catastrophe losses. This line of business generated excellent profitability in the first half of 2026, with a combined ratio in the upper 80s.

Turning to Slide 13 and commercial insurance, top-line growth was 32.2 percent from a year ago, inclusive of 26.3 percent growth from the continued strong retention of the acquired renewal book in what is its comparatively lowest quarter of volume. As the integration progresses, we expect the larger volume of scheduled renewals to lead to mid-to-upper 30s premium growth in the second half of the year. Through disciplined execution and an increase in underwriting capacity, we achieved ongoing pricing increases and market share gains in small business and specialty lines. These gains successfully offset continued elevated competition in large accounts, resulting in sequentially higher underlying growth of 5.9 percent.

As expected, the combined ratio of 93.1 percent in the second quarter of 2026 increased compared to 89.6 percent in the second quarter of 2025. As in the first quarter, this result was driven primarily by the inclusion of the acquired business and its associated expenses, which we expect will temporarily increase the claims and expense ratios prior to the full benefits of future plan synergies, as well as a modest increase in catastrophe losses.

Turning to Slide 14, our strong profitability was supported by our impressive underwriting results, while net investment income grew to \$79.5 million, driven by a larger post-acquisition investment portfolio. Our distribution income reached \$24.5 million, demonstrating solid organic growth in our broker channel. In total, our operating net income reached \$118 million, or \$0.97 per share, which represents a 15.5 percent increase in operating earnings per share over the prior year. Our trailing 12-month operating ROE was 12.5 percent, at the high end of our target range, and supported by lower-than-expected catastrophe losses in Q3 of 2025.

Slide 15 illustrates the performance and market position of our national broker platform, which continues to deliver as a key strategic pillar, ranking among the top 10 brokers in Canada, with approximately \$1.6 billion in gross written premiums under management. This momentum positions us well to achieve our target of \$2 billion in GWP by the end of 2027.

When combining the \$24.5 million of distribution income I just discussed with \$11.2 million of intercompany commission income, our total broker operating income reached \$35.7 million in the second quarter. This represents a 20.2 percent increase over the prior year, keeping our national broker platform on track to achieve our 20 percent annual growth guidance.

The benefits of our strong operating performance are also clearly visible on our balance sheet, as shown on Slide 16. Our debt-to-capital ratio is already down to 26.5 percent, approaching our long-term target of 25 percent, well ahead of our initial 24-month guidance. Even after funding the Travelers transaction, our total financial capacity remains robust at more than \$1.2 billion, putting us in an enviable position to fund future growth and deliver on our capital priorities.

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

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

Building on the strong results Phil just detailed, this quarter provides a powerful proof point of our disciplined strategic, operational, and financial execution. We set out to integrate a transformational acquisition, capture significant synergies, and continue to drive profitable growth across our business, and we are delivering on all fronts.

Our integration success to date validates the business case we established for the Travelers transaction, which is expected to deliver a more than 200 basis point improvement in our operating ROE, on top of our organic plans. With this powerful accelerator, we are highly confident in our progress toward our mid-term objective of a sustainable mid-teens operating ROE.

Furthermore, our proven ability to execute on this complex transaction and our integration success to date gives us increased confidence in our capacity to successfully identify and integrate future acquisitions as we pursue our updated goal of becoming a top three P&C insurer. Our robust capital position continues to provide us with the financial flexibility to support our organic growth, fund accretive acquisitions, and deliver on our capital priorities. We remain highly confident in our ability to build on this scale to deliver sustainable, long-term value for our Shareholders.

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

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. Should you have a question, please press the star followed by the one on your touchtone phone. You will hear a

prompt that your hand has been raised. If you wish to decline from the polling process, please press star followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys.

Bart Dziarski with RBC Capital Markets, please go ahead.

Bart Dziarski — Analyst, RBC Capital Markets

Great. Good morning. Thanks for taking the questions. I wanted to ask around topline GWP. Year-to-date, you're tracking about \$3.2 billion. You've got the \$6.5 billion-plus guidance. That presumably implies a back-half ramp. I think, Phil, you had mentioned commercial should accelerate. Can you unpack that in terms of what you expect in the back-half from pre in growth, the details, and how that ties into the guide for the year? Thanks.

Philip Mather — Chief Financial Officer, Definity Financial Corporation

Yeah, happy to do that. Overall, for the full year, as you say, \$6.5 billion is the target. In order to get to that, we effectively have to deliver about a 35 percent growth rate for the full year. As you've noted, we're already at that level year-to-date. What you'll see in the second half, we expect, is pretty much a consistent overall growth rate. But when you look at the relative sizes of the books of business that we're acquiring from Travelers, that's the key. That moves up a little bit, particularly in commercial lines.

When you look at the individual lines of business, what we'd anticipate is a pretty good continuance of the underlying growth rates that we've seen. Then you'll see a little bit more in terms of the impact of that acquired book in commercial lines. That should tick that up a little bit into the mid- to upper-30s growth rate. In personal lines, auto should stay pretty consistent with where it's delivered year-

to-date from a growth rate standpoint. Then personal property might tick down a point or two. Again, that's representative of the relative sizes of the acquired book.

I think our message overall is we're pretty much bang on our expectations year-to-date. We're pretty much bang on our guidance view for the second half of the year, and we're very pleased with what we're seeing from the level of retention on the Travelers book. I think steady as she goes is the overall message.

Bart Dziarski — Analyst, RBC Capital Markets

Got it. Thanks for that, Phil. Very helpful. Then on the Travelers integration, again, another quarter of solid execution. We saw the expense synergy target increase. As you kind of get more familiar with the business, are there other areas that you're potentially seeing where things are conservative and could lead to future upside over time? Thanks.

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

Bart, thanks for the question there on that one. Maybe just to kind of kick that off, we're delighted with the progress that we're making. Really, from our perspective, this couldn't be going better. If you step back just for a moment, we always said this was going to be a very strategic transaction for us that helped us get into the top five. We said it was going to be financially compelling, and there's a lot of confidence we have about the 200-plus base points improvement to the operating ROE.

But I think the new news for us here is that operationally this integration is going really well, particularly for the size and transformational nature of the deal. When we step back, we look at the

retention of customers, that's going really well. The retention of talent is excellent. It's a smooth experience for our brokers who are incredibly supportive. Then we're now nicely into the actual heavy lifting of the conversion, and that the team is doing an outstanding job on. When you step back and look at all of that, that gives us the confidence to increase the synergies by 25 percent, as you mentioned, \$100 million to \$125 million run rate.

Don't forget, this is when we're talking about the cost synergies of the business. What's still to come is as we transfer this portfolio onto the Definity platform, we do think that there'll be further loss ratio improvements that'll come over time. But as I said, operationally this is going really well, and maybe it'll help for Fabian just to give you a bit more insights into the integration.

Fabian Richenberger — Chief Operating Officer, Definity Financial Corporation

Yeah, certainly. I'm glad to do that. I would say from a big picture point of view that we are really pleased with both the financial and operational progress that we've been achieving as respects to that big scale Travelers integration. We have incredibly talented teams in place that are working pretty much 24-7 as you would expect. It's a big undertaking. We are extremely pleased with the talent that we have, the dedication and the discretionary effort that we have from our employees.

As we discussed, we started the conversion of the acquired business outside of Ontario in Q2. Now in Ontario, the conversion started in Q3 as well. The conversion process is working really well. Both the loss ratio and retention numbers that we're achieving are in line with our expectations, and obviously we're pleased with that. Then we're also getting great support from our broker partners across Canada. As a result of this transaction, we added a little over 100 new broker relationships. That allows us to be

comfortable in the growth guidance that Phil mentioned at \$6.5 billion [of GWP]. We are also leveraging the additional capabilities that we have in place now with especially a heavy focus on the expanded commercial specialty capabilities, the cross-border capabilities, and we are leveraging that to support additional growth traction with our broker partners.

Maybe the last point I want to mention is that the TSA, the transition service agreement with Travelers, is working very well, and we are obviously making the point to exit and insource as many of those transition services as possible, which will give us an additional financial benefit as well. Overall, very confident that we are achieving the expected financial and operational benefits out of this transaction.

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

I guess when I summarize that, I think we went into this with Definity growing nicely and really running in the low 90s. We picked up Travelers, which was a really around 100 percent [combined ratio] break-even business. When we now look at this, not only just the synergies that come from cost, but when we think the loss ratios will move, we've got a high degree of confidence that by the end of the transition integration period, we'll have Travelers portfolio running in the low 90s as well, and I think that's the ultimate outcome. So far, that's definitely where we think we will end up.

Bart Dziarski — Analyst, RBC Capital Markets

Thanks, Rowan and Fabian. Appreciate the wholesome response.

Operator

Thank you. Paul Holden with CIBC. Please go ahead.

Paul Holden — Analyst, CIBC

Thank you. Good morning. A few questions. I guess I want to start on potential for more broker acquisitions. I guess two parts to the question. One is, you've talked about increased balance sheet capacity. Does that influence the pace that you might execute broker transactions at, i.e., increasing? Two, can you give us a flavour sort of what the opportunity set looks like today? Has it changed at all? Has it improved or is it slowing? Thanks.

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

Yeah, I think, Paul, on that perspective, we're very happy, firstly, I would say, with our broker platform. As you can see, the revenue is growing nicely. The new acquisitions we made keep kind of flowing through. The guidance was ultimately 20 percent growth in our national broker platform operating income. We're on that and comfortable with the forecast there.

What we see here is that there is still a healthy pipeline of activity. Sometimes, this is less about do we have the financial capacity and more about the opportunity and timing. Sometimes things happen in different quarters. But I would say that we feel very comfortable with that opportunity ahead of us on the broker side.

What really is happening, if you step back for a moment, is the consolidation continues to happen. The top 10 brokers in Canada today control something like 60 percent of the market share, up from 40 percent about a decade ago. You can see there is absolutely a trend towards size and scale. The

need for scale, the need for specialization is driving part of the opportunity. There's also aging demographics, which also is driving an opportunity. I think that means that the pipeline is heavy. We like it and we think that we're happy to go. There is no operational hesitancy. It's really just about timing that happens in the marketplace.

You do point out the fact that we're generating capital rapidly, and that's a good position to be. It goes back to our overall M&A strategy. We have a goal of top three. We still like to put that to work in carriers, but we do like the broker space. We see opportunity and that programmatic approach is going to continue.

Paul Holden — Analyst, CIBC

That's good. Then maybe hopefully it's a quick one, but obviously wildfires in the headlines pretty much every day. It doesn't look like it's touched any major population centers, which is good news. Just wondering if you can make any comments on CAT losses or CAT events and how they might have been impacting losses quarter to the date.

Paul MacDonald — Executive Vice-President, Personal Insurance & Digital Channels, Definity Financial Corporation

Thanks, Paul. It's Paul here. I'll keep really my comments to Q2 specifically around the CAT activity countrywide. It was more of a flooding event across the board than it really was a wildfire event. As you've pointed out, the wildfires, although many of them were more in the northerly areas and less populated areas. From an insurance perspective, they have been less impactful. Obviously, we've been watching the

space very carefully. There are some rainfall that has helped mitigate some of the expansion of those wildfires. But as you can tell from our results, it has been certainly within expectations, and we're pleased with the overall quarter and with our performance.

Paul Holden — Analyst, CIBC

Last one for me, I do want to talk about personal auto a bit. All of us can go to the FSRA website and just see the rate approvals. It suggests to me a deceleration in rate for the industry, but I don't see it in your results. You've also given an outlook that premium growth should maintain around the same level in the second half. I'm just trying to square those two things as an indication that rates overall remain pretty strong despite the FSRA data. Or is it Definity is gaining market share? Just help me sort of parse that out if you can.

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

Let me start that one, Paul. I think when we look at our personal auto results, if you look at the quarter, 35 percent growth, the underlying growth at 12.5 percent, actually slightly better than Q1. We're very happy where we are with our portfolio, with our rating positions, and we're happy to take growth. What you're seeing in our portfolio is a nice balance between market share gains, so that's unit count growth, as well as rate going through the portfolio.

If you think about the pricing, and I'm talking about our portfolio here, we've had significant rate over the last year coming through, and there still is mid-single debt rates flowing through the

portfolios. What's also helping us, of course, is the strong retention from Travelers. That's where it leads us to be very consistent with the forecast, being in the mid-30s for the rest of the years.

There is definitely change in the marketplace, and there's a number of things. There's reforms going on. There's other competitors that have done significant price increases in the past. A lot of trends have kind of stabilized. I think when you look at a sample of rate filings, it doesn't really tell the full story. I know Paul was just mentioning recently we've just done another filing. It's a segmentation filing.

Sometimes it's not just about taking rates. It's about how you are managing and optimizing your portfolio. But I think when we step back, we think that's an attractive marketplace. We think we're going to continue to gain unit share. Of course, brokers really like the Vyne platform. Our proposition, as long as we're competitive, bodes well.

Paul Holden — Analyst, CIBC

Okay. That's it for me. Enjoy your long weekend. Thank you.

Operator

Thank you. Doug Young with Desjardins, please go ahead.

Doug Young — Analyst, Desjardins

Hi. Good morning. Just maybe going back to Travelers, can you dig into a little bit more about what's driving the additional cost synergies? Then can you maybe quantify the retention rates that you're seeing by business line relative to expectations? Just hoping to get a little bit more colour on those items.

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

Phil, why don't you start with the cost synergies?

Philip Mather — Chief Financial Officer, Definity Financial Corporation

Yeah, sure. Thanks, Doug. Overall, what we've seen so far to date is the \$52 million that have been triggered. Because we had a really good early start in Q1 and we continued with good momentum into the second quarter, you see about \$17 million of that has now earned into the underwriting results in the first half. We've seen larger capture and earlier capture, which is helping drive support.

What's behind those numbers? If you look at the three areas that we talked to, about two thirds of those triggered synergies are coming from the elimination of parent company charges combined with technology savings. About a third is coming through leveraging the economies of scale of our business and just disciplined attrition management that we started pretty early on through the process. Overall, we're seeing very good capture there.

I think looking forward, part of the reason we've been able to increase to that \$125 million is as we've been able to bring the businesses together on board, the individuals and importantly, as we're utilizing our tech stacks and capabilities, we're seeing that we don't need to add as much run rate cost to our underlying business to capture the integration of Travelers. Effectively, we're not having to add back to our own cost base to capture the elimination of the parent support that's happening. That gives us good conviction to drive the 25 percent increase from a synergy standpoint.

You'll also see that we're pretty positive about the timing of that. We reckon about a third of that \$125 million is going to earn into 2026 results. We think about a half is going to earn into 2027. The reason for that is that you've got a sizable lump of the savings that come at the back end of the integration process. As Fabi said, we're working hard to get off the TSA support from the U.S. parent. A decent lump of the \$125 million, close to half of it, will therefore come at the end of 2027. You'll really get that full earnings impact coming through into 2028. That's really how we've got the conviction and the confidence behind the increase in the synergy capture.

Then just from a retention standpoint, what we're seeing there is already very good progress. Actually, in the second quarter, we've seen a convergence from the customer retention stats in pretty much all the lines of business. If you look at personal lines overall, I think we're around the mid-80s there. It's a little lower in auto as you normally see, a little higher in personal property. But both of those pots are pretty much at the same convergence level already. Then when you look at commercial lines, we've actually started to close the gap. You might remember in the first quarter, we were four or five points gap between the two renewal books. We've seen that close in a couple of points already as we're starting to roll that business over. We've got conviction in the second half. You'll see that gap close even further.

Overall, I think we're in that mid-80s range, very good convergence across the whole business. Really, that's ahead of our expectations when we would have planned this out.

Doug Young — Analyst, Desjardins

I appreciate the colour. Then just maybe back to the CATs this quarter. I think, Phil, you said this, or maybe it was Rowan, you said this in your prepared remarks, that CATs were lower than you expected. I know they were lower than last year. Is there a structural reason why you kind of weathered the storm better than peers on the CAT front this quarter? Just maybe if you have some thoughts on that.

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

I think when we think about CATs, I mean, obviously, there's some variability here. It depends on the seasons. It also depends on where they are, the geographic location. We do have a strategy where in some parts of Canada, we are naturally underweight. Primarily, that's in the West, in Alberta. That's by design on our personal property and commercial property portfolio. We've been well rewarded for doing that.

I think the other thing for us is that particularly in personal property, we've finished now a couple of years of really working hard in terms of portfolio management and watching aggregation limits in higher CAT zone areas. If you remember that we had lower unit count growth for a couple of years as we were repopulating growth in more attractive areas and managing CAT accumulation in higher CAT prone areas. I think that's another item that helped us. Part of this, quite frankly, is I think the capability and the skill sets of the teams. But also, it's where these CATs tend to happen if you have a higher or lower natural market share.

Doug Young — Analyst, Desjardins

This wasn't re-insurance like your CAT re-insurance coverage kind of kicking in to a better degree than maybe others. This is more kind of business segmentation structurally that kind of was intended to help you on this front. Is that the way to kind of think about it?

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

Absolutely correct, yeah. But that didn't get near our CAT limits.

Doug Young — Analyst, Desjardins

Okay. Then just one last quick one. Just on personal auto, there was deterioration in the current accident year loss ratio. I think it was mentioned that there was a drag from the Traveler business. Is that all from just the drag of the Traveler business? Are you seeing any other kind of pressures on the loss ratio coming through?

Paul MacDonald — Executive Vice-President, Personal Insurance & Digital Channels, Definity Financial Corporation

Thanks, Doug. It's Paul here. Yeah, you're absolutely right. That's purely the drag of the portfolio that was coming in. We had previously indicated it was close to break even prior to us purchasing it. As you naturally put on the sizable portfolio, it has a drag impact. We expect that to be a bit persistent as we continue to bring that portfolio over to ours onto the Definity rating. Then by the end of next year, it should be fully completed. We don't see any other issues that are impacting it. We're quite pleased with the underlying results actually given the acquisition. We continue to optimize that portfolio as we go.

Doug Young — Analyst, Desjardins

Great. I appreciate the colour. Thank you.

Operator

Thank you. Jaeme Gloyn with National Bank Capital Markets. Please go ahead.

Jaeme Gloyn — Analyst, National Bank Capital Markets

Yeah, thank you. Just on the expense ratio improvement from last year, even with the Travelers, some of that might be the synergies flowing through, but is there any that you would attribute to just the cost optimization points that you had in previously? Can you kind of break a little bit of that out for us?

Philip Mather — Chief Financial Officer, Definity Financial Corporation

Yeah, thanks, Jaeme. We're very happy with how that's going. If you look at the total expense ratio, we're about 30 percent on a year-to-date basis, which you might have anticipated and we did push up a little bit because when you put the two businesses together, we expected about a two-point impact on combined ratios overall with about half of that hitting the expense ratio and the rest pushing up the loss ratio. That was the anticipation.

You're right in terms of causation behind that. We do have favourable support coming through from the ongoing expenses that we've been doing for some while. You'll recall one of those operating ROE levers was the expense efficiency. We've been leaning into that consistently over the last couple of years and a lot of those actions we took in 2025 are now earning through. That's driving good support.

I would say another contributing factor is the early timing of the synergy capture, as you also point out. Because we've been able to get after that early and we're ahead of expectations, that's also provided a little bit of support there as well. I think where we feel today is that's a very good number for the first half of the year. We think that's quite sustainable for the second half. It varies a little bit by line of business. You've seen a little bit more of a push up in commercial lines that's really represented more of the business model. You've got a lot of high degree of automation and technology base behind personal lines. You've got more of a people business structure in commercial lines.

But overall, I think it's the combination of that disciplined management and actions that we've been taking on the overall business combined with the early synergy progress that we've made. That's really what's feeding through.

Jaeme Gloyn — Analyst, National Bank Capital Markets

Great. Financial capacity rebuilding, as was discussed earlier, and Rowan mentioned, you still prefer carrier acquisition over, well, maybe not over, but still would like to continue on that front for reaching strategic goals. What's the appetite? Maybe it's too soon, but if something was on the table, what's the appetite? What's the resource commitment at this stage?

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

Jaeme, we go back to our strategic goal here of becoming a top three. It wasn't that long ago we went public at the eighth largest insurance company. We organically grew to number six. With Travelers, we've got to number four. We still do need, in addition to our organic growth plans, which are above the

market rate, to do M&A to get into the top three. We look at strategic fit. We want to make sure it's a decent business and, of course, financially supportive of our mid-teens operating ROE.

We think the marketplace is coming towards us a bit on this. You need to be big. You have to have scale these days. Parts of commercial lines, like the upper-end market, is more difficult, and that may create some opportunities. In personal lines, you see the need for data, tech, brand, AI investments. That may create opportunities. We think about that.

Then I think your question around operational readiness, when you consider the Travelers deal, because it's going really well and we're now into the integration, and because acquisitions do take some time, and when you think about the regulatory approval perspective, you're at least 12 months before you get there. We're now in a position where, operationally, that isn't going to put us on the sidelines. I think we're good. I think Phil talked a bit about the financial capacity that we have, and we keep building, and that's without raising any equity. We're pretty confident that should there be opportunities, we'd like to participate in them.

I think you go back to we really felt good about building the Definity organic business and being able to perform well. We needed to convince ourselves and the market that we can do an integration well. We're not finished yet, but very good momentum and a lot of confidence about that. I think we consider that as we think about the inorganic part of our strategy.

Jaeme Gloyn — Analyst, National Bank Capital Markets

Great. Last one, just on the Sonnet, and I might be confusing some of these numbers, but direct-to-cut consumer growth in the top line was about 3 percent. I assume that's entirely Sonnet. I'd expect that to maybe do a little bit better. Maybe you can provide some comments as to where you see that growth in the Sonnet platform and how it's performed against your expectations.

Paul MacDonald — Executive Vice-President, Personal Insurance & Digital Channels, Definity Financial Corporation

Thanks. It's Paul here. You're absolutely right about the growth within the Sonnet platform. We're actually quite pleased with that. Just taking you back a little bit; you may recall that our major priority over the last couple of years was to bring this portfolio to profitability. We're delighted that we've been able to maintain that. Now that we have, as I mentioned probably two quarters ago, we were turning our attention to prudently growing that platform and we have each quarter. It's a little bit of additional growth.

Really what that represents is much better quality underneath. We are increasing the retention levels. We're getting a higher proportion of group and Definity accounts, which for us are better long-term, long-tenured customer base. We're doing very well with our UBI product and we're pushing a little bit more in geographic representation. We're quite pleased with it. I have said before what we wouldn't do is dramatically increase top line disproportionately because if you have too much new business initially, it does tend to drag down the loss ratio in the first year. We want to be a bit prudent around how we move forward with that.

At the same time, we're building an incredible amount of capabilities underneath the platform, both to service all of these emerging areas. But also as we think about the consumer change in terms of how they consume information, where they access information, how they want to be served, whether it's self-serve or a combination of self-serve and assisted sales. I think you've accurately described it. We would expect a modest increase as we keep going and with the goal eventually to keep growing this business.

Jaeme Gloyn — Analyst, National Bank Capital Markets

Okay. Thank you.

Operator

Thank you. Mario Mendonca with TD Securities. Please go ahead.

Mario Mendonca — Analyst, TD Securities

Good morning. Phil and Rowan, I'm not sure how much detail you want to get into this, but you're at \$125 million in pre-tax synergies. You've earned \$17 million so that still leaves a good meaningful \$108 million to go. Is there any way you could help me understand what lines that really falls into, like the extent to which you'd call it segment expenses, segment claims, and then those expenses outside of the segments? With those three in mind, is there any way you could sort of portion out that \$108 million?

Philip Mather — Chief Financial Officer, Definity Financial Corporation

Yeah. Thanks, Mario. I would say that, I mean, that's the right lens on the \$125 million and the variability to what we've got so far. Maybe if I just step back in terms of how the total emerges. You've got the \$125 million to date. By the end of this year, within our 2026 numbers, we think that's in the \$40 million to \$45 million range that's supporting 2026 underwriting income.

For 2027, that's going to increase to about half of the \$125 million. The reason it doesn't increase faster than that is because there's a big chunk of TSA support from the U.S. parents that only comes off at the end of 2027. By the time you hit 2028, you should then have pretty much the full \$125 million earning into results.

In terms of how that supports, so generally speaking, the synergy piece is a combination of both claims-related expenses. Not indemnity managed, but claims infrastructure, claims technology, and then across the broader business. About half of that, roughly speaking, will go to expenses, operating expenses. The other half maps into the loss ratio because that's attached to the claims allocations that we do. Then when you look at each line of business, in just the same way that there's a disproportionate impact on commercial, there'll be a disproportionate benefit from the go-forward synergies that occur. As you're able to roll that over, that's why we think that three-point drag comes back more in line.

If you step back from it all, what we'd anticipate once you get through the acquisition is you get a pretty similar, and through the full integration, you get a pretty similar outlook between the three lines. Commercial lines should be in that kind of lower 90s range. You put the two together. Personal lines, auto is more in that mid-90s range from a regulatory standpoint, and personal property we'd expect to do

a little bit better than that in that lower to mid range. You've got inflation at the moment, but then that should come down pretty much commensurate with how it's gone up effectively overall.

Mario Mendonca — Analyst, TD Securities

Putting it all together, it sounds like half expenses, half loss ratio, but you wouldn't apportion any of that to the top of the house like the other income and expenses. No portion really. You're not allocating anything to that?

Philip Mather — Chief Financial Officer, Definity Financial Corporation

That's right, Mario. It's very much an underwriting income story. You're not seeing it spill out into the other. Of course, when we put the two businesses together, we got a big lift in the investment portfolio, so you do see that.

Then I think the one thing to just bear in mind with the \$125 million, that's the kind of pure expense target. We do think over time there'll be some improvement opportunity within the non-expense elements of the loss ratio, things like body shops, contracts with third party lawyers, our segmentation, our underwriting capabilities. Then beyond that, longer term, there's opportunities in optimising reinsurance structures with the increased size of the base. There's opportunities perhaps on the capabilities we've added through the commercial business and the bigger use of data.

We think this is quite transformational for us in the longer term, but certainly in the nearer term, it's about getting that cost structure well aligned, and there's a lot of intense focus on making sure we do a good job of that in the next couple of years.

Mario Mendonca — Analyst, TD Securities

My second question is more specific to this quarter. One of your peers referred to large losses in their property segment, in their commercial segment. Is that a notion, something you think about internally, this large loss category? Because you didn't call it out this quarter. Is there something different about your business that would not have resulted in large losses? Because it's my understanding that it was not specific to that player, but rather an industry issue.

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

We clearly follow large losses. When we start looking at our portfolio, we look at the attritional, we look at the large, we look at the weather, we look at the PYD, we do it by segment. We didn't see anything there. It's business as usual for our portfolio.

Mario Mendonca — Analyst, TD Securities

Thank you.

Operator

Thank you. Next question. Tom MacKinnon with BMO Capital Markets. Please go ahead.

Tom MacKinnon — Analyst, BMO Capital Markets

Thanks. Tom MacKinnon here. My question is on net investment income. Kind of flat to almost modestly down quarter-over-quarter. You talked about before proactively trading into higher

yields. What's happening? I mean, yields went up modestly quarter-over-quarter. Is that still necessarily the case? How should we be thinking about net investment income going forward? Thanks.

Philip Mather — Chief Financial Officer, Definity Financial Corporation

Yeah, thanks, Tom. Yeah, we're pretty happy with how that's played out. As you'll know, we were pretty proactive in the first quarter in putting the two portfolios together. In Q1, we actually, for about a month, we were carrying a higher investment portfolio balance because we were holding the invested assets in order to pay down the excess capital loan. You had a little bit of inflation in Q1 of the level of invested assets as we carry that billion dollars plus. Actually, if you look at it comparatively, Q1 to Q2, normalizing out for the fact that you were holding that extra billion, you'd actually see a slight pickup in the overall levels of investment income. Then when you look out to the full year, it gives us good conviction on the \$320 million [guidance for full-year 2026].

Overall, we're pretty much halfway there and we'd expect to kind of hold that level of pace in the second half. I think what the team are doing is that they're proactively looking to do a couple of things, capture yield on the fixed income portfolio when the opportunity arises. Then the other thing they're doing is they're trying to capture that in a way that pushes out the natural reinvestment cycle. It's not just about driving the absolute number. It's about then trying to retain the bulk yield capture for an extended period of time. They've done a really good job of that, I think, in the first half of the year. That gives us good comfort on second year target. It gives us good comfort on the outlook going forward.

Then I think the last thing you'll see is we're being very disciplined from a risk perspective. We're not chasing yield at the purpose of undue risk. The capital position of the organization is in a great spot

and ideally, we'd like to deploy that proactively through organic growth, investment in the core business, dividend expansion, and M&A. We're very satisfied with the way that portfolio is being managed to date and we do like the trends overall.

Tom MacKinnon — Analyst, BMO Capital Markets

All right. Thanks for the detailed response.

Philip Mather — Chief Financial Officer, Definity Financial Corporation

No problem.

Operator

Thank you. We have no further questions. I will turn the call back over to Dennis Westfall for closing comments.

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

Thank you, everyone, for participating today. The webcast will be archived on our website for one year. A telephone replay will be available at 2:00 P.M. today until August 7 and a transcript will be made available on our website.

Please note that our third quarter result for 2026 will be released on November 5.

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

Operator

Ladies and gentlemen, this concludes our conference call for today. We thank you for participating and we ask that you please disconnect your lines.