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If you sell or otherwise transfer, or have sold or otherwise transferred, all your Ordinary Shares in the Company, please forward this document, but not the accompanying personalised Form of Proxy, as soon as possible to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or the transferee. If you sell or have sold or otherwise transferred only part of your holding of Ordinary Shares, you should retain these documents and consult the bank, stockbroker or other agent through whom the sale or transfer was effected. If you receive this document from another Shareholder, as a purchaser or transferee, please contact the Registrar for a personalised Form of Proxy.



Direct Line Insurance Group plc

(Incorporated in England and Wales with registered number 02280426)

Proposed sale of the Brokered Commercial Insurance Business of Direct Line Group to Royal & Sun Alliance Insurance Limited

Circular to Shareholders and Notice of General Meeting

This document should be read as a whole. Your attention is drawn to the letter from the Chair of the Board of the Company which is set out in Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document and which contains a recommendation from the Directors that you vote in favour of the Resolution to be proposed at the General Meeting. The Transaction will not take place unless the Resolution is passed at the General Meeting.

Notice of the General Meeting, to be held at 10 a.m. at Riverbank House, 2 Swan Lane, London, EC4R 3AD on 19 October 2023, is set out in Part 8 (Notice of General Meeting) of this document. Whether or not you intend to be present at the General Meeting, you are asked to complete and return the Form of Proxy in accordance with the instructions printed on it to the Company's Registrar, Computershare Investor Services PLC, as soon as possible and, in any event, so as to be received by no later than 10 a.m. on 17 October 2023 (being 48 hours before the time fixed for the holding of the meeting with no account being taken for non-working days) (or, in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting). Shareholders wishing to appoint a proxy online should visit www.investorcentre.co.uk/eproxy and follow the instructions. To use this service, you will require the control number, your unique PIN and Shareholder Reference Number.

If you hold your Ordinary Shares in CREST, and you wish to appoint a proxy or proxies through the CREST electronic proxy appointment service, you may do so by using the procedures described in the CREST Manual (available via www.euroclear.com). In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST Proxy Instruction must be properly authenticated in accordance with Euroclear UK & International Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Registrar (ID number 3RA50), not later than 10 a.m. on 17 October 2023.

The completion and return of a Form of Proxy will not prevent you from attending the General Meeting and voting in person should you so wish and be so entitled.

Morgan Stanley & Co. International plc (“**Morgan Stanley**”), which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the Prudential Regulation Authority and the Financial Conduct Authority, is acting exclusively as joint sponsor and lead financial adviser to Direct Line Insurance Group plc and no one else in connection with the Transaction and the matters described in this document and will not be responsible to anyone other than Direct Line Insurance Group plc for providing the protections afforded to clients of Morgan Stanley nor for providing advice in relation to the Transaction or any other matters, transactions or arrangements referred to in this document. Neither Morgan Stanley nor any of its affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Morgan Stanley in connection with this document, any statement contained herein or otherwise.

RBC Europe Limited (“**RBC**”), which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the Prudential Regulation Authority and the Financial Conduct Authority, is acting exclusively as joint sponsor and financial adviser to Direct Line Insurance Group plc and no one else in connection with the Transaction and the matters described in this document and will not be responsible to anyone other than Direct Line Insurance Group plc for providing the protections afforded to clients of RBC nor for providing advice in relation to the Transaction or any other matters, transactions or arrangements referred to in this document. Neither RBC nor any of its affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of RBC in connection with this document, any statement contained herein or otherwise.

Apart from the responsibilities and liabilities, if any, which may be imposed upon Morgan Stanley or RBC by FSMA or the regulatory regime established thereunder, neither Morgan Stanley nor RBC, nor any of their respective subsidiary undertakings or any of their respective partners, directors, officers, employees, advisers, agents or any other person, accept any responsibility or liability whatsoever or make any representation or warranty, express or implied, concerning the contents of this document (or whether any information has been omitted from this document), including its truth, accuracy, completeness, fairness or verification, or concerning any other statement made or purported to be made by it, or on its behalf, in connection with the Company, its subsidiaries or associated companies, the Ordinary Shares in the Company or the Transaction, whether written, oral or in a visual or electronic form, and howsoever transmitted or made available, and nothing in this document is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or future. Morgan Stanley and RBC accordingly each disclaim, to the fullest extent permitted by law, all and any duty, responsibility and liability whether direct or indirect and whether arising in tort, contract, under statute or otherwise (save as referred to herein) which it might otherwise have in respect of this document or any such statement.

This document is a circular relating to the Transaction which has been prepared in accordance with the Listing Rules and approved by the FCA. For a discussion of the risks relating to the Transaction, please see the discussion of risks and uncertainties set out in Part 2 (Risk Factors) of this document.

Capitalised terms have the meaning ascribed to them in Part 7 (Definitions) of this document.

A summary of action to be taken by Shareholders is set out on page 13 of this document and in the Notice of General Meeting set out in Part 8 (Notice of General Meeting) of this document.

This document is dated 3 October 2023.

IMPORTANT NOTICES

Information regarding forward looking statements

This document contains statements which are, or may be deemed to be, “forward-looking statements” which are prospective in nature. All statements other than statements of historical fact are forward-looking statements. They are based on current expectations and projections about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of forward-looking words such as “plans”, “expects”, “is expected”, “is subject to”, “budget”, “scheduled”, “estimates”, “forecasts”, “goals”, “intends”, “anticipates”, “believes”, “targets”, “aims” or “projects”. Words or terms of similar substance or the negative thereof, are forward-looking statements, as well as variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “should”, “would”, “might” or “will” be taken, occur or be achieved. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations.

Forward-looking statements include statements relating to: (a) future capital expenditures, expenses, revenues, earnings, economic performance, indebtedness, financial condition, net insurance margin, dividend policy, losses and future prospects; (b) business and management strategies and the expansion and growth of the Company’s operations; and (c) the effects of global and/or local economic conditions on the Company’s business.

Such forward-looking statements involve known and unknown risks and uncertainties that could significantly affect expected results and are based on certain key assumptions. Many factors may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Important factors that could cause actual results, performance or achievements of the Company to differ materially from the expectations of the Company, include, among other things, general business and economic conditions globally, industry trends, competition, changes in government and changes in regulation and policy and changes in interpretation of regulations, law or policy, including in relation to the environment, health and safety and taxation, labour relations and work stoppages, interest rates and currency fluctuations and inflation, changes in its business strategy, political and economic uncertainty and other factors discussed in Part 2 (Risk Factors) of this document. Such forward-looking statements should therefore be construed in light of such factors.

Neither the Company nor any of its Directors, officers or advisers provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this document will actually occur. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as at the date of this document.

No person has been authorised to give any information or to make any representations other than those contained in this document and, if given or made, such information or representations must not be relied on as having been authorised by the Company, the directors or Morgan Stanley or RBC.

The contents of this document are not to be construed as legal, business, financial or tax advice. Each Shareholder should consult its own legal adviser, business adviser, financial adviser or tax adviser for legal, business financial or tax advice respectively.

Other than in accordance with its legal or regulatory obligations (including under the Listing Rules, the Disclosure Guidance and Transparency Rules and the Market Abuse Regulation), the Company is not under any obligation and the Company expressly disclaims any intention or obligation (to the maximum extent permitted by law) to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this document.

The above explanatory wording regarding forward-looking statements does not in any way seek to qualify the statement regarding working capital that can be found at paragraph 11 of Part 6 (Additional Information) of this document.

No profit forecast

No statement contained or referred to in this document is intended as a profit forecast or a profit estimate and no statement in this document should be interpreted to mean that earnings per Ordinary Share for the current or future financial years will necessarily match or exceed the historical published earnings per Ordinary Share.

Financial information

References to “£”, “GBP”, “pounds”, “pounds sterling”, “sterling”, “p”, “penny” and “pence” are to the lawful currency of the United Kingdom. References to “CAD” or “CAD\$” are to the lawful currency of Canada. Historic exchange rates have been used to convert CAD\$ to £ where relevant.

Figures provided in this document in respect of exchange rates have been provided to zero decimal places.

Incorporation by reference

Certain information in relation to the Company is incorporated by reference into this document. Further information is set out in paragraph 14 of Part 6 (Additional Information) of this document. Without limitation, unless expressly stated herein, the contents of the websites of the Company, and any links accessible through the website(s) of the Company, are not incorporated into and do not form part of this document.

No offer or solicitation

This document is not a prospectus and is not intended to, and does not constitute or form part of, any offer or invitation to purchase, acquire, subscribe for, sell, dispose of or issue, or any solicitation of any offer to sell, dispose of, purchase, acquire or subscribe for, any security.

Shareholder helpline

If you have **any questions about this document**, the General Meeting or on the completion and return of the Form of Proxy, **please call** the Computershare Investor Services PLC shareholder helpline between 8.30 a.m. and 5:30 p.m. (London (UK) time) Monday to Friday (except UK public holidays) on +44 (0)370 873 5880 (calls to this number from the United Kingdom are charged at the standard national rate plus network extras). Calls outside the United Kingdom are charged at the applicable international rate. The helpline also contains automated self-service functionality which is available 24 hours a day, 7 days a week.

Please note that calls may be monitored or recorded and the helpline cannot provide financial, legal or tax advice or advice on the merits of the Transaction.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

<u>Event</u>	<u>Time and/or Date</u>
Announcement of the Transaction and entry into the Business Transfer Agreement and Quota Share Reinsurance Agreement	6 September 2023
Publication and posting of this document, the Notice of General Meeting and the Form of Proxy	3 October 2023
Latest time and date for receipt of Form of Proxy and CREST Proxy Instructions in respect of the General Meeting	10 a.m. on 17 October 2023
General Meeting	10 a.m. on 19 October 2023 (“T”)
Risk Transfer Date (subject to shareholder approval)	1 October 2023
Initial Consideration Payment Date (subject to shareholder approval)	T + 5 Business Days
Targeted Operational Transfer Date (subject to shareholder approval)	Q2 2024
Targeted Part VII Transfer Date (subject to shareholder, regulatory and court approval)	12 to 18 months after Operational Transfer Date
Part VII Transfer Long Stop Date	1 January 2026
Part VII Transfer Extended Long Stop Date	30 June 2026

Notes:

- (1) All references in this document to time are to London (UK) time unless otherwise stated.
- (2) The timetable may be subject to change. If any of the above times and/or dates should change, the new times and/or dates will be announced to Shareholders through a Regulatory Information Service.

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Danuta Gray (Chair of the Board) Jonathan Greenwood (Acting Chief Executive Officer) Neil Manser (Chief Financial Officer) Dr Richard Ward (Senior Independent Director) Tracy Corrigan (Independent Non-Executive Director) Mark Gregory (Independent Non-Executive Director) Sebastian James (Independent Non-Executive Director) Adrian Joseph OBE (Independent Non-Executive Director) Mark Lewis (Independent Non-Executive Director) Fiona McBain (Independent Non-Executive Director) Gregor Stewart (Independent Non-Executive Director)
Company Secretary	Roger Clifton
Head Office	Churchill Court Westmoreland Road Bromley, Kent BR1 1DP United Kingdom
Lead Financial Adviser and Joint Sponsor	Morgan Stanley & Co. International plc 25 Cabot Square Canary Wharf London E14 4QA United Kingdom
Financial Adviser and Joint Sponsor	RBC Europe Limited 100 Bishopsgate London EC2N 4AA United Kingdom
Legal Advisers to the Company	Allen & Overy LLP One Bishops Square London E1 6AD United Kingdom
Legal Advisers to the Joint Sponsors	White & Case LLP 5 Old Broad Street London EC2N 1DW United Kingdom
Reporting Accountant	Deloitte LLP 1 New Street Square London EC4A 3HQ United Kingdom
Registrar	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZY United Kingdom

PART 1
LETTER FROM THE CHAIR OF THE BOARD OF DIRECT LINE INSURANCE GROUP PLC



Direct Line Insurance Group plc

Directors:

Danuta Gray (Chair of the Board)
Jonathan Greenwood (Acting Chief Executive Officer)
Neil Manser (Chief Financial Officer)
Dr Richard Ward (Senior Independent Director)
Tracy Corrigan (Independent Non-Executive Director)
Mark Gregory (Independent Non-Executive Director)
Sebastian James (Independent Non-Executive Director)
Adrian Joseph OBE (Independent Non-Executive Director)
Mark Lewis (Independent Non-Executive Director)
Fiona McBain (Independent Non-Executive Director)
Gregor Stewart (Independent Non-Executive Director)

Head office:

Churchill Court
Westmoreland Road
Bromley, Kent
BR1 1DP
United Kingdom

3 October 2023

Dear Shareholder,

**Proposed Transaction in respect of the Brokered Commercial Insurance Business of
Direct Line Group
and
Notice of General Meeting**

1. Introduction

On 6 September 2023, Direct Line Insurance Group plc (the “**Company**”) announced that it had signed an agreement to sell Direct Line Group’s brokered commercial lines insurance business (the “**Brokered Commercial Insurance Business**”) to Royal & Sun Alliance Insurance Limited (“**RSA**” or the “**Purchaser**”), a wholly-owned subsidiary of Intact Financial Corporation (“**Intact**”) for an initial consideration of £520.0 million (the “**Initial Consideration**”), with potential further consideration of up to £30.0 million (the “**Additional Consideration**”), contingent upon certain earn-out provisions (the “**Earn-Out**”) relating to the financial performance of the business ceded to RSA under the Quota Share Reinsurance Agreement (as defined below) (the “**Transaction**”). In addition to receiving the Initial Consideration and the potential Additional Consideration, the Company estimates that over time it will release capital within the Continuing Group of in the region of c.£270 million of which an estimated c.£170 million will be released if the Transaction is approved by the Shareholders.

The Transaction will be effected through the combination of: (i) a business transfer agreement (the “**Business Transfer Agreement**”) relating to the transfer of the new business franchise as a going concern, including certain operations, brands, intellectual property rights, employees, contractors and data (the “**Operational Transfer**”); (ii) a quota share reinsurance agreement (the “**Quota Share Reinsurance Agreement**”) relating to the reinsurance of new and certain existing business of the Brokered Commercial Insurance Business (the “**Reinsurance**”) conditional on the approval of the Resolution, but effective from 1 October 2023 (the “**Risk Transfer Date**”); (iii) if approved by the Court, a subsequent insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000 (the “**Part VII Transfer**”), including other necessary ancillary insurance business transfers in Jersey and/or Guernsey; and (iv) certain administration and transitional services arrangements. The principal terms of the Transaction are described in more detail in Part 3 (Principal Terms and Conditions of the Transaction) of this document.

The Company will retain the back book in relation to business written and earned by the Brokered Commercial Insurance Business prior to the Risk Transfer Date (together, the “**Back Book Policies**”).

The Transaction facilitates the transfer of all of Direct Line Group's brokered commercial lines insurance business and associated partnerships to RSA through a combination of the Reinsurance and a renewal rights transfer. As a result, effective from the Risk Transfer Date, the economics in relation to the Brokered Commercial Insurance Business will move to RSA. The Back Book Policies will remain with the Company; however, Direct Line Group and RSA intend to enter into good faith discussions regarding the potential transfer of the Back Book Policies to RSA. As at the date of this document, no binding transaction has been entered into between the Company and RSA in relation to the Back Book Policies.

The Operational Transfer Date is targeted to take place in Q2 2024 and will include the transfer of approximately 800 employees to RSA to enable the ongoing support and service delivery for customers in relation to the Brokered Commercial Insurance Business. The Earn-Out is contingent on the performance of the business ceded to RSA under the Quota Share Reinsurance Agreement from the Risk Transfer Date up to the Part VII Transfer Date and is payable after at least six months from the Part VII Transfer Date, in accordance with the process set out in the Business Transfer Agreement. No Additional Consideration shall be payable unless the Part VII Transfer becomes effective.

Direct Line Group will remain active in the direct small business commercial lines insurance space capitalising on its strong position, through its brands "Direct Line for Business" and "Churchill".

The Initial Consideration, after associated costs and tax, together with the regulatory capital release, within the Continuing Group will provide a significant uplift to the Continuing Group's pro-forma solvency capital ratio, and on the Initial Consideration Payment Date this uplift is expected to be approximately 45 percentage points. Further details regarding the financial impacts of the Transaction are set out below.

The Board believes that the Transaction achieves an attractive valuation for the Brokered Commercial Insurance Business, allowing the Company to focus on the business of the Continuing Group, restore the resilience of its capital position and drive long-term value potential for its customers and Shareholders.

Due to the size of the Transaction in relation to the size of the Company, the Transaction constitutes a Class 1 transaction under the Listing Rules and, accordingly, requires the approval of the Shareholders. A notice convening the General Meeting, at which the Resolution will be proposed, is set out in Part 8 (Notice of General Meeting) of this document.

Following approval of the Resolution by the Shareholders:

- the Initial Consideration will be payable by RSA on the date falling five Business Days after the Shareholders approve the Transaction (the "**Initial Consideration Payment Date**");
- the Reinsurance will have retroactive effect from the Risk Transfer Date;
- the economic benefit and liabilities resulting from or arising out of or in connection with the Sale Assets on or after Risk Transfer Date shall be synthetically transferred to RSA with effect from the Risk Transfer Date (except to the extent arising from or increased by breach of applicable law, fraud or wrongful act or omission (including recklessness or wilful misconduct) on Direct Line Group's part);
- legal transfer of the operational assets and liabilities supporting the Brokered Commercial Insurance Business will take place on the Operational Transfer Date, which is targeted to take place in Q2 2024; and
- the Part VII Transfer and other necessary ancillary insurance business transfers in Jersey and/or Guernsey are targeted to take effect 12 to 18 months after the Operational Transfer Date, subject to court and regulatory approval.

The General Meeting is to be held at Riverbank House, 2 Swan Lane, London, EC4R 3AD at 10 a.m. on 19 October 2023 for the purpose of seeking your approval to the Transaction.

This document describes the background to and reasons for the Transaction, and explains why the Board considers the Transaction to be in the best interests of the Shareholders as a whole. Accordingly, the Board unanimously recommends that Shareholders vote in favour of the Resolution, as the Directors intend to do in respect of the Ordinary Shares to which they are beneficially entitled (representing approximately 0.030% of the total issued share capital of the Company as at the Latest Practicable Date).

Shareholders should read the whole of this document and not rely on the summary of the Transaction in this letter. Capitalised terms have the meaning ascribed to them in Part 7 (Definitions) of this document.

2. Background to and reasons for the Transaction

Direct Line Group is a UK-based insurance group and owns some of the most recognisable insurance brands, including “Direct Line” and “Churchill”. Through these brands, Direct Line Group offers a range of insurance products that help protect motor vehicles, homes, holidays, pets and businesses, with a number of routes to market. Direct Line Group owns 23 Motor Accident Repair Centres, delivering lower repair costs and providing data-led insights.

The largest brand within the Brokered Commercial Insurance Business, “NIG”, has been part of Direct Line Group since it was acquired in 2003 as part of the acquisition of Churchill. Its success is driven by its strong and extensive partnerships with brokers, delivering tailored insurance propositions for UK small and medium-sized enterprise (“SME”) customers. This specialist trading model operates in the intermediated space and is therefore different to the rest of Direct Line Group.

Since its IPO in 2012, the Company had a focus on improving the operational and financial performance of the Brokered Commercial Insurance Business; most recently that has involved moving onto a new technology platform with new pricing and underwriting tools. Recent performance demonstrates the success of this strategy with the Brokered Commercial Insurance Business generating a profit before tax of £42.7 million in 2022.

With the operational turnaround of the Brokered Commercial Insurance Business completed and given the differences in the trading model versus Direct Line Group’s other businesses, the Board believes that now is an appropriate time to facilitate a sale of the Brokered Commercial Insurance Business and crystallise the value that has been created.

3. Principal terms and condition of the Transaction

On 6 September 2023, the Company announced that it had agreed terms for the sale by Direct Line Group of the Brokered Commercial Insurance Business to RSA.

The Transaction involves the sale by the Company, U K Insurance Limited, DL Insurance Services Limited and UKIBS (together, the “**Selling Entities**”) to RSA of the Brokered Commercial Insurance Business including: (i) products written by Direct Line Group under the “NIG” and “FarmWeb” brands and certain broker brands (in each case, whether using a single brand or on a co-branded basis); (ii) certain of Direct Line Group’s brands, intellectual property rights, properties, contracts, employees, contractors and data; and (iii) business arranged by UKIBS branded “Churchill Expert” (including fleet insurance traded directly by UKIBS and insurance offered through its portfolio of partnerships with third parties), and will be effected through the Business Transfer Agreement, the Quota Share Reinsurance Agreement and certain transitional services arrangements. The consideration payable by RSA for the purchase of the Brokered Commercial Insurance Business is the Initial Consideration, to be paid on the Initial Consideration Payment Date, and the Additional Consideration up to a maximum amount of £30.0 million. The payment of the Additional Consideration by RSA is contingent on the performance of the business ceded to RSA under the Quota Share Reinsurance Agreement from the Risk Transfer Date and up to the Part VII Transfer Date. No Additional Consideration shall be payable unless the Part VII Transfer becomes effective.

Under the terms of the Business Transfer Agreement, RSA is entitled to a right to match a competing offer for the Brokered Commercial Insurance Business in certain circumstances where: (i) the Company receives a bid for the Brokered Commercial Insurance Business that is more favourable from a financial perspective for the Company than the Transaction (a “**Superior Proposal**”) by reference to certain time periods set out in the Business Transfer Agreement; or (ii) within 12 months following the termination of the Business Transfer Agreement as a result of a public takeover for the Company which is unsuccessful, the Directors receive an offer to sell or otherwise propose to sell the Brokered Commercial Insurance Business. The right to match provisions are set out in further detail in Part 3 (Principal Terms and Conditions of the Transaction) of this document.

Under the Business Transfer Agreement, there are certain circumstances in which the Company would be required to pay a break fee to RSA pursuant to terms of the Business Transfer Agreement (the “**Break Fee**”). These are: (i) if the Board withdraws its recommendation of the Transaction to Shareholders in the event of a public takeover offer for the Company; (ii) if the Company fails, in certain circumstances, to post the Circular on or before 11 October 2023 (being the date falling 25 Business Days after the Signing Date subject to an extension to that date (by a maximum of 5 Business Days) if the chief executive officers of the Company and RSA agree such extension) or fails to convene the General Meeting and hold a vote on the Resolution on no more than 14 clear days’ notice from the Circular being posted; and (iii) in certain circumstances if the Board intends to change its recommendation in respect of the Transaction in light of a Superior Proposal including

where RSA has been given its right to match, but does not match, such Superior Proposal. If incurred, the Break Fee is intended to provide cost cover for RSA of up to £19,991,868.82 (being up to one per cent of the Company's market capitalisation as at close of business on 5 September 2023 (the Business Day before the Signing Date)).

The terms and conditions of the Reinsurance are set out in the Quota Share Reinsurance Agreement between U K Insurance Limited and RSA. It is expected that the Quota Share Portfolio will legally transfer from U K Insurance Limited to RSA by way of an insurance business transfer scheme on the Part VII Transfer Date. Pending implementation of the Part VII Transfer, the Company and RSA have agreed that RSA will reinsure and indemnify U K Insurance Limited in relation to 100% of the Quota Share Portfolio with effect from the Risk Transfer Date pursuant to the Quota Share Reinsurance Agreement.

As set out in further detail in this document, in connection with the Quota Share Reinsurance Agreement and pursuant to the Security Deed, U K Insurance Limited will grant security in favour of RSA over its rights in respect of, among other things, the premium amount relating to the Quota Share Reinsurance Agreement and credited to a segregated cash account, which shall be controlled by the Custodian (as defined below), by executing a security deed with RSA (the "**Security Deed**"). Under the terms of the Security Deed, in the event of certain defaults by U K Insurance Limited that is continuing or if the Account Control Agreement (as defined below) ceases to be in full force and effect, RSA may enforce the security granted under the Security Deed in respect of the secured accounts.

Further details of the Business Transfer Agreement, the Quota Share Reinsurance Agreement and the other Transaction Documents are set out in Part 3 (Principal Terms and Conditions of the Transaction) of this Circular.

4. Information on the Brokered Commercial Insurance Business

The Brokered Commercial Insurance Business has over 12 different product lines written under the recognised brands of "NIG", "FarmWeb", and "Churchill Expert" within the UKIBS partnership. It has broad reach across the broker market with relationships with large national brokers through to smaller regional independent brokers.

The "NIG" brand consists of a commercial insurance provider, trading exclusively through brokers, offering a comprehensive suite of insurance products to UK SME customers. The products include Motor Trade, Property Owners, Motor Fleet and Commercial Van.

The "FarmWeb" brand is a specialist agriculture insurer dedicated to meeting the specific insurance needs of UK farmers, with distribution through a selected network of specialist agriculture insurance brokers. Designed for single or multi-site farm businesses, it provides a wide range of motor, property and liability cover.

The UKIBS partnership provides affiliate and embedded insurance with white labelling capability, throughout a range of SME, landlord and fleet partners.

Sonya Bryson (Acting Managing Director of Commercial) and Lee Marsh (Financial and Commercial Director) are deemed to be key individuals to the Brokered Commercial Insurance Business and are expected to join RSA on the Operational Transfer Date.

5. Information on the Purchaser

RSA is a multinational general insurer. In the United Kingdom, Ireland, and Europe, RSA provides a range of personal, commercial and specialty insurance solutions through a wide network of brokers, third party partners and directly to customers through the RSA brands.

Intact Financial Corporation is the largest provider of property and casualty insurance in Canada and a leading provider of global specialty insurance, and is the parent company of RSA in the United Kingdom and Ireland. In Canada, Intact distributes insurance under the Intact Insurance brand through a wide network of brokers, including its wholly-owned subsidiary BrokerLink, and directly to consumers through belairdirect. Intact also provides affinity insurance solutions through the Johnson Affinity Groups. In the United States, Intact Insurance Specialty Solutions provides a range of specialty insurance products and services through independent agencies, regional and national brokers, and wholesalers and managing general agencies.

Intact is a proven industry consolidator with a track record of successful property and casualty insurance acquisitions since 1988, including the RSA acquisition, which closed in June 2021. The business continues to grow organically and through acquisitions, with over CAD 21 billion of total annual premiums.

Intact is headquartered in Toronto, employing approximately 29,000 employees globally and is listed on the Toronto Stock Exchange in Canada with a market capitalisation of CAD 35 billion as at the Latest Practicable Date.

6. Financial impact and use of proceeds

In 2022, the Brokered Commercial Insurance Business generated gross written premiums of £530.4 million¹, and a profit before tax of £42.7 million. Over 2021 and 2022, the average combined operating ratio was c.96%. As at 30 June 2023, the total assets of the Brokered Commercial Insurance Business, transferring as part of the Business Transfer Agreement, were £8.2 million. Following the Risk Transfer Date (subject to Shareholder approval), Direct Line Group will no longer receive the full contribution the Brokered Commercial Insurance Business currently makes to Direct Line Group’s operating profit, although will continue to receive earnings from the Back Book Policies and investment yield on the capital within the business.

The proceeds from the Transaction will be used to enhance the capital strength of Direct Line Group and for general corporate purposes. The sale will reduce the capital requirements of Direct Line Group. On the Initial Consideration Payment Date, the Transaction will, through a combination of the realised gain on sale together with the initial capital release within the Continuing Group, increase Direct Line Group’s pro-forma solvency capital ratio by approximately 45 percentage points. There is no change to the Company’s risk appetite range or capital allocation approach.

7. Financial effects of the Transaction on the Continuing Group

In the six months to 30 June 2023, the Brokered Commercial Insurance Business reported net insurance revenue of £261.9 million, insurance service result of £18.3 million, representing a net insurance margin of 7.0%, and profit before tax of £30.5 million. As at 30 June 2023, the total assets of the Brokered Commercial Insurance Business were £8.2 million. Following the Risk Transfer Date, Direct Line Group will no longer receive the full contribution that the Brokered Commercial Insurance Business currently makes to Direct Line Group’s operating profit.

The sale will reduce the capital requirements of the Continuing Group. The realised gain on sale, together with the initial capital release within the Continuing Group, is expected to increase the Continuing Group’s Solvency II Capital Ratio as at 30 June 2023 by approximately 45 percentage points. A further capital release estimated to be in the region of c.£100 million within the Continuing Group may be recognised over time as the existing claims reserves relating to the Back Book Policies run-off.

An unaudited pro forma statement of the net assets of the Continuing Group is set out, for illustrative purposes only, in Part 5 (Unaudited Pro Forma Statement of Net Assets of the Continuing Group) of this document. As shown in that statement, the illustrative unaudited consolidated net assets of the Continuing Group as at 30 June 2023, on a pro forma basis would have been £2,484.4 million.

The (Loss)/Profit for Direct Line Group and the Brokered Commercial Insurance Business for the financial year ended 31 December 2022 on an IFRS4 basis and for the six months ended 30 June 2023 on an IFRS17 basis is presented below:

<u>For the financial year ended 31 December 2022</u>	<u>Direct Line Group</u>	<u>Brokered Commercial Insurance Business</u>
	£m	£m
(Loss)/Profit for the Year	<u>(39.5)</u>	<u>42.7</u>
<u>For the six months ended 30 June 2023</u>	<u>Direct Line Group</u>	<u>Brokered Commercial Insurance Business</u>
	£m	£m
(Loss)/Profit for the Period	<u>(51.9)</u>	<u>30.5</u>

The financial information related to the Brokered Commercial Insurance Business in this paragraph 7 has been extracted without material adjustment from the financial information contained in Part 4 (Financial Information relating to the Brokered Commercial Insurance Business) of this document.

¹ Gross written premium represents the total premiums from insurance contracts that were incepted during the period.

8. Current trading, trends and future prospects of Direct Line Group

Direct Line Group published its half year report for the period ending 30 June 2023 on 7 September 2023. Direct Line Group's operating loss for ongoing operations in the first half of 2023 was £78.3 million, a reduction of £275.3 million from the first half of 2022 profit. Performance in the first half of 2023 was adversely affected by the earn through of Motor policies written in 2022 and early 2023 as well as continued high claims inflation. Outside of Motor, results were robust and benefited from relatively benign weather conditions. Net investment income improved due to the effect of higher interest rates and this was offset by an increase in the unwinding of previous periods' discounting.

Motor

The motor market experienced significant price inflation during the first half of 2023 in response to market wide claims inflation which led to an increase in customer shopping and a reduction in market retention rates. Direct Line Group applied 37.3% of rate increases over the first half of 2023. As a result, average premium increased by 19.2% with a 24.9% increase in renewal average premium. In June, average premium on renewals was up 36.6%. Direct Line Group's actions to improve profitability led to an increase in gross written premium and associated fees of 7.3% compared with the first half of 2022 despite in-force policies reducing by 4.2% over the period.

Claims trends were adverse during the period, in particular relating to damage claims in the first quarter, which suffered from higher-than-normal levels of total losses arising from industry repair backlogs as well as increased labour rates. Overall, this has increased the Company's view of claims severity inflation in 2022 to 17%, and has contributed to a strengthening in prior-year reserves. Direct Line Group has seen an underlying increase in claims frequency as miles driven return closer to pre-pandemic levels; however, due to reductions in risk mix, absolute frequency remains below 2019 levels. Direct Line Group continues to expect claims severity inflation in the high single digits, for 2023.

The combination of these factors led to a 30.5 percentage point increase in the claims ratio to 98.2% and a similar reduction in the net insurance margin to minus 25.6%. This resulted in an operating loss of £180.4 million in the first half of 2023. The reported net insurance margin and operating profit does not reflect the level of profitability being achieved on business now being written and this should provide a platform from which to support earnings in future periods. Direct Line Group has welcomed almost 700,000 Motability customers at the start of September after nearly two years of preparation. The partnership is forecast to deliver around £700 million of gross premium annually generating significant scale benefits whilst being capital light as 80% is reinsured. The contract allows for six-monthly repricing to mitigate the risk of claims inflation. In addition, Direct Line Group is planning to extend its Essentials product to Direct Line customers and will look to leverage the capability arising from the acquisition of ByMiles.

Commercial

During the first half of 2023, Commercial continued to deliver strong in-force policy count growth and double-digit premium growth. This reflected the benefits of its transformation alongside a positive commercial market backdrop.

Commercial operates in a number of market segments which have been experiencing varying degrees of market premium inflation. In particular, premium rate increases have been seen in van and larger property risks, for example, in the Social Housing sector. Overall rate increases across the portfolio are estimated at 14.0% in the first half of the year. Furthermore, the market-wide premium increases have increased the amount of new business opportunities in the broker market. Gross written premium increased by 25.1% compared to H1 2022, with strong growth across both NIG and other (30.2%) and direct own brands (12.4%). This was driven by increased premium rates, as well as a 2.7% increase in in-force policies since the year end.

Claims inflation varied across the book with the highest inflation experienced on motor related lines, especially van. Commercial also experienced benign weather in H1 2023 with major events estimated to be £2.0 million compared with £15.1 million in H1 2022. The annual expectation for weather in Commercial is £26.2 million for 2023.

The claims ratio was broadly stable at 49.1% as lower weather-related claims were offset by lower levels of prior-year reserve releases. The latter was partly due to adverse development on Commercial Motor. The acquisition and expense ratios continued to improve due to the effect of operational gearing. Overall the net insurance margin was 9.3% and operating profit was £41.4 million. Normalised for weather, the net insurance margin was 6.2%. Looking forward, the Commercial market is currently expected to remain positive.

Home

Home continued to trade well in the first half of 2023, with growth in premium written and a low level of weather-related claims. The home market experienced positive pricing in the first half of 2023 with an estimated increase in market premium of 18.3%. This follows a number of years of limited increases in the market and in part reflects an increase in reinsurance costs. These trends have increased shopping in the market albeit this still remains lower than before the implementation of the FCA's Pricing Practices regulations. Direct Line Group increased prices during the first half of 2023 to reflect its view of claims inflation and increased reinsurance costs which resulted in average premium on own brands increasing by 9.0%. Overall, gross written premium and associated fees increased by 0.9% compared to the first half of 2022, or 4.0% when adjusted to remove the impact of remediation, whilst in-force policies reduced by 1.5% since year-end.

Underwriting underlying claims trends for 2023 remained in line with Direct Line Group's expectations of high single digits, although Direct Line Group did experience an increase in escape of water severity for claims received late in 2022 around the time of the December freeze event. This reduced the opportunity for prior year reserve releases compared to an unusually high level in the first half of 2022. Weather related claims of £9.7 million (H1 2022: £21.1 million) were low in the first half of 2023 relating solely to a mini freeze event in January. The full year 2023 weather related claims assumption for Home is £53.9 million. These factors combined led to a 3.6 percentage point increase in the claims ratio to 58.1% as better weather was more than offset by lower prior year reserve releases and an increase in the attritional claims ratio. The net insurance margin was 13.0% with operating profit of £33.0 million. Normalised for weather the net insurance margin was 6.0%. Looking forward, Home is expected to continue to trade in a similar way, prioritising maintaining margins over volume and using its brand portfolio to achieve this. Direct Line Group is targeting launching its new Home platform, which is expected to bring longer-term trading and product development opportunities.

9. Risk factors

For a discussion of the risks and uncertainties which you should take into account when considering whether to vote in favour of the Resolution, please refer to Part 2 (Risk Factors) of this document.

10. General Meeting

You will find set out at the end of this document a Notice of General Meeting convening a General Meeting to be held at Riverbank House, 2 Swan Lane, London, EC4R 3AD at 10 a.m. on 19 October 2023.

At the General Meeting, the Resolution will be proposed which, if passed, will approve the Transaction substantially on the terms and subject to the condition summarised in Part 3 (Principal Terms and Conditions of the Transaction) of this document and will authorise the Directors to give effect to the Transaction.

The full text of the Resolution is included in the Notice of General Meeting, which is set out in Part 8 (Notice of General Meeting) of this document.

11. Action to be taken

You will find enclosed with this document, or you have been sent separately, a Form of Proxy for use in respect of the Resolution to be proposed at the General Meeting.

Whether or not you intend to be present at the General Meeting, you are requested to complete the Form of Proxy in accordance with the instructions printed on it, and return it as soon as possible, but in any event so as to be received by Computershare Investor Services PLC, by hand or by post, at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, not later than 10 a.m. on 17 October 2023 (being 48 hours before the time fixed for the holding of the meeting with no account being taken for non-working days).

Shareholders wishing to submit their proxies electronically should do so at the Computershare Investor Services PLC website (www.investorcentre.co.uk/eproxy) and follow the instructions. To use this service, you will need your unique PIN and Shareholder Reference Number, together with the Control number, printed on the Form of Proxy or contained in the email broadcast sent to you.

To be valid, the Form of Proxy should be completed, signed and returned in accordance with the instructions printed thereon and the notice of General Meeting by the aforementioned deadline.

If you hold your Ordinary Shares in CREST, and you wish to appoint a proxy or proxies through the CREST electronic proxy appointment service, you may do so by using the procedures described in the CREST Manual (available via www.euroclear.com). In order for a proxy appointment or instruction made using the CREST

service to be valid, the appropriate CREST Proxy Instruction must be properly authenticated in accordance with Euroclear's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Registrar (ID number 3RA50), not later than 10 a.m. on 17 October 2023.

The return of a completed Form of Proxy or the giving of a CREST Proxy Instruction will not prevent you from attending the General Meeting and voting in person if you so wish and are so entitled.

The Resolution will be decided on a poll and the result of the vote will be announced to the London Stock Exchange and will appear on the Company's website, <https://www.directlinegroup.co.uk>.

12. Additional information

Your attention is drawn to the additional information set out in Part 6 (Additional Information) of this document. You are advised to read the whole of this document and not just rely on the key summarised information in this letter.

13. Financial advice

Morgan Stanley are acting as lead financial adviser and joint sponsor to the Company in relation to the Transaction. RBC are acting as financial adviser and joint sponsor to the Company. In providing their financial advice to the Board, Morgan Stanley and RBC have relied upon the Board's commercial assessment of the Transaction.

14. Recommendation to Shareholders

The Board considers that the Transaction and the passing of the Resolution are in the best interests of the Shareholders as a whole. Accordingly, the Board unanimously recommends that Shareholders vote in favour of the Resolution to be proposed at the General Meeting.

The Directors intend to vote in favour of the Resolution at the General Meeting in respect of the Ordinary Shares to which they are beneficially entitled (representing approximately 0.030% of the total issued share capital of the Company as at the Latest Practicable Date).

Yours faithfully,

For and on behalf of Direct Line Insurance Group plc

Danuta Gray
Chair of the Board

PART 2 RISK FACTORS

This section describes the risk factors which are considered by the Directors to be material in relation to the Transaction, the new material risks to the Continuing Group as a result of the Transaction and the existing material risks which may be affected by the Transaction, as well as the material risks to Direct Line Group if the Transaction were not to proceed. However, these should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties not presently known to the Directors, or that the Board considers immaterial, or that the Board considers material to the Continuing Group but will not be affected by the Transaction, may also adversely affect the Continuing Group's business, results of operations or financial condition. If any or a combination of the following risks materialise, the Continuing Group's business, financial condition, operational performance, future performance and share price could be materially adversely affected. In such circumstances, the market price of the Company's Ordinary Shares could decline and you may lose all or part of your investment. The information given is as of the date of this document and, except as required by the FCA, the London Stock Exchange, the Listing Rules, the Prospectus Regulation Rules, the Disclosure Guidance and Transparency Rules and the Market Abuse Regulation or any other applicable law or regulation, will not be updated.

You should consider carefully the risks and uncertainties described below, together with all other information contained in this document and the information incorporated by reference herein, before deciding whether to vote in favour of the Resolution.

1. Risks relating to the Transaction

Each of the Business Transfer Agreement and the Quota Share Reinsurance Agreement is subject to approval by the Shareholders of the Company

Each of the Business Transfer Agreement and the Quota Share Reinsurance Agreement is conditional on the approval by the Shareholders of the Resolution at the General Meeting as set out in the notice convening the General Meeting at Part 8 (Notice of General Meeting) of this document, the outcome of which cannot be predicted with certainty. If the Resolution is not approved and therefore the Transaction does not proceed, there may be an adverse impact on the reputation of Direct Line Group due to amplified media scrutiny arising in connection with the attempted Transaction. This could, in turn, have a material adverse effect on Direct Line Group's business, results of operations, financial condition and prospects. Please refer to section 2 of this Part 2 (Risk Factors) for further risks and uncertainties arising as a result of the Transaction not proceeding.

The Transaction Documents contain provisions which may expose the Continuing Group to liability or otherwise have a material financial impact on the Continuing Group

The Business Transfer Agreement and the Quota Share Reinsurance Agreement contain warranties and indemnities given by Direct Line Group (in respect of the Business Transfer Agreement) and U K Insurance Limited (in respect of the Quota Share Reinsurance Agreement) in favour of the Purchaser, details of which are set out in Part 3 (Principal Terms and Conditions of the Transaction) of this document. If the Continuing Group incurs any liability to make a payment following a breach of indemnity and/or a successful claim by the Purchaser for breach of the warranties under the Business Transfer Agreement or the Quota Share Reinsurance Agreement, such liabilities would reduce the net sale proceeds received by the Continuing Group, which could have a material adverse effect on the Continuing Group's business, results of operations or financial condition. The Business Transfer Agreement and the Quota Share Reinsurance Agreement also contain termination rights which can be exercised in certain circumstances and provide that, in certain circumstances (as set out in further detail below), the Company will be required to pay the Break Fee to RSA upon such termination.

In connection with the Quota Share Reinsurance Agreement and pursuant to the Security Deed, U K Insurance Limited will grant security in favour of RSA over its rights in respect of, among other things, the premium amount relating to the Quota Share Reinsurance Agreement and credited to the segregated cash account, which shall be controlled by the Custodian. In the event of certain defaults by U K Insurance Limited that is continuing or if the Account Control Agreement ceases to be in full force and effect, RSA may enforce the security granted under the Security Deed in respect of the secured accounts.

Pursuant to the Business Transfer Agreement, Direct Line Group has agreed to hold the Sale Assets on trust pending the Operational Transfer Date. In the event of insolvency of certain members of Direct Line Group or other material defaults, the trust will facilitate the transfer of legal title to the Sale Assets to RSA ahead of the Operational Transfer Date.

The Part VII Transfer may not be sanctioned by the Court

The Part VII Transfer requires the sanction of the Court, over which it retains full discretion. As part of the process of achieving that sanction, the FCA and the PRA are required to confirm that they have no objection to the Part VII Transfer, and other third parties are entitled to object to the Part VII Transfer. Objections from the FCA and the PRA may relate to concerns around the prudential regulation of, and the regulatory capital, liquidity and leverage positions of, either U K Insurance Limited or RSA as a result of the Transaction.

Accordingly, there can be no assurance that the Part VII Transfer will be implemented on the proposed terms prior to the expected date of the Part VII Transfer. If the Part VII Transfer is not implemented as proposed or at all, the expected economic benefits to Direct Line Group of the Reinsurance and the Transaction may not be realised in full leaving the Continuing Group with the liabilities under the relevant in-force policies that would otherwise have transferred to the Purchaser pursuant to the Part VII Transfer and under the Quota Share Reinsurance Agreement that would otherwise have terminated on completion of the Part VII Transfer, each in circumstances where the Operational Transfer may already have taken place.

There can be no assurance that regulators will not seek to impose new or more stringent conditions on the Continuing Group as a result of the Transaction

There can be no assurance that, as a result of the Transaction, regulators or authorities will not seek to impose any conditions or other legal or regulatory conditions or undertakings on the Continuing Group that could materially limit the revenues of the Continuing Group, impose additional regulatory capital requirements on the Continuing Group, result in changes to business plans, restrict the ability of the Continuing Group to generate and distribute cash, increase the costs of the Continuing Group, or reduce the ability of the Continuing Group to achieve cost and capital synergies.

The separation of the Brokered Commercial Insurance Business from the Continuing Group may be complex, may take longer than expected and could cause the Continuing Group to incur unexpected costs

Direct Line Group and RSA are to prepare a detailed separation plan for the implementation of the Transaction and have entered into the Business Transfer Agreement, which sets out provisions for the separation and includes an obligation on the Company and RSA to agree the forms of a Transitional Services Agreement, a Reverse Transitional Services Agreement and a schedule to the Quota Share Reinsurance Agreement covering the provision of certain reverse transitional services, in each case as soon as reasonably practicable following the Signing Date. It is expected that the finalisation of the terms of those documents and agreement to the detailed services to be provided by Direct Line Group under the Transitional Services Agreement, and by RSA under the Reverse Transitional Services Agreement and the reverse transitional services provisions under the Quota Share Reinsurance Agreement, will be agreed between Direct Line Group and RSA prior to the Operational Transfer Date. Direct Line Group and RSA will enter into the Transitional Services Agreement and Reverse Transitional Services Agreement effective from the Operational Transfer Date and the Quota Share Reinsurance Agreement transitional services schedule will be incorporated into the Quota Share Reinsurance Agreement on the Operational Transfer Date.

From the Operational Transfer Date, under a schedule to the Quota Share Reinsurance Agreement, RSA will provide Direct Line Group with services to enable Direct Line Group to administer and operate the Quota Share Portfolio and, under the Reverse Transitional Services Agreement, RSA will provide Direct Line Group with services to enable Direct Line Group to administer and operate the Back Book Policies. Under the Transitional Services Agreement, Direct Line Group will provide RSA with services from the Operational Transfer Date if and to the extent that RSA is not ready to receive certain assets by the Operational Transfer Date, or RSA requires access to certain out of scope assets to maintain continuity of the Brokered Commercial Insurance Business on a transitional basis prior to replacement of those assets by RSA.

However, the process of separating the Brokered Commercial Insurance Business from the Continuing Group may be more complex than expected, involving the separation of a number of business systems and support services and the transfer of (among others) people, property, brands, contracts and IT systems and data. There is a risk that the separation of these capabilities may take longer than expected or that material gaps may be identified during the course of the separation that will need to be addressed. Direct Line Group and, if the Transaction completes, the Continuing Group could incur unexpected additional costs and/or adverse impacts on the functions of its business as a result of the separation process in the period up to and beyond the Operational Transfer Date, which could adversely affect its business, financial conditions or results of operations. The Continuing Group's management may be required to allocate substantial time and resources to planning and implementation of the separation. This may divert management's time and attention away from

the Continuing Business and may limit the financial resources available to the Continuing Group, potentially to the detriment of the Continuing Group's overall operational and financial performance.

The process of separating the Brokered Commercial Insurance Business from the Continuing Group may also result in the loss of key employees from the Continuing Group. In addition, there is a risk that the Continuing Group is left with duplicative resources, including personnel, to support the Continuing Group businesses leading to inefficiencies within the Continuing Group.

Direct Line Group may be exposed to increased costs, potential reputational damage and reliance on RSA pursuant to the Quota Share Reinsurance Agreement, the Reverse Transitional Services Agreement and the Secondment Agreement and increased costs and potential reputational damage in connection with providing RSA with services pursuant to the Transitional Services Agreement

Direct Line Group and RSA have provided for actual and potential reciprocal transitional services arrangements under the terms of the Quota Share Reinsurance Agreement, the Transitional Services Agreement and the Reverse Transitional Services Agreement pursuant to which: (i) RSA will provide Direct Line Group with the use of or access to certain resources and services under the Quota Share Reinsurance Agreement and the Reverse Transitional Services Agreement in the period following the Operational Transfer Date; and (ii) Direct Line Group will provide RSA with services if and to the extent that RSA is not ready to receive certain assets by the Operational Transfer Date, or RSA requires access to certain out of scope assets to maintain continuity of the Brokered Commercial Insurance Business prior to replacement of those assets at RSA.

Direct Line Group provides sophisticated products and services, which require a high level of technical expertise to develop and support, and on which its customers place a high level of reliance. Pending the Part VII Transfer, Direct Line Group will remain legally responsible for the collection of premiums and servicing of claims in respect of insurance policies issued by Direct Line Group in respect of the Brokered Commercial Insurance Business. Following the Operational Transfer Date until termination of the Quota Share Reinsurance Agreement, a number of key personnel on whom Direct Line Group currently relies for these purposes will be employed by RSA and their services will be provided to Direct Line Group under the Secondment Agreement, the transitional services provisions in the Quota Share Reinsurance Agreement or the Reverse Transitional Services Agreement, for the purposes of servicing the Quota Share Portfolio and the Back Book Policies. Any significant operational or system failure or failure by RSA to comply with the terms of the transitional services provisions in the Quota Share Reinsurance Agreement, the Reverse Transitional Services Agreement or the Secondment Agreement could have an impact on Direct Line Group's ability to service the claims of its customers and may result in increased costs for the Continuing Group and potential litigation or reputational damage. The Continuing Group may be exposed to such risks in respect of services provided by RSA under the Quota Share Reinsurance Agreement and Secondment Agreement for an extended period of time in the event the Part VII Transfer is not implemented as proposed or at all.

In the event that separation has not been completed by the Operational Transfer Date, RSA may request to change the scope of services to be provided by Direct Line Group under the Transitional Services Agreement to include separation activities that have not been completed. Any significant change in the scope of services or any significant operational or system failure or failure by Direct Line Group to comply with the terms of the Transitional Services Agreement may result in increased costs for the Continuing Group and potential litigation or reputational damage.

Direct Line Group may be exposed to events and developments that may occur prior to the Part VII Transfer Date which make the terms of the Transaction less attractive

During the period between the Signing Date and the Part VII Transfer Date, events or developments may occur, including changes in trading, operations or outlook of the Continuing Group or the Brokered Commercial Insurance Business, or external market factors, which could make the terms of the Business Transfer Agreement or the Quota Share Reinsurance Agreement less attractive for Direct Line Group. Assuming that the conditions to the Business Transfer Agreement and the Quota Share Reinsurance Agreement are satisfied, Direct Line Group would be obliged to complete the Transaction in accordance with the terms of the Business Transfer Agreement and the Quota Share Reinsurance Agreement notwithstanding such events or developments. This may have an adverse effect on the business, financial condition or results of operations of the Continuing Group.

Risk of third party interference with the Transaction

As a listed company, the Company could receive approaches from third parties seeking to instigate a public takeover of the Company or another transaction involving the Brokered Commercial Insurance Business which might delay or prevent completion of the Transaction. Although the Business Transfer Agreement and Quota Share Reinsurance Agreement are binding on the Company, in the event of a Superior Proposal or a public takeover offer for the Company, the Directors may be required to consider those offers in accordance with their fiduciary duties. The Directors may amend or withdraw their recommendation contained in paragraph 14 of Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document and/or decide to postpone or cancel the General Meeting as a result of a Superior Proposal or a public takeover offer for the Company. If the Directors intend to withdraw or adversely change such recommendation, the Company would be required, under the Business Transfer Agreement, to provide RSA with a right to match such Superior Proposal prior to withdrawal of such recommendation.

If the Directors withdraw their recommendation and/or postpone the General Meeting, the Company would be required to pay the Break Fee. If the takeover offer or competing bid does not proceed this may have an adverse effect on the business, financial condition or prospects of Direct Line Group. In addition, if the Directors withdraw their recommendation in connection with a public takeover offer for the Company and such offer does not complete, RSA will have a right to match any bid for the Brokered Commercial Insurance Business that the Company receives within 12 months of the Business Transfer Agreement terminating and so this may lead to increased costs and further disruption for Direct Line Group.

The perceived benefits of the Transaction may not be realised in full or at all

The Board believes that the Transaction is in the best interests of the Shareholders as a whole, and is justified by the expected benefits described in paragraph 6 of Part 1 (Letter from Chair of the Board of Direct Line Insurance Group plc) of this document. However, these expected benefits may not be achieved, or may take longer than expected to realise, and other assumptions upon which the Board had determined the terms of the Transaction may prove to be incorrect. To the extent that the anticipated benefits of the Transaction are not achieved (including a lower level of capital benefit which may arise as a result of the Part VII Transfer not proceeding), or take longer than expected to achieve, the results of the operations and the financial condition of Direct Line Group may suffer, which may materially and adversely affect the Company's share price.

Costs relating to the Transaction may exceed Direct Line Group's expectations

The implementation of the Transaction may be more complex than expected and may require greater resources from Direct Line Group (including from its key employees) than the resources which are currently available to it for operating its business in the ordinary course. This may limit the management and financial resources available to the Continuing Group, potentially to the detriment of the Continuing Group's overall operational and financial performance. In addition, the Transaction may take longer to implement than anticipated by Direct Line Group. In order to meet the regulatory requirements of any critical outsourcing required in connection with the Transaction, the Continuing Group may have to commit additional management and financial resources to implementation of the separation and critical outsourcing. The ultimate costs of the Transaction therefore may exceed those estimated and there might be further additional and/or unforeseen expenses incurred in connection with the Transaction both before and after completion of the Transaction.

While the Board believes that the Transaction costs will be more than offset by the realisation of the benefits of the arrangement, the net benefit may not be realised in the short term or may be less than anticipated, which could affect Direct Line Group's business and prospects.

Risks relating to brand licensing arrangements

U K Insurance Limited and RSA have agreed the Brand Licence Agreements that set out the terms and conditions for the transitional use of the "Churchill Expert" and the use of "NIG" and "FarmWeb" brands following the Operational Transfer Date. Under these agreements: (a) RSA will be entitled to use, for a limited period, certain "Churchill Expert" trade marks and domain names owned by or registered to U K Insurance Limited; and (b) the Continuing Group will continue to be entitled to use certain "NIG" and "FarmWeb" trade marks assigned to RSA at Operational Transfer, and will be entitled to request certain updates to "NIG" and "FarmWeb" branded websites. The scope of each brand licence is limited to specific activities to enable the licensee party to continue to meet its operational requirements, and covers use in the United Kingdom only.

There is a risk that the use of the licensed brand rights by RSA, or any breach of the "Churchill Expert" agreement by RSA, could have negative consequences for the Continuing Group more generally. This may

include damage to the reputation of, and goodwill in, the “Churchill” brand, including potential weakening of registered trade mark protection for that brand in the United Kingdom or elsewhere.

Risks relating to data protection, and data segregation and migration

Direct Line Group holds personal data in relation to its customers, employees and other stakeholders. Where Direct Line Group stores and processes such personal data, it is subject to data protection regulations, such as the UK Data Protection Act 2018 and the UK GDPR (i.e. the General Data Protection Regulation (EU) 2016/679 as it forms part of UK law under the European Union (Withdrawal) Act 2018).

In connection with the Transaction, RSA will require access to certain databases controlled by Direct Line Group containing personal data of Direct Line Group’s customers, employees and other stakeholders who form part of the Brokered Commercial Insurance Business. Therefore, certain databases (which include personal data) will need to be segregated and / or migrated to RSA in connection with the Transaction.

Data segregation and migration (including transfers of, and third party access to, personal data) carry inherent risks of breaches of contractual, legal and regulatory obligations relating to data protection, including in relation to ensuring the lawful disclosure of the personal data, and the increased risk of personal data breaches. For example, providing access to databases or migrating existing databases may adversely affect the integrity of the systems holding the personal data, or inadvertently expose the personal data to unauthorised access. This could increase the risk of Direct Line Group being subject to a breach of security leading to the accidental or unlawful destruction, loss, alteration, unauthorised disclosure of, or access to, personal data stored or processed by Direct Line Group.

Breaches of data protection legislation could result in litigation or other actions being brought against the Continuing Group, the imposition of significant regulatory fines as well as potential need to compensate third parties, and costs of remediation (including managerial resources). Personal data breaches could impact consumer behaviour, the Continuing Group’s ability to provide services to clients, Direct Line Group’s ability to access data (including in response to regulatory requirements or requests), and increase IT, compliance and monitoring costs.

Direct Line Group has identified these risks and believes it is taking steps to mitigate such risks, including (where possible) steps to ensure that such risks do not arise in practice. However, were these steps to be unsuccessful, the financial and reputational impact of a breach of data protection legislation (including personal data breach) could have a material adverse effect on the Continuing Group’s business and financial condition.

2. Risks relating to the Transaction not proceeding

If the Transaction does not proceed, the following risks and uncertainties may affect Direct Line Group’s business and results of operations:

There can be no assurance of a future sale or other transaction involving the Brokered Commercial Insurance Business at an equivalent valuation or at all if the Transaction does not proceed

The Board believes that the Transaction is in the best interests of the Shareholders as a whole and that the Transaction currently provides the best opportunity to realise an attractive and certain value for the Brokered Commercial Insurance Business. If the Resolution is not passed, the Company will not receive any proceeds in respect of the Transaction. There can be no assurance that the Company would be able to sell the Brokered Commercial Insurance Business at a later date, in favourable or equivalent market circumstances. In particular, there is a risk that the value of the Brokered Commercial Insurance Business may erode over time, for example if Direct Line Group is unable or unwilling to invest the cash or resources necessary to drive and to deliver the growth potential of the business. Accordingly, any subsequent value of the Brokered Commercial Insurance Business to Direct Line Group may be lower than can be realised by way of the Transaction. This could result in the financial position including the solvency capital of Direct Line Group being materially different from the position it would be in if the Transaction completed.

Direct Line Group will have incurred costs in connection with the Transaction even if it does not proceed

The Company has incurred transaction costs in relation to the negotiation of the Transaction and preparation for the separation of the Brokered Commercial Insurance Business from the Continuing Group and some of these will be incurred, irrespective of whether or not the Transaction proceeds. If the Transaction does not complete, the Company will not receive the cash proceeds from the Transaction and consequently the costs incurred by Direct Line Group in connection with the Transaction would not be offset by such cash proceeds.

The failure of the Transaction to proceed may have a potentially disruptive effect on Direct Line Group

If the Transaction does not proceed, this may lead to management and employee distraction for the Brokered Commercial Insurance Business and concern due to perceived uncertainty as regards the future ownership of the Brokered Commercial Insurance Business. The Brokered Commercial Insurance Business management and employees may be affected, and key management and/or other employees may choose to leave Direct Line Group. That could result in the potential loss of expertise and capability within the Brokered Commercial Insurance Business or within Direct Line Group more widely in the short to medium term. To maintain Shareholder value, the Company's management may therefore be required to allocate additional time, resources and cost to the ongoing supervision and development of the Brokered Commercial Insurance Business or other areas of Direct Line Group, which may result in disruption to the other businesses within Direct Line Group. In addition, brokers on whom Direct Line Group relies in connection with the Brokered Commercial Insurance Business may decide to divert business that they currently provide to Direct Line Group to other insurance providers. If the Transaction does not proceed, in a further stressed environment Direct Line Group may also experience disruption as a result of potential alternative mitigating actions it may take designed to maintain or improve its solvency capital position. Any of these factors may adversely affect Direct Line Group's business, financial condition and results of operations.

The Company may be required to pay the Break Fee to RSA in certain circumstances

Under the Business Transfer Agreement, there are certain circumstances in which the Company would be required to pay the Break Fee. These are: (i) if the Board withdraws its recommendation of the Transaction to Shareholders in the event of a public takeover offer for the Company; (ii) if the Company fails, in certain circumstances, to post the Circular on or before 11 October 2023 (being the date falling 25 Business Days after the Signing Date subject to an extension to that date (by a maximum of 5 Business Days) if the chief executive officers of the Company and RSA agree to such extension) or fails to convene the General Meeting and hold a vote on the Resolution on no more than 14 clear days' notice from the Circular being posted; and (iii) in certain circumstances, if the Board intends to change its recommendation in respect of the Transaction in light of an alternative Superior Proposal for the Brokered Commercial Insurance Business and RSA has been given a right to match, but does not match, such Superior Proposal. If incurred, the Break Fee is intended to provide cost cover for RSA of up to £19,991,868.82 (being up to one per cent of the Company's market capitalisation as at close of business on 5 September 2023 (the Business Day before the Signing Date)).

3. Risks relating to the Continuing Group

If the Transaction or any part of it does take place, the following risks and uncertainties may be affected or result as a consequence:

The Continuing Group will form a smaller, less diversified, group and will no longer benefit from certain economies of scale

Following the Transaction, the Continuing Group's business will be smaller and less diversified, and may lose economies of scale. As a result, the Continuing Group may be more susceptible to adverse developments in the remaining business and markets in which it operates. In particular, following the Transaction, the Continuing Group will have greater relative exposure to the market for Motor, Home, Rescue and other personal lines and direct Commercial lines and the risks associated with those markets will be amplified. The Continuing Group will no longer benefit from the markets serviced by the Brokered Commercial Insurance Business.

The greater sensitivity to fluctuations in the Continuing Group's business may have an adverse effect on the Continuing Group's business, financial condition, results of operations and prospects. Moreover, weak performance in the Continuing Group's business may have a proportionately greater adverse impact on the financial condition and valuation of the Continuing Group than would have been the case prior to the Transaction. Given the Continuing Group's focus on personal lines, it may face greater exposure to unanticipated claims inflation, particularly in the motor market, as well as the cost of living crisis, recession risk, weather- and climate change-related claims, and the impact of the FCA's Pricing Practices regulations. Other macro-economic and geopolitical impacts on the insurance industry generally, and market volatility which impacts the Continuing Group's remaining personal line products, may have a disproportionate impact on the Continuing Group as a result of the Transaction.

Therefore, the Continuing Group will become more dependent on the financial performance of its remaining segments, will become more exposed to risks faced by those segments and specifically, be more sensitive to downturns in these segments following the Transaction. As this would no longer be off-set by the earning

potential of the Brokered Commercial Insurance Business, this may adversely impact its financial position, including the level of its solvency capital.

Following the Operational Transfer Date, the Continuing Group will continue to incur costs which would otherwise be apportioned between the Continuing Group and the Brokered Commercial Insurance Business, in relation to systems, property and shared services. As a result, such systems, property, and shared services would be outsized and the relative cost of administering the remaining policies will increase.

Direct Line Group has identified these costs and believes it is taking steps to mitigate them for the long-term. However, if the Back Book Policies are retained by the Continuing Group, the Continuing Group will continue to rely on certain systems and roles to service the Back Book Policies, the costs for which would otherwise be apportioned between servicing the Back Book Policies and the Quota Share Portfolio. Consequently, the higher relative cost of administering policies from the outsized systems and roles will remain until the Back Book Policies are run down.

Direct Line Group and, following the Transaction, the Continuing Group, may have increased exposure to the impact of past business reviews by the FCA and other retail financial regulation

As announced on 29 June 2023 and 1 September 2023, Direct Line Group is undertaking two past business reviews, the former relating to total loss valuations for motor vehicles and the latter relating to pricing in Motor and Home following the FCA's Pricing Practices regulations which came into force on 1 January 2022. Remediation will be made to any customers affected by either of these matters.

Direct Line Group is aiming to complete the first review this year and the second in the first half of 2024. Customers affected will be remediated and across the 2022 full-year and 2023 half-year results Direct Line Group has provided for an estimate of remediation totalling £40 million for Motor total loss and £30 million in relation to the FCA's Pricing Practices regulations. Of this total remediation, approximately £30 million, of which approximately half was in relation to Motor total loss and approximately half in relation to the FCA's Pricing Practices regulations, was provided for in the first half of 2023. Based on the ongoing review, Direct Line Group's latest estimate is that the remediation for Motor total loss may be in the region of a further £20 million in addition to the previous estimate of £40 million, but as the past business reviews are yet to be concluded, there is a risk that the total cost of these remediation exercises might materially exceed current expectations. In the event that the total cost of these remediation exercises materially exceeds the provision made by Direct Line Group as at 30 June 2023 as updated on the basis of the latest estimate set out above, this could have a material adverse effect on Direct Line Group's (and, following the Transaction, the Continuing Group's) business, financial condition and results of operations.

Direct Line Group maintains an open relationship and remains in dialogue with the FCA and PRA relating to ongoing regulatory compliance. The past business reviews are predominantly relating to the retained business of Direct Line Group and accordingly the impact of such reviews will have a more significant impact on the Continuing Group following the sale of the Brokered Commercial Insurance Business. Following the Transaction, retail financial regulation will also have a more significant impact on the Continuing Group, as the retained business will be more retail-focused.

The future strategy of the Continuing Group may not be implemented successfully

The future success of the Continuing Group will depend on the successful implementation of its business strategy. The implementation of the business strategy will be subject to certain risks and factors outside of the Board's control, including changes in the markets in which the Continuing Group currently operates. Furthermore, the level of investment required to implement the Continuing Group's strategy may be greater than expected and/or the Continuing Group may require additional financing in order to implement such future strategy. In such circumstances, the Board may decide to re-evaluate and amend certain aspects of its business strategy.

A failure by the Continuing Group to deploy the net proceeds received by it for the Transaction effectively could have a material adverse effect on the financial condition of the Continuing Group

The Continuing Group will receive the Initial Consideration for the Transaction, payable at the Initial Consideration Payment Date. The benefit and value from the receipt of this cash consideration by the Continuing Group will be dependent on the ability of the Continuing Group to effectively deploy the proceeds of the Transaction after payment of transaction costs. The net proceeds of the Transaction will be used to enhance the capital strength of the Continuing Group and for general corporate purposes. If the net proceeds

are not utilised effectively, there may be a material adverse effect on the Continuing Group's business, financial condition and results of operations.

Price and liquidity of the Ordinary Shares may fluctuate following the Transaction

Shareholders should be aware that the value of an investment in the Continuing Group may go down as well as up and can be highly volatile. The price at which the Ordinary Shares may be quoted, the price which investors may realise for their Ordinary Shares, and liquidity in the market for the Ordinary Shares will be influenced by a large number of factors, some specific to the Continuing Group and its operations and some which may affect the industry as a whole, other comparable companies or publicly traded companies as a whole. The sentiments of the market regarding the Transaction will be one such factor and this, together with other factors including the actual or anticipated fluctuations in the financial performance of the Continuing Group and its competitors, market fluctuations, and legislative or regulatory changes in the applicable industry, could lead to the market price of Ordinary Shares going up or down as well as impacting liquidity in the Ordinary Shares.

The success of the Continuing Group's business is dependent on the effectiveness of its financial policies, procedures and practices

The Transaction will not impact the Continuing Group's ability to comply with the Listing Rules or the Disclosure Guidance and Transparency Rules. However, Direct Line Group has identified certain improvements that could be made in respect of forecasting and budgeting, financial accounting and reporting and business risk. The success of the Continuing Group's business is dependent on the effectiveness of its financial policies, procedures and practices, including those in relation to high level reporting, forecasting and budgeting, financial accounting and reporting, management reporting, significant transaction complexity, strategic projects and initiatives, IT and business risk as well as others related to the amount of risk the Continuing Group is willing or able to take. If the Continuing Group is unable to implement these identified improvements, this may have an impact on the future effectiveness of the policies, procedures and practices of the Continuing Group following the Transaction.

PART 3
PRINCIPAL TERMS AND CONDITIONS OF THE TRANSACTION

1. BUSINESS TRANSFER AGREEMENT

Sale and purchase

The Selling Entities, RSA and Intact entered into the Business Transfer Agreement on 6 September 2023, pursuant to which RSA has agreed, subject to the satisfaction of the Condition as set out below, to purchase, among other things, the goodwill and assets of the Brokered Commercial Insurance Business with a view to carrying on the Brokered Commercial Insurance Business as a going concern in succession to Direct Line Group.

The Brokered Commercial Insurance Business comprises the brokered commercial lines insurance and coinsurance business carried out by Direct Line Group including: (i) products written by Direct Line Group under the “NIG” and “FarmWeb” brands and certain broker brands (in each case, whether using a single brand or on a co-branded basis); (ii) certain of Direct Line Group’s brands, intellectual property rights, properties, contracts, employees, contractors and data (the “**Sale Assets**”); and (iii) business arranged by UKIBS branded “Churchill Expert” (including fleet insurance traded directly by UKIBS and insurance offered through its portfolio of partnerships with third parties), but excluding the Quota Share Portfolio, the Back Book Policies and the commercial lines insurance business of Direct Line Group branded “Churchill”, “Churchill Business”, “Direct Line” or “Direct Line for Business”.

Condition

The Transaction is conditional upon approval of the Resolution by a majority of votes cast by the Shareholders at the General Meeting (the “**Condition**”). The Company has agreed to: (i) despatch the Circular to its Shareholders as soon as reasonably practicable following the signing of the Business Transfer Agreement and by no later than 11 October 2023 (being the date falling 25 Business Days after the Signing Date subject to an extension to that date (by up to a maximum of 5 Business Days) if the chief executive officers of the Company and RSA agree to such extension); and (ii) to convene the General Meeting on no more than 14 clear days’ notice of such Circular being despatched to Shareholders. If the Condition is not satisfied on or before 15 December 2023, RSA will have the right to terminate the Business Transfer Agreement and the Transaction will not proceed.

Consideration

The Initial Consideration payable by RSA to the Company for the purchase of the Brokered Commercial Insurance Business is £520.0 million and shall be payable in cash on the Initial Consideration Payment Date. The Initial Consideration is not subject to any adjustment.

Under the Earn-Out, the Additional Consideration (of up to £30.0 million) may be payable by RSA to the Company if certain earn-out provisions relating to the financial performance of the business ceded to RSA under the Quota Share Reinsurance Agreement from the Risk Transfer Date and up to the Part VII Transfer Date are met, and is payable after at least six months from the Part VII Transfer Date, in accordance with the process set out in the Business Transfer Agreement. No Additional Consideration shall be payable unless the Part VII Transfer becomes effective.

Sale of the Brokered Commercial Insurance Business

Subject to the Condition being satisfied, the Selling Entities have agreed to:

- transfer the Sale Assets to RSA on the Operational Transfer Date; and
- upon receipt of the Initial Consideration, hold the Sale Assets on trust for RSA (with retrospective effect from the Risk Transfer Date) until the Operational Transfer Date.

Upon the Condition being satisfied, the Quota Share Reinsurance Agreement shall become unconditional with retrospective effect from the Risk Transfer Date and the economic benefit and liabilities resulting from or arising out of or in connection with the Sale Assets on or after Risk Transfer Date shall be synthetically transferred to RSA with effect from the Risk Transfer Date (except to the extent arising from or increased by breach of applicable law, fraud or wrongful act or omission (including recklessness or wilful misconduct) on Direct Line Group’s part).

Warranties

The Company has (and, in certain cases the other Selling Entities have) given warranties to RSA that are customary for a transaction of this nature. The warranties given include:

- (a) certain fundamental warranties in relation to the Company's (and, in respect of the Sale Assets they own, the Selling Entities') title to the Sale Assets and its capacity and authority to enter into and perform its obligations under the Business Transfer Agreement and other Transaction Documents (the "**Fundamental Warranties**"); and
- (b) warranties in respect of the Brokered Commercial Lines Business including compliance with laws, contracts, trading, litigation, pensions, employees, intellectual property rights, data protection, financial warranties, properties and tax (the "**Business Warranties**").

Certain Fundamental Warranties and the Business Warranties are subject to matters fairly disclosed by the Company to RSA and the Business Warranties are also subject to matters fairly disclosed via a virtual data room on the Signing Date.

The Fundamental Warranties are deemed repeated on the Risk Transfer Date and on the Operational Transfer Date, and in each case, certain Fundamental Warranties are subject to matters fairly disclosed by the Company on the relevant date. If there are facts or matters disclosed by the Company on the Risk Transfer Date or the Operational Transfer Date that have a material adverse effect on the rights of RSA under any of the Transaction Documents or the ability of a Selling Entity to perform its obligations under any of the Transaction Documents, RSA will have the right to terminate the Business Transfer Agreement. If and to the extent that RSA does not have such a right to terminate, each Selling Entity has undertaken to indemnify RSA from and against all losses that RSA suffers as a result of the disclosed matter.

The Business Transfer Agreement contains customary financial thresholds, time limitations and other limitations that apply to the Fundamental Warranties and Business Warranties given by the Company or any other Selling Entity under the Business Transfer Agreement.

Pre-Operational Transfer Date undertakings

Direct Line Group has agreed to conduct the Brokered Commercial Insurance Business in the ordinary course (determined by reference to the way the Brokered Commercial Insurance Business was conducted in the 24 months preceding the Signing Date) between the Signing Date and the Operational Transfer Date. Various restrictions apply during this period and include, but are not limited to: (i) restrictions on disposing of any part of the Brokered Commercial Insurance Business in excess of certain thresholds; (ii) incurring any borrowing or other financial indebtedness; (iii) extending any loans above a certain threshold; (iv) taking any steps that are reasonably likely to have a material effect on the Part VII Transfer; (v) carrying out any act which has a material impact on Direct Line Group's system security; (vi) materially amending the terms and conditions of employment of certain senior employees; and (vii) and commencing or settling non-ordinary course litigation.

Further obligations on Direct Line Group apply during the period between the Signing Date and the Operational Transfer Date. Such obligations include, but are not limited to, Direct Line Group being required to: (i) maintain all material licences, permissions or authorisations required by applicable law to carry on the Brokered Commercial Insurance Business; (ii) not communicate with policy holders of the Brokered Commercial Insurance Business outside the ordinary course of business without consulting with RSA; and (iii) notify RSA of any material communications with a regulator relating specifically to the Brokered Commercial Insurance Business.

Part VII Transfer

The Quota Share Portfolio (comprised of new insurance business written by U K Insurance Limited between the Risk Transfer Date and the Operational Transfer Date and the unearned portion of certain Back Book Policies) will, subject to the approval by the Court, transfer from U K Insurance Limited to RSA by way of the Part VII Transfer, an insurance business transfer scheme, on the Part VII Transfer Date. U K Insurance Limited and RSA shall use all reasonable endeavours to ensure that the Court approves the Part VII Transfer as soon as reasonably practicable after the Operational Transfer Date and prior to 1 January 2026 (the "**Long Stop Date**"). The obligations on U K Insurance Limited and RSA include having to proactively engage with the PRA and the FCA, HM Revenue & Customs and any other regulator in relation to the Part VII Transfer. If the Court has not approved the Part VII Transfer by 11:59 p.m. on the Long Stop Date, the parties have agreed to extend the long stop date to 30 June 2026 (the "**Extended Long Stop Date**").

Separation

Direct Line Group and RSA will work together, on a best efforts basis, to finalise a plan to separate the Brokered Commercial Insurance Business from Direct Line Group (the “**Separation Plan**”) within 90 days of the Signing Date and shall implement the Separation Plan (except for any deliverables contingent on the performance or cooperation of a third party in respect of which Direct Line Group and RSA shall use all reasonable endeavours to obtain in order to deliver the Separation Plan). A separation committee will be established by the parties which will discuss and monitor separation matters and the implementation of the Separation Plan (and Direct Line Group and RSA will appoint three members each to the separation committee). In respect of costs incurred in connection with separating the Brokered Commercial Insurance Business from Direct Line Group, Direct Line Group and RSA have agreed to allocate certain costs between them. It is currently envisaged that unallocated costs will be discussed by the separation committee and if not agreed, escalated to the chief executive officers of both Direct Line Group and RSA and if still not agreed, split equally between Direct Line Group and RSA. For certain third party costs that Direct Line Group has agreed to incur, Direct Line Group and RSA agree that these shall not extend to unreasonable and disproportionate third party costs.

Indemnities

Direct Line Group and RSA have provided customary cross indemnities for liabilities arising before and after the Risk Transfer Date in relation to the transfer of the Brokered Commercial Insurance Business. RSA shall be under no obligation to indemnify any losses in connection with Sale Assets unless and until the Operational Transfer Date has occurred and the relevant Sale Asset has transferred from Direct Line Group to RSA in accordance with the terms of the Business Transfer Agreement.

Direct Line Group has also provided an indemnity to RSA for certain liabilities arising from the transfer of personal data and RSA’s use of personal data forming part of the Brokered Commercial Insurance Business in a substantially similar manner to the use by the Brokered Commercial Insurance Business in the 12 month period prior to the Signing Date. RSA may only bring a claim in respect of the indemnity between the Initial Consideration Payment Date and the date falling 18 months after the Operational Transfer Date. RSA will only be permitted to recover 50% of their losses and Direct Line Group’s aggregate liability is capped at £10.0 million.

Direct Line Group and RSA have provided cross indemnities for certain liabilities arising in relation to cybersecurity incidents affecting the other’s IT systems to the extent the incident affects the data transferred as part of the Operational Transfer. In each case claims can only be brought between the Initial Consideration Payment Date and the date falling 18 months after the Operational Transfer Date and each party’s aggregate liability is capped at £10.0 million.

Direct Line Group and RSA have additionally provided cross indemnities for certain customary liabilities arising in relation to TUPE transfers of employees and Direct Line Group has provided a customary indemnity to RSA for certain liabilities relating to early retirement benefits that may arise.

Direct Line Group has provided RSA with a customary indemnity in respect of any liability for tax imposed in the Isle of Man arising as a result of Direct Line Group’s employment of an employee based in the Isle of Man in the period prior to the Operational Transfer Date.

Non-compete undertaking

The Company has given non-compete and non-solicitation covenants for 24 months from the Operational Transfer Date (provided that such restriction terminates by no later than 30 June 2026). These covenants are subject to a number of carve-outs including, but not limited to, permitting Direct Line Group to carry out any activity: (i) in relation to the personal lines insurance business; (ii) through a price comparison website; and (iii) in relation to Direct Line for Business or Churchill Business, (in each case, subject to certain restrictions including restrictions relating to the use of information relating to the Brokered Commercial Insurance Business or activity that is carried on via any third party broker or intermediary (subject to certain exceptions)).

Termination rights

Direct Line Group can terminate the Business Transfer Agreement in the event that: (i) RSA fails to pay the Initial Consideration by the Initial Consideration Payment Date and fails to remedy the default within three Business Days of receiving notice from the Company of such default; (ii) the Shareholders of the Company vote against the Resolution at the General Meeting; (iii) prior to the Part VII Transfer Date, RSA or Intact

become subject to customary insolvency events; (iv) prior to the Part VII Transfer Date, Direct Line Group becomes aware that RSA was in breach of certain fundamental warranties given under the Business Transfer Agreement where such breach has or would reasonably have a material adverse effect on the Company, or (v) if the Company's Board changes its recommendation in light of a Superior Proposal for the Brokered Commercial Lines Business or a public takeover offer for the Company, subject to the right to match provisions as set out in the Business Transfer Agreement (details of which are set out below).

In addition to the termination rights RSA has relating to (a) the satisfaction of the Condition as more particularly set out below, and (b) certain circumstances in connection with the Company's receipt of a Superior Proposal or a public takeover offer and RSA's right to match such proposals as more particularly set out below, RSA can terminate the Business Transfer Agreement in the event that: (i) RSA becomes aware of any fact, matter or circumstance that renders any Fundamental Warranty given on the Signing Date (or repeated on the Risk Transfer Date or Operational Transfer Date) untrue or inaccurate, where such breach has or would reasonably have a material adverse effect on RSA; or (ii) if U K Insurance Limited fails to enter into the Security Deed and Account Control Agreement or U K Insurance Limited fails to transfer an amount equal to the initial amount of the agreed unearned premium reserve in respect of the Back Book Policies to a Charged Account (as defined below) by the Initial Consideration Payment Date.

Break fee

Under the Business Transfer Agreement, there are certain circumstances in which the Company would be required to pay the Break Fee. These are: (i) if the Board withdraws its recommendation of the Transaction to Shareholders in the event of a public takeover offer for the Company; (ii) if the Company fails, in certain circumstances, to post the Circular on or before 11 October 2023 (being the date falling 25 Business Days after the Signing Date subject to an extension to that date (by a maximum of 5 Business Days) if the chief executive officers of the Company and RSA agree such extension) or fails to convene the General Meeting and hold a vote on the Resolution on no more than 14 clear days' notice from the Circular being posted; and (iii) in certain circumstances, if the Board intends to change its recommendation in respect of the Transaction in light of a Superior Proposal for the Brokered Commercial Insurance Business including where RSA has been given a right to match, but does not match, such Superior Proposal. If incurred, the Break Fee is intended to provide cost cover for RSA of up to £19,991,868.82 (being up to one per cent of the Company's market capitalisation as at close of business on 5 September 2023 (the Business Day before the Signing Date)).

Right to match

RSA is entitled, under the terms of the Business Transfer Agreement, to a right to match a competing offer for the Brokered Commercial Insurance Business in circumstances where: (i) the Company, prior to the approval of the Resolution, receives a Superior Proposal for the Brokered Commercial Insurance Business and, as a result of such Superior Proposal, the Directors intend to adversely amend or withdraw their recommendation contained in paragraph 14 of Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document. In these circumstances, the Company is required to offer RSA the right to match the terms of the Superior Proposal prior to the Directors amending or withdrawing their recommendation and, if RSA chooses not to match the Superior Proposal or, if RSA chooses to match the Superior Proposal but the Company and RSA do not enter into revised transaction documents documenting the matched offer within the timeframes set out in the Business Transfer Agreement, the Break Fee shall become payable to RSA on termination of the Business Transfer Agreement; or (ii) within 12 months following the termination of the Business Transfer Agreement as a result of a public takeover for the Company which is unsuccessful, the Directors receive an offer to sell or otherwise propose to sell the Brokered Commercial Insurance Business.

2. QUOTA SHARE REINSURANCE AGREEMENT

Pending implementation of the Part VII Transfer, which will legally transfer the Quota Share Portfolio from U K Insurance Limited to RSA, RSA has agreed to reinsure and indemnify U K Insurance Limited in relation to 100% of the Quota Share Portfolio with effect from the Risk Transfer Date.

Term

The Quota Share Reinsurance Agreement shall take effect on and from the Risk Transfer Date and is intended to continue until the completion of the Part VII Transfer or until U K Insurance Limited ceases to have any further liability under the covered policies. The term may be reduced where certain termination events take place, as set out in more detail below.

Funds withheld

The Quota Share Reinsurance Agreement cash flows operate on a funds withheld basis. U K Insurance Limited will withhold the premium due to RSA and collateralise its future obligation to pay RSA by holding assets in a secured account in its name with the Custodian which is secured in favour of RSA.

At regular intervals, where the amount credited to the secured funds is positive, U K Insurance Limited shall pay to RSA any surplus amount. Where the amount credited to the secured account is negative, RSA shall pay an amount in cash to make good the deficit.

Warranties

The Quota Share Reinsurance Agreement contains customary warranties given by U K Insurance Limited in favour of RSA and customary warranties given by RSA in favour of U K Insurance Limited.

Termination rights

The Quota Share Reinsurance Agreement contains certain termination rights for U K Insurance Limited and certain termination rights for RSA. Such termination rights are customary and seek to protect against risks including (but not limited to) counter-party insolvency, counter-party loss of regulatory permissions and fraudulent behaviour. Where the Quota Share Reinsurance Agreement terminates as a result of such termination rights, a termination amount will be payable.

Control rights

In connection with the transfer of the economic benefit in relation to the Brokered Commercial Insurance Business from Direct Line Group to RSA with effect from the Risk Transfer Date, the Quota Share Reinsurance Agreement contains certain control rights in favour of RSA in relation to the conduct of relevant business by U K Insurance Limited, subject to certain requirements including U K Insurance Limited's ability to comply with its legal and regulatory obligations.

3. TRANSITIONAL SERVICES ARRANGEMENTS

Pursuant to the Business Transfer Agreement, the Company and RSA will agree the final forms of a Transitional Services Agreement, a Reverse Transitional Services Agreement and a schedule to the Quota Share Reinsurance Agreement covering the provision of certain reverse transitional services, as soon as reasonably practicable following the Signing Date.

The Company and RSA are still agreeing these transitional services arrangements. The Company and RSA are yet to agree final forms of a Transitional Services Agreement, a Reverse Transitional Services Agreement and a schedule to the Quota Share Reinsurance Agreement covering the provision of certain reverse transitional services, so it is possible that the terms outlined below may change as a result of those final negotiations.

Before the Operational Transfer Date, Direct Line Group and RSA will enter into a Transitional Services Agreement under which, from the Operational Transfer Date, Direct Line Group will provide RSA with transitional support if, and to the extent that, RSA are not ready to receive certain assets by the Operational Transfer Date or RSA require certain out of scope assets to maintain continuity of the Brokered Commercial Insurance Business on a transitional basis prior to replacement of those assets by RSA.

In addition, and before the Operational Transfer Date, Direct Line Group and RSA will also enter into a Reverse Transitional Service Agreement under which, from the Operational Transfer Date, RSA will provide Direct Line Group with services to enable Direct Line Group to administer and operate the Back Book Policies.

In respect of each of the Transitional Services Agreement and the Reverse Transitional Services Agreement, Direct Line Group and RSA will agree, prior to the Operational Transfer Date, the nature of the services to be provided thereunder and these shall consist of the provision of certain IT and other transitional services and, in the case of the Reverse Transitional Services Agreement, people. It is expected that the service provider (being Direct Line Group under the Transitional Services Agreement and RSA under the Reverse Transitional Services Agreement) will be paid service fees calculated on the basis of a pass-through of third party costs and the liability of each of Direct Line Group and RSA will be capped.

The Reverse Transitional Services Agreement and Transitional Services Agreements each are anticipated to contain customary indemnities given by both Direct Line Group and RSA in favour of each other.

Additionally, Direct Line Group and RSA will elect whether to enter into a Secondment Agreement commencing on the Operational Transfer Date, pursuant to which RSA will second certain employees to Direct Line Group to enable Direct Line Group to continue to administer: (i) legacy claims in respect of the Back Book Policies; and (ii) claims under the Quota Share Reinsurance Agreement. The Secondment Agreement will terminate concurrently with the Quota Share Reinsurance Agreement on the Part VII Transfer Date. The Secondment Agreement will contain customary indemnities given by Direct Line Group in favour of RSA.

On the Operational Transfer Date, Direct Line Group and RSA will enter into a schedule to the Quota Share Reinsurance Agreement covering the provision of certain reverse transitional services (and shall amend the Quota Share Reinsurance Agreement to reflect the same) under which, from the Operational Transfer Date, RSA will provide Direct Line Group with services to enable Direct Line Group to administer and operate the Quota Share Portfolio. Direct Line Group and RSA will agree, prior to the Operational Transfer Date, the nature of the reverse transitional services to be provided thereunder and these shall consist of the provision of certain IT and other transitional services and people. It is expected that RSA, as the service provider, will be paid a service fee of £1 and the liability of each of Direct Line Group and RSA will be as per the Quota Share Reinsurance Agreement. It is anticipated that the schedule to the Quota Share Reinsurance Agreement covering the reverse transitional services will also contain customary indemnities given by U K Insurance Limited in favour of RSA, as well as certain customary indemnities given by RSA in favour of Direct Line Group.

4. INTELLECTUAL PROPERTY

U K Insurance Limited and RSA will enter into certain agreements relating to the intellectual property connected with the Brokered Commercial Insurance Business, each of which will be effective on the Operational Transfer Date.

Trade Mark Assignment Agreement

Under a trade mark assignment agreement, U K Insurance Limited will assign all of its right, title and interest in certain trade marks relating to the “NIG” and “FarmWeb” brands to RSA, including the right to bring and defend actions relating to these trade marks after the Operational Transfer Date.

Domain Name and Social Media Account Transfer Agreement

Under a domain name and social media account transfer agreement, U K Insurance Limited will transfer its ownership, registration and control of certain domain names, and control of certain social media accounts, in each case relating to the “NIG” and “FarmWeb” brands, to RSA.

Churchill Brand Licence Agreement

Under a transitional brand licence agreement, RSA will be entitled to use, for an 18-month period following the Operational Transfer Date (subject to termination rights) and in the United Kingdom only, the “Churchill Expert” brand owned by U K Insurance Limited, including certain trade marks and domain names, to allow RSA a period in which to re-brand away from the “Churchill Expert” brand. Under the terms of the Churchill Brand Licence Agreement, RSA may use the licensed branding solely for (i) the processing of certain new policies, mid-term adjustments and renewals, (ii) the administration of certain new policies, mid-term adjustments, renewals and existing products purchased by Churchill Expert customers, and (iii) the handling of claims relating to the foregoing. RSA must use the brands in the manner in which they were used in the conduct of the Brokered Commercial Insurance Business in the 12 months prior to the Operational Transfer Date, and must seek prior approval for any new or materially amended materials making use of the brand. RSA will indemnify the Continuing Group against all losses suffered by any member of the Continuing Group arising from any third party claims relating to RSA’s use of the “Churchill Expert” brand during the term of the licence except to the extent arising from any act or omission of the Continued Group, its affiliates or any other licensee. Each party has customary termination rights, including for material breach of the agreement.

Brokered Commercial Insurance Business Brand Licence Agreement

Under a brand licence agreement, U K Insurance Limited will be entitled to use the “NIG” and “FarmWeb” brands owned by RSA, in the United Kingdom only. The licence will continue for the period from the Operational Transfer Date until expiry of coverage under all policies comprised within the Quota Share Portfolio and the Back Book Policies, subject to termination rights. The Continuing Group may use the licensed branding solely for sending customer and broker emails and letters (including as part of an email address) and any other activity in each case as reasonably required to enable the Continuing Group to administer the orderly

run-down of the Quota Share Portfolio and the Loss Portfolio. The Continuing Group must seek approval for any new or materially amended materials making use of the licensed brands. The Continuing Group will indemnify RSA against all losses suffered by any member of RSA's group arising from any third party claims relating to Continuing Group's use of the "NIG" or "FarmWeb" brands during the term of the licence except to the extent arising from any act or omission of RSA, its affiliates or any other licensee. Each party has customary termination rights for breach of the agreement.

5. SECURITY ARRANGEMENTS

In connection with the Quota Share Reinsurance Agreement, U K Insurance Limited will grant security in favour of RSA over its rights in respect of, among other things, the premium amount relating to the Quota Share Reinsurance Agreement and credited to the segregated cash account, which shall be controlled by the Custodian, and the securities deposited in the segregated securities account opened with and maintained by the Custodian, in each case, pursuant to the Security Deed.

U K Insurance Limited will, pursuant to the Security Deed, charge by way of first fixed charge in favour of RSA all of U K Insurance Limited's rights, title and interest from time to time in each of the cash and securities accounts (together, the "**Charged Accounts**"), the cash and securities posted to the Charged Accounts (the "**Posted Collateral**") and the related rights in respect of Charged Accounts and the Posted Collateral (the "**Related Rights**"). U K Insurance Limited shall also assign all of its rights, title and interest from time to time in respect of the Charged Accounts, the Posted Collateral and the Related Rights, in each case, to the extent not effectively secured by way of a first fixed charge. In addition, U K Insurance Limited will assign its rights, title and interest under the Account Control Agreement together with the related rights in respect of the Account Control Agreement (the "**ACA Related Rights**"). U K Insurance Limited shall, to the extent the Charged Accounts, Posted Collateral and Related Rights are not effectively secured by the first fixed charge or the assignment (as the case may be), charge all its rights, title and interest from time to time in and to each of the Charged Accounts, Posted Collateral, Related Rights and the Account Control Agreement (together with any ACA Related Rights) by way of a floating charge.

Under the terms of the Security Deed, RSA will have the right to enforce the security created pursuant to the Security Deed upon the occurrence of any relevant event (including if the Account Control Agreement ceases to be in full force and effect (other than, for the avoidance of doubt, as a direct or indirect result of any act of or omission by RSA) or the occurrence of certain events of default that are continuing). In the event that RSA enforces the security under the Security Deed, the Custodian shall only act upon joint instructions delivered by RSA and U K Insurance Limited in respect of the Charged Accounts.

In connection with the security arrangements set out above, U K Insurance Limited and RSA will also enter into an account control agreement (the "**Account Control Agreement**") with the custodian, HSBC Bank plc (the "**Custodian**"), which will set out the terms on which the Charged Accounts will, in each case, be operated by the Custodian in light of the security interests created by the Security Deed. The Custodian shall act solely upon instructions from U K Insurance Limited, except where otherwise expressly provided for in the Account Control Agreement, until such time as it receives a valid enforcement notice from RSA (an "**Enforcement Notice**"). Following receipt of an Enforcement Notice, the Custodian shall act upon joint instructions from RSA and U K Insurance Limited. If the relevant events that gave rise to the relevant Enforcement Notice, and any that occurred on or following the relevant enforcement date, are remedied or waived, U K Insurance Limited may deliver a cure notice (countersigned by RSA) to the Custodian, instructing it to resume acting in the same manner in which it was acting immediately prior to the delivery of the relevant Enforcement Notice.

PART 4
FINANCIAL INFORMATION RELATING TO THE BROKERED COMMERCIAL
INSURANCE BUSINESS

1. Nature of financial information

The following historical financial information relating to the Brokered Commercial Insurance Business has been, unless otherwise stated, extracted without material adjustment from the accounting records that underlie the audited consolidated financial information of Direct Line Group for the three years ended 31 December 2022, 31 December 2021 and 31 December 2020 and the unaudited consolidated financial information of Direct Line Group for the six months ended 30 June 2023 and 30 June 2022. The Directors are satisfied that the following historical financial information, including any allocations made (and noted below), provides a reasonable basis for the presentation of the financial information relating to the Brokered Commercial Insurance Business to enable Shareholders to make a fully informed voting decision.

The financial information in this Part 4 (Financial Information relating to the Brokered Commercial Insurance Business) does not constitute statutory accounts within the meaning of section 434 of the Companies Act. The consolidated accounts for Direct Line Group in respect of each of the three financial years ended 31 December 2022, 31 December 2021 and 31 December 2020 have been delivered to the Registrar of Companies. The auditors' reports in respect of those accounts were unqualified and did not contain statements under section 498(2) or (3) of the Companies Act.

The financial information in this Part 4 (Financial Information relating to the Brokered Commercial Insurance Business) has been prepared in accordance with the accompanying notes and in accordance with the IFRS accounting policies adopted in Direct Line Group's audited consolidated financial statements for each of the three financial years ended 31 December 2020, 2021 and 2022 and the unaudited consolidated financial statements for the six-month period ended 30 June 2023, including its restated comparatives for the six-month period ended 30 June 2022.

It is not possible to present a meaningful allocation of tax as this item is managed centrally by Direct Line Group and not on a divisional basis. The FCA has granted a modification under Listing Rule 13.5.30D on this basis.

Shareholders should read the whole of this document and not rely solely on the summarised financial information in this Part 4 (Financial Information relating to the Brokered Commercial Insurance Business).

Deloitte LLP were the auditors for Direct Line Group, including the Brokered Commercial Insurance Business, in respect of the three years ended 31 December 2022 and reviewed the financial statements of Direct Line Group for the six months ended 30 June 2023 (including the comparative for the six months ended 30 June 2022, which were restated under IFRS 17, as explained in the tables below).

2. Unaudited income statements of the Brokered Commercial Insurance Business

The below table presents the income statements for each of the three financial years ended 31 December 2022, 31 December 2021, 31 December 2020 under IFRS 4. As a result of adoption of IFRS 17 by Direct Line Group, effective 1 January 2023, the income statements for the subsequent financial period and its comparative period, the six months ended 30 June 2023 and 30 June 2022 respectively, are presented under IFRS 17 in a separate table below.

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m	£m
Gross earned premium	485.5	442.7	391.7
Reinsurance premium	<u>(36.7)</u>	<u>(36.4)</u>	<u>(33.8)</u>
Net earned premium	448.8	406.3	357.9
Investment return	8.0	25.2	15.4
Instalment income	1.6	1.3	1.5
Other operating income	<u>1.3</u>	<u>1.0</u>	<u>1.3</u>
Total income	459.7	433.8	376.1
Net insurance claims	(225.0)	(224.0)	(188.4)
Commission expenses	(109.2)	(105.0)	(88.7)
Operating expenses	<u>(79.7)</u>	<u>(74.0)</u>	<u>(78.9)</u>
Total expenses	(188.9)	(179.0)	(167.6)
Finance costs	<u>(3.1)</u>	<u>(4.9)</u>	<u>(4.0)</u>
Profit before tax	42.7	25.9	16.1
Tax credit / (charge)	—	—	—
Profit for the year	42.7	25.9	16.1

	Six months ended 30 June 2023	Six months ended 30 June 2022
	£m	£m
Insurance revenue	<u>283.0</u>	<u>231.9</u>
Insurance service expense	<u>(248.5)</u>	<u>(178.3)</u>
Expenses from reinsurance contracts held	<u>(21.1)</u>	<u>(19.1)</u>
Insurance claims (payable to)/recoverable from reinsurance contracts held	4.9	<u>(0.8)</u>
Insurance service result	18.3	33.7
Net investment return	<u>14.8</u>	<u>(28.1)</u>
Net finance expenses from insurance contracts issued	<u>(0.1)</u>	<u>7.6</u>
Net finance income from reinsurance contracts issued	<u>(2.7)</u>	<u>(2.9)</u>
Net investment return and net insurance finance result	12.0	(23.4)
Other operating income and expenses	<u>1.3</u>	<u>1.7</u>
Other finance costs	<u>(1.1)</u>	<u>(2.0)</u>
Profit before tax	30.5	10.0
Tax credit / (charge)	—	—
Profit for the year	30.5	10.0

Notes:

- (1) The income statements presented above are unaudited. The financial information relating to the Brokered Commercial Insurance Business, unless otherwise stated, has been extracted without material adjustment from the accounting records that underlie the audited consolidated financial information of Direct Line Group for the three years ended 31 December 2022, 31 December 2021 and 31 December 2020 and the unaudited consolidated financial information of Direct Line Group for the six months ended 30 June 2023 and 30 June 2022.
- (2) Direct Line Group adopted IFRS 17 from 1 January 2023, as issued by the International Accounting Standards Board (IASB). As such, reporting periods and their comparative periods subsequent to this date are presented in line with the change in accounting

standard. The above income statements for the three years ended 31 December 2022 are presented under IFRS 4, and the income statements for the six months ended 30 June 2023 and 30 June 2022 are presented under IFRS 17.

- (3) Insurance revenue has been adjusted from the consolidation schedules to appropriately represent the allocation of premium for coverage periods for the Transaction perimeter.
- (4) Allocations for Direct Line Group overheads are included from the consolidation schedules without material adjustment. Operating expenses and Net insurance claims therefore include allocated Direct Line Group overheads, depreciation, and amortisation. Consequently, the above income statements do not solely reflect the direct costs of the Brokered Commercial Insurance Business post-separation.
- (5) Insurance claims / service expense includes adjustments to amounts as per consolidation schedules in order to exclude claims and claims handling costs from Churchill Van Insurance, VW Van and Special Risks, as these are excluded from the Transaction perimeter.
- (6) No taxation has been presented in the income statement as it is not possible to provide a meaningful allocation of taxation to the Brokered Commercial Insurance Business as tax is not allocated on a divisional basis. The FCA has granted a modification under Listing Rule 13.5.30D on this basis.

3. Unaudited Net Asset Statement of the Brokered Commercial Insurance Business

The below table presents the net asset statement as at 31 December 2022 under IFRS 4. As a result of adoption of IFRS 17 by Direct Line Group, effective 1 January 2023, the net asset statements for the subsequent financial period and its comparative period, as at 30 June 2023 and as at 30 June 2022 respectively, are presented under IFRS 17 in a separate table below.

	As at 30 June 2023	As at 31 December 2022	As at 30 June 2022
	£m	£m	£m
ASSETS			
Goodwill and other intangible assets	6.9	7.9	8.2
Property, plant and equipment	0.5	0.9	1.0
Right-of-use assets	0.6	1.2	1.4
Prepayments, accrued income and other assets	0.2	0.2	0.2
Total Assets	8.2	10.2	10.8
LIABILITIES			
Other payables	(0.1)	(0.0)	0.0
Provisions	(0.8)	(1.9)	-
Lease liabilities	(1.0)	(1.3)	(1.4)
Total Liabilities	(1.9)	(3.2)	(1.4)
Net Assets	6.3	7.0	9.4

Notes:

- (1) The net asset statements presented above are unaudited. The historical financial information relating to the Brokered Commercial Insurance Business, unless otherwise stated, has been extracted without material adjustment from the accounting records that underlie the audited consolidated financial information of Direct Line Group for the year ended 31 December 2022 and the unaudited consolidated financial statements of Direct Line Group for the six months ended 30 June 2023 and 30 June 2022.
- (2) Direct Line Group adopted IFRS 17 from 1 January 2023, as issued by the International Accounting Standards Board (IASB). As such, reporting periods and their comparative periods subsequent to this date are presented in line with the change in accounting standard. The above net asset statement as at 31 December 2022 is presented under IFRS 4, and those as at 30 June 2023 and 30 June 2022 are presented under IFRS 17.
- (3) As a result of the transaction structure as a reinsurance agreement for the front book in the first instance, the balance sheet presented above represents only those assets and liabilities which existed at each balance sheet date, which will transfer as part of the Business Transfer Agreement.
- (4) Intangible assets consist of projects identified within the Intangible Asset Register that are attributable to the perimeter. Goodwill exists at a group level only and cannot be meaningfully allocated to the perimeter.
- (5) Property, plant, and equipment consist of office space and allocations for individually identified fixtures and fittings and IT equipment to be transferred to the acquirer, based on the proportion of perimeter staff over total staff within each location (as at 30 June 2023) included within the perimeter.
- (6) Right-of-use-assets relate to property and motor leases and consist of both leased assets wholly attributable to the Brokered Commercial Insurance Business and allocations derived on the same basis as Property, plant, and equipment.
- (7) Prepayments, accrued income, and other assets relates to prepaid rent and rates allocated on the same basis as Property, plant and equipment.
- (8) Provisions relates to dilapidations provisions on leases within the transaction perimeter.
- (9) Lease liabilities relate to property and motor leases and are allocated on the same basis as Property, plant, and equipment.

PART 5

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS OF THE CONTINUING GROUP

Section A: Unaudited Pro Forma Statement of Net Assets of the Continuing Group

The unaudited pro forma statement of net assets set out below has been prepared on the basis set out in the notes below to illustrate the impact of the Transaction on the net assets of Direct Line Group as at 30 June 2023 as if it had taken place at that date (the “**Unaudited Pro Forma Financial Information**”).

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, by its nature, addresses a hypothetical situation and does not, therefore, represent the Continuing Group’s actual financial position or results.

The Unaudited Pro Forma Financial Information does not constitute financial statements within the meaning of section 434 of the Companies Act. Shareholders should read the whole of this document and not rely solely on the summarised financial information contained in this Part 5 (Unaudited Pro Forma Statement of Net Assets of the Continuing Group). Deloitte LLP’s report on the Unaudited Pro Forma Financial Information is set out in Section B of this Part 5.

The Unaudited Pro Forma Financial Information does not reflect the effect of anticipated dis-synergies and efficiencies associated with the Transaction, nor the costs which may be incurred in relation thereto.

The Unaudited Pro Forma Financial Information has been prepared in accordance with Annex 20 of the UK version of the Commission Delegated Regulation (EU) 2019/980 as applied by Listing Rule 13.3.3R in a manner consistent with the accounting policies adopted by the Company in preparing its consolidated unaudited interim financial statements for the six months ended 30 June 2023.

Unaudited Pro Forma Statement of Net Assets as at 30 June 2023

As at 30 June 2023	Adjustments			Pro Forma net assets of the Continuing Group £m
	Direct Line Group Net Assets	Brokered Commercial Insurance Business Net Assets	Transaction adjustments	
	Note 1 £m	Note 2 £m	Note 3 £m	
ASSETS				
Goodwill and other intangible assets	839.3	(6.9)	(19.6) ^(iv)	812.8
Property, plant & equipment	91.4	(0.5)	—	90.9
Right-of-use assets	90.1	(0.6)	—	89.5
Investment property	281.9	—	—	281.9
Reinsurance assets	946.6	—	—	946.6
Financial Investments	3,074.0	—	—	3,074.0
Retirement Benefit Asset	1.6	—	—	1.6
Current tax assets	68.2	—	(57.1) ⁽ⁱⁱⁱ⁾	11.1
Deferred tax assets	113.3	—	(39.2) ⁽ⁱⁱⁱ⁾	74.1
Other receivables	205.1	—	—	205.1
Prepayments, accrued income and other assets	99.0	(0.2)	—	98.8
Derivative financial instruments	36.8	—	—	36.8
Cash and cash equivalents	1,600.9	—	475.0	2,075.9
Assets held for sale	40.6	—	—	40.6
Total Assets	7,488.8	(8.2)	359.1	7,839.7
LIABILITIES				
Trade and other payables	(163.3)	0.1	—	(163.2)
Derivative financial instruments liabilities	(6.2)	—	—	(6.2)
Insurance contract liabilities ⁽⁴⁾	(4,669.7)	—	—	(4,669.7)
Borrowings	(95.8)	—	—	(95.8)
Subordinated liabilities	(258.7)	—	—	(258.7)
Provisions	(64.4)	0.8	—	(63.6)
Lease liabilities	(99.1)	1.0	—	(98.1)
Total Liabilities	(5,357.2)	1.9	—	(5,355.3)
Net Assets	2,131.6	(6.3)	359.1	2,484.4

Notes:

- (1) The consolidated net assets of Direct Line Group have been extracted, without material adjustment, from the consolidated unaudited interim financial statements of Direct Line Group for the six months ended 30 June 2023.
- (2) The net assets of the Brokered Commercial Insurance Business have been extracted, without material adjustment, from Section 3 of Part 4 (Financial Information relating to the Brokered Commercial Insurance Business) of this document.
- (3) The Transaction adjustments reflect the following:

The table below presents a breakdown of the net movement in cash and cash equivalents as a result of the Transaction:

<u>Cash flow items</u>	£m	Note
Initial cash consideration	520.0	(i)
Transaction costs	(45.0)	(ii)
Current tax impact	(57.1)	(iii)
Total Net cash inflow	417.9	—
<u>Non-Cash items</u>	£m	Note
Impairment of assets	(19.6)	(iv)
Deferred tax impact	(39.2)	(iii)
Total Net non-cash items	(58.8)	—
Total transaction adjustments	359.1	—

- (i) In accordance with the terms of the Business Transfer Agreement, initial consideration is £520.0 million with potential further consideration of up to £30.0 million contingent upon certain earn-out provisions relating to the financial performance of the Brokered Commercial Insurance Business as detailed in Part 3 (Principal Terms and Conditions of the Transaction). No adjustment has been made to reflect the potential receipt of further cash consideration under the terms of the

Agreement, due to the inherent uncertainty in estimating future underwriting performance which feeds into the contingent consideration calculation. However, based on current pricing and underwriting assumption, it is forecast that this would be towards the lower end of the range. As explained in Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document, up to £30.0 million in consideration may be payable by RSA after at least six months from the Part VII Transfer Date and would result in a change to the pro forma assets.

- (ii) Total transaction costs incurred by Direct Line Group in relation to the Transaction are estimated to be £45.0 million (inclusive of irrecoverable VAT, where applicable).
 - (iii) A net tax charge on consideration, net of transaction costs, has been estimated at £96.3 million. The classification of this amount has been recognised as a deferred tax charge of £39.2 million and a current tax charge of £57.1 million.
 - (iv) Impairment of assets relates to the write down of Goodwill and Intangible assets associated to the perimeter, which will be required following completion of the Transaction. This includes £10.1 million of Goodwill and £9.5 million of Intangible assets as at 30 June 2023.
- (4) Direct Line Group's balance sheet as at 30 June 2023 includes Insurance contract liabilities relating to the Back Book Policies, which are not part of the Transaction.
- (5) In preparing the unaudited pro forma statement of net assets, no account has been taken of the trading or transactions of Direct Line Group or Brokered Commercial Insurance Business since 30 June 2023.

Section B: Accountants' Report on the Unaudited Pro Forma Statement of Net Assets of the Continuing Group

Deloitte.

**Deloitte LLP
1 New Street Square
London
EC4A 3HQ
United Kingdom**

The Board of Directors
on behalf of Direct Line Insurance Group plc
Churchill Court
Westmoreland Road
Bromley
BR1 1DP

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London
E14 4QA

RBC Europe Limited
100 Bishopsgate
London
EC2N 4AA

3 October 2023

Dear Sirs/Mesdames,

Direct Line Insurance Group plc (the “Company”)

We report on the pro forma statement of net assets (the “Pro forma financial information”) set out in Part 5 of the class 1 circular dated 3 October 2023 (the “Class 1 Circular”). This report is required by Annex 20, section 3 of the Prospectus Delegated Regulation as applied by Listing Rule 13.3.3R and is given for the purpose of complying with that regulation and for no other purpose.

Opinion

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

Responsibilities

It is the responsibility of the directors of the Company (the “Directors”) to prepare the Pro forma financial information in accordance with Annex 20 sections 1 and 2 of the Prospectus Delegated Regulation as applied by Listing Rule 13.3.3R.

It is our responsibility to form an opinion, as to the proper compilation of the Pro forma financial information and to report that opinion to you in accordance with Annex 20 section 3 of the Prospectus Delegated Regulation as applied by Listing Rule 13.3.3R.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to ordinary shareholders as a result of the inclusion of this report in the Class 1 Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R (6), consenting to its inclusion in the Class 1 Circular.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed at the date of their issue.

Basis of preparation

The pro forma financial information has been prepared on the basis described in the notes, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 30 June 2023.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Financial Reporting Council in the United Kingdom. We are independent of the Company in accordance with the Financial Reporting Council's Ethical Standard as applied to Investment Circular Reporting Engagements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

Yours faithfully

Deloitte LLP

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London EC4A 3HQ, United Kingdom. Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients.

PART 6
ADDITIONAL INFORMATION

1. Responsibility

The Company and the Directors, whose names appear in paragraph 4 of this Part 6 (Additional Information) of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Incorporation and registered office

The Company was incorporated on 26 July 1988 and is domiciled in England. It is a public limited company incorporated under the laws of England and Wales with registered number 02280426. Its registered office is Churchill Court, Westmoreland Road, Bromley, Kent BR1 1DP, United Kingdom.

The principal legislation under which the Company operates is the Companies Act and the regulations made under it.

3. Major Shareholders

As at the Latest Practicable Date, the Company had been notified of the following voting interests of three per cent. or more in the issued Ordinary Share capital of the Company:

<u>Name of Shareholder</u>	<u>Number of Ordinary Shares</u>	<u>Percentage of issued Ordinary Share capital</u>
abrdn	62,875,828	4.57%
Ameriprise Financial Inc	66,313,079	5.06%
Ariel Investments	67,254,920	5.09%
Artemis Investment Management LLP	63,254,854	4.82%
FIL Limited	67,141,002	5.12%
FMR LLC	93,206,564	7.11%
Majedie Asset Management Limited	68,061,011	4.99%
Norges Bank	52,264,423	3.99%
T.Rowe Price Associates Inc	61,421,148	4.68%

Save as set out in this paragraph 3, the Company is not aware of any interest (within the meaning of the Disclosure Guidance and Transparency Rules) which will represent three per cent. or more of the voting rights in the Company.

4. Directors

The Directors of the Company and their positions as at the date of this document are as follows:

<u>Name of Director</u>	<u>Position</u>
Danuta Gray	<i>Chair of the Board</i>
Jonathan Greenwood	<i>Acting Chief Executive Officer</i>
Neil Manser	<i>Chief Financial Officer</i>
Dr Richard Ward	<i>Senior Independent Director</i>
Tracy Corrigan	<i>Independent Non-Executive Director</i>
Mark Gregory	<i>Independent Non-Executive Director</i>
Sebastian James	<i>Independent Non-Executive Director</i>
Adrian Joseph OBE	<i>Independent Non-Executive Director</i>
Mark Lewis	<i>Independent Non-Executive Director</i>
Fiona McBain	<i>Independent Non-Executive Director</i>
Gregor Stewart	<i>Independent Non-Executive Director</i>

5. Directors' interests in the Company

5.1 Interests in Ordinary Shares

As at the Latest Practicable Date, the interests of the Directors and any persons connected with them, within the meaning of Part 22 of the Companies Act in Ordinary Shares were as follows:

<u>Name of Director</u>	<u>Number of Ordinary Shares</u>	<u>Percentage of issued Ordinary Share capital</u>
Danuta Gray	26,500	0.002%
Jonathan Greenwood	34,327	0.003%
Neil Manser	329,162	0.025%
Dr Richard Ward	n/a	n/a
Tracy Corrigan	n/a	n/a
Mark Gregory	n/a	n/a
Sebastian James	5,000	0.000%
Adrian Joseph OBE	n/a	n/a
Mark Lewis	n/a	n/a
Fiona McBain	n/a	n/a
Gregor Stewart	2,925	0.000%

5.2 Interests in shares under incentive plans

As at the Latest Practicable Date, the following Directors had the following interests in shares under incentive plans:

Directors' interests in shares and options under the LTIP¹

	<u>Date of Award</u>	<u>Award as % of salary</u>	<u>Number of shares granted</u>	<u>Face value of awards (£)²</u>	<u>Market price at date of award (£)</u>	<u>Exercise/vesting period</u>
Jonathan Greenwood	LTIP March 2021	75%	115,442	198,560	£3.15	3 years
Performance-based share options	LTIP August 2021	75%	108,889	187,289	£3.114	3 years
	LTIP March 2022	75%	123,143	211,806	£2.75	3 years
	LTIP August 2022	75%	148,056	254,656	£2.09	3 years
	LTIP March 2023	200%	1,058,394	1,820,438	£1.37	3 years + 2 year holding period
Neil Manser	LTIP March 2021	62.5%	76,947	132,349	£3.15	3 years
Performance-based share options	LTIP August 2021	100%	181,225	311,707	£3.11	3 years + 2 year holding period
	LTIP March 2022	100%	204,949	352,512	£2.75	3 years + 2 year holding period
	LTIP August 2022	100%	246,411	423,827	£2.09	3 years + 2 year holding period
	LTIP March 2023	200%	751,824	1,293,137	£1.37	3 years + 2 year holding period

Notes:

- (1) The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £3.15 in March 2021, £3.11 in August 2021, £2.75 in March 2022, £2.09 in August 2022 and £1.37 in March 2023.
- (2) Value of awards based on share price of £1.72 as at the Latest Practicable Date.

Directors' interests in shares in the DAIP¹

	<u>Grant date</u>	<u>Number of shares granted</u>	<u>Value of deferred bonus (£)²</u>
Jonathan Greenwood			
Deferred Share Awards	March 2021	75,312	129,537
Deferred Share Awards	March 2022	82,752	142,333
Neil Manser			
Deferred Share Awards	March 2021	50,476	86,819
Deferred Share Awards	March 2022	107,149	184,296

Notes:

- (1) The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £3.15 in March 2021, and £2.75 in March 2022. In accordance with the DAIP rules, dividends in respect of the deferred shares are reinvested in additional shares, which vest when the deferred shares vest.
- (2) Value of awards based on share price of £1.72 as at the Latest Practicable Date.

Directors' interests in the SIP

	<u>Matching shares granted during the year</u>	<u>Matching shares cancelled during the year</u>	<u>Value of matching shares granted (£)¹</u>	<u>Balance of matching shares at the Latest Practicable Date²</u>
Jonathan Greenwood	412	0	676	1,175
Neil Manser	411	0	674	1,174

Notes:

- (1) The accumulated market value of matching shares at the time of each award. Purchase of the matching shares takes place within 30 days of the contributions being deducted from salary.
- (2) Matching shares which are subject to forfeiture.

6. Directors' service contracts and benefits upon termination

6.1 Executive Director

The Company has entered into a service contract with each Executive Director, the particulars of which as at the Latest Practicable Date are:

<u>Name of Director</u>	<u>Date of initial appointment to the Board</u>	<u>Date of service contract</u>	<u>Base salary (£)</u>	<u>Notice Period</u>
Jonathan Greenwood	31 August 2023	27 January 2023	725,000	12 months
Neil Manser	13 May 2021	25 May 2021	530,450	12 months

The base salary of Jonathan Greenwood has been effective since 27 January 2023. The base salary of Neil Manser has been effective since 1 April 2023.

The Executive Directors each have a service contract with DL Insurance Services Limited that does not have a fixed term but provides for termination on the expiry of not more than 12 months' notice by either party (save in circumstances justifying summary termination). The Executive Directors' service contracts may permit a payment for the unexpired portion of the notice period to be made in respect of base salary, benefits and pension only either (a) in a lump sum or (b) in monthly instalments (in which case instalments are subject to mitigation if an alternative role is found).

The treatment of long-term incentive share awards or other share rights is governed by the relevant LTIP.

Further details of Neil Manser's service contract are incorporated by reference from page 130 of Direct Line Group's 2022 Annual Report and Accounts. Jonathan Greenwood's service contract is on the same material terms as Neil Manser's but further details are not available in Direct Line Group's 2022 Annual Report and Accounts as Jonathan Greenwood was not a director of the Company at the time of publication.

6.2 Non-Executive Directors

The appointment of the Chair and each Non-Executive Director is terminable on three months' notice.

Non-Executive Directors have letters of appointments (as opposed to service contracts) and are appointed for a three year term which may be extended by mutual agreement. All Non-Executives are subject to annual re-election by shareholders.

Further details of the letters of appointment are incorporated by reference from page 130 of Direct Line Group's 2022 Annual Report and Accounts.

7. Compensation

Under the terms of their service contracts, letters of appointment, employment agreements and any applicable incentive plans, effective in the year ended 31 December 2022, the aggregate basic remuneration and benefits (including pension contributions on a defined contribution basis but excluding variable remuneration, as explained further below) to the Directors who served during the year ended 31 December 2022, consisting of 9 individuals, was £1.72 million.

The remuneration and benefits of the Non-Executive Directors of the Board who served during 2022, in respect of the year ended 31 December 2022, were as follows:

<u>Name¹</u>	<u>Date of appointment</u>	<u>Start of current term of office</u>	<u>Fees (£)⁴</u>	<u>Taxable benefit (£)^{3, 4}</u>	<u>Total Board Fees (£)³</u>
Danuta Gray	February 2017	May 2023	350,000	6,000	356,000
Dr Richard Ward ²	January 2016	January 2022	150,000	0	150,000
Tracy Corrigan	November 2021	November 2021	88,000	n/a	88,000
Mark Gregory	March 2018	May 2021	129,000	n/a	129,000
Sebastian James	August 2014	September 2020	104,000	n/a	104,000
Adrian Joseph OBE	January 2021	January 2021	80,000	n/a	80,000
Fiona McBain	September 2018	May 2021	109,000	11,000	120,000
Gregor Stewart	March 2018	May 2021	115,000	12,000	127,000

Notes:

- (1) Non-Executive Directors are not eligible to participate in any of Direct Line Group's bonus or share incentive schemes or to join any Group pension scheme.
- (2) The value of benefits for Richard Ward is negligible but has been rounded down to 0 to be consistent with reporting from previous years.
- (3) The values shown under 'Taxable benefits' above comprise the value of taxable travel and subsistence expenses reimbursed by the Company (including any gross-up for tax and national insurance contributions due).
- (4) All figures are rounded to the nearest thousand.

The Non-Executive Directors' fees for 2022 are as follows:

<u>Position</u>	<u>Fees for 2022 (£)</u>
Board Chair Fee	350,000
Basic Non-Executive Director Fee	75,000
Senior Independent Director Fee	30,000
Chair of Audit, Board Risk and Remuneration Committees	30,000
Chair of Sustainability and Investment Committees	15,000
Member of Board Committee (Audit, Board Risk or Remuneration)	10,000
Member of Board Committee (Sustainability, Investment or Nomination)	5,000

Jonathan Greenwood was not a director of the Company during the financial year ended 31 December 2022. Neil Manser's remuneration and benefits in respect of the financial year ended 31 December 2022, was as follows:

	(£)
Base salary ¹	515,000
Benefits ²	2,000
Annual bonus	—
LTIP ³	—
All employee share plans	1,000
Pension contributions and cash allowance in lieu of pension	46,000
Fixed remuneration	564,000
Variable remuneration	—
Total	<u><u>564,000</u></u>

Notes:

- (1) Salary—the Company operates a flexible benefits policy, and salary is reported before any personal elections are made.
- (2) Benefits—include a company car or allowance, private medical insurance, life assurance, income protection, health screening and discounted insurance.
- (3) The 2022 LTIP figure reflect the performance of the relative TSR element of the 2019 LTIP awards and the RoTE element of the 2020 awards. Further information on LTIP awards can be found on pages 140-141 of Direct Line Group's 2022 Annual Report which is incorporated by reference.

Each Executive Director's remuneration is made up of fixed and variable remuneration. Fixed remuneration includes base salary, pension and benefits. Benefits provided are medical and other benefits. Variable remuneration includes a short-term performance bonus, deferrals into shares and long-term incentive plans with performance measures that are critical drivers for Direct Line Group. The Executive Directors' variable remuneration for the financial year ended 31 December 2023 will be in line with Direct Line Group's Remuneration Policy.

8. Related party transactions

Details of related party transactions (which for these purposes are those set out in UK-adopted international accounting standards) that the Company has entered into are set out below:

- (a) during the financial year ended 31 December 2020, such transactions are disclosed in note 44 on page 214 of the Company's 2020 Annual Report and Accounts which is hereby incorporated by reference into this document;
- (b) during the financial year ended 31 December 2021, such transactions are disclosed in note 44 on page 238 of the Company's 2021 Annual Report and Accounts which is hereby incorporated by reference into this document;
- (c) during the financial year ended 31 December 2022, such transactions are disclosed in note 44 on page 241 of the Company's 2022 Annual Report and Accounts which is hereby incorporated by reference into this document; and
- (d) during the period from 1 January 2023 to the date of this document, the Company has not entered into any related party transactions.

9. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by a member of Direct Line Group within the two years immediately preceding the date of this document and are, or may be, material or have been entered into at any time by any member of Direct Line Group and contain provisions under which any member of Direct Line Group has an obligation or entitlement which is, or may be, material to Direct Line Group at the date of this document:

9.1 The Transaction Documents

Your attention is drawn to Part 3 (Principal terms and condition of the Transaction) of this document which contains a summary of the Transaction Documents.

9.2 Sponsors' Agreement

On 3 October 2023, the Company, Morgan Stanley and RBC entered into a sponsors' agreement, pursuant to which each of Morgan Stanley and RBC agreed to act as joint sponsor to the Company in connection with the Transaction and this Circular (the "**Sponsors' Agreement**"). Under the terms of the Sponsors' Agreement, the Company has agreed to provide Morgan Stanley and RBC with certain customary indemnities, undertakings, representations and warranties. The indemnities provided by the Company indemnify each of Morgan Stanley and RBC and their respective affiliates against, among other things, claims made against them or losses incurred by them, subject to certain exceptions. In addition, the Sponsors' Agreement provides Morgan Stanley and RBC with the right to terminate the Sponsors' Agreement in certain specified circumstances typical for an agreement of this nature. If such right is exercised by Morgan Stanley or RBC, the Sponsors' Agreement will lapse.

10. Litigation and regulatory matters

10.1 The Company and the Continuing Group

During the 12 months preceding the date of this document, there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Company or the Continuing Group.

As announced on 29 June 2023 and 1 September 2023, Direct Line Group is undertaking two past business reviews, the former relating to total loss valuations for motor vehicles and the latter relating to pricing in Motor and Home following the FCA's Pricing Practices regulations which came into force on 1 January 2022. Remediation will be made to any customers affected by either of these matters.

Direct Line Group is aiming to complete the first review this year and the second in the first half of 2024. Customers affected will be remediated and across the 2022 full-year and 2023 half-year results Direct Line Group has provided for an estimate of remediation totalling £40 million for Motor total loss and £30 million in relation to the FCA's Pricing Practices regulations. Of this total remediation, approximately £30 million of which approximately half was in relation to Motor total loss and approximately half in relation to the FCA's Pricing Practices regulations, was provided for in the first half of 2023. Based on the ongoing review, Direct Line Group's latest estimate is that the remediation for Motor total loss may be in the region of a further £20 million in addition to the previous estimate of £40 million, but as the past business review is yet to be finalised, it is possible total remediation costs may exceed these estimates.

10.2 The Brokered Commercial Insurance Business

There are no, nor have there been any, governmental, legal or arbitration proceedings (nor is the Company aware of any such proceedings which are pending or threatened) which may have, or during the last twelve months before the date of this document have had, a significant effect on the financial position or profitability of the Brokered Commercial Insurance Business.

11. Working capital

The Company is of the opinion that the Continuing Group has sufficient working capital available for its present requirements, that is, for at least the next 12 months from the date of publication of this document.

12. No significant change

12.1 The Company and the Continuing Group

There has been no significant change in the financial position or financial performance of the Continuing Group since 30 June 2023, being the end of the last financial period for which unaudited interim financial information has been published.

12.2 The Brokered Commercial Insurance Business

There has been no significant change in the financial position or financial performance of the Brokered Commercial Insurance Business since 30 June 2023, being the end of the last financial period for which the unaudited interim financial information relating to the Brokered Commercial Insurance Business included in this document was prepared.

13. Consents

13.1 Deloitte LLP is a member firm of the Institute of Chartered Accountants in England and Wales and has given, and not withdrawn, its written consent to the inclusion of its report on the unaudited pro forma statement of net assets of the Continuing Group set out in Section B of Part 5 (Accountants' Report on the Unaudited Pro Forma Statement of Net Assets of the Continuing Group) of this document in the form and context in which it appears.

13.2 Morgan Stanley has given and has not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which they are included.

13.3 RBC has given and has not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which they are included.

14. Incorporation by reference

The table below set outs the various information incorporated by reference into this document, so as to provide the information required under the Listing Rules.

Document	Information incorporated by reference	Paragraph in this document which refers to the information incorporated by reference	Where the information can be accessed by shareholders
Company's 2020 Annual Report	Information on related party transactions included in note 44 on page 214 to the consolidated financial statements for the financial year ended 31 December 2019	Paragraph 8(a) of Part 6 (Additional Information)	https://www.directlinegroup.co.uk/en/investors/results-reports-and-events.category1.year2021.html
Company's 2021 Annual Report	Information on related party transactions included in note 44 on page 238 to the consolidated financial statements for the financial year ended 31 December 2020	Paragraph 8(b) of Part 6 (Additional Information)	https://www.directlinegroup.co.uk/en/investors/results-reports-and-events.category1.year2022.html
Company's 2022 Annual Report	Information on related party transactions included in note 44 on page 241 to the consolidated financial statements for the financial year ended 31 December 2021	Paragraph 8(c) of Part 6 (Additional Information)	https://www.directlinegroup.co.uk/en/investors/results-reports-and-events.category1.year2023.html
Company's 2022 Annual Report	Information on Executive Director's service contract and benefits on termination on page 130, Directors' Remunerations report	Paragraph 6.1 of Part 6 (Additional Information)	https://www.directlinegroup.co.uk/en/investors/results-reports-and-events.category1.year2023.html
Company's 2022 Annual Report	Information on Non-Executive Directors' service agreements on page 130, Directors' Remunerations report	Paragraph 6.2 of Part 6 (Additional Information)	https://www.directlinegroup.co.uk/en/investors/results-reports-and-events.category1.year2023.html
Company's 2022 Annual Report	Information on Annual Bonus pages 138-139, Directors' Remunerations report	Paragraph 7 of Part 6 (Additional Information)	https://www.directlinegroup.co.uk/en/investors/results-reports-and-events.category1.year2023.html
Company's 2022 Annual Report	Information on LTIP pages 140-141, Directors' Remunerations report	Paragraph 7 of Part 6 (Additional Information)	https://www.directlinegroup.co.uk/en/investors/results-reports-and-events.category1.year2023.html

Information that is itself incorporated by reference in the above documents is not incorporated by reference into this document. Where only parts of a document are being incorporated by reference in this document, the parts of the document which are not being incorporated by reference are either not relevant for the investor or are covered elsewhere in this document.

Any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this document to the extent that a statement contained herein (or in a later document which is incorporated by reference herein) modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this document.

15. Documents available for inspection

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of the Company at Riverbank House, 2 Swan Lane, London, EC4R 3AD and (with the exception of the Business Transfer Agreement and Quota Share Reinsurance Agreement) on the Company's website (<https://www.directlinegroup.co.uk>) from the date of this document up to and including the date of the General Meeting and for the duration of the General Meeting:

- (a) the Company's articles of association;
- (b) the audited financial statements of the Company for each of the three financial years ended 31 December 2022;
- (c) the unaudited interim financial statements of the Company for the six months ended 30 June 2023;
- (d) the consent letters referred to in paragraph 13 of this Part 6 (Additional Information) of this document;
- (e) the report of Deloitte LLP set out in Section B of Part 5 (Unaudited Pro Forma Statement of Net Assets of the Continuing Group) of this document;
- (f) the Business Transfer Agreement;
- (g) the Quota Share Reinsurance Agreement;
- (h) this document; and
- (i) the notice of General Meeting.

PART 7
DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

ACA Related Rights	has the meaning given in Part 3 (Principal Terms and Conditions of the Transaction) of this document
Account Control Agreement	has the meaning given in Part 3 (Principal Terms and Conditions of the Transaction) of this document
Additional Consideration	has the meaning given in Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document
Back Book Policies	has the meaning given in Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document
Brand Licence Agreements	the Churchill Expert Brand Licence Agreement and the Brokered Commercial Insurance Business Brand Licence Agreement
Break Fee	has the meaning given in Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document
Board	the board of directors of the Company
Brokered Commercial Insurance Business	has the meaning given in Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document
Brokered Commercial Insurance Business Brand Licence Agreement	the brand licence agreement relating to the “NIG” and “FarmWeb” trademarks between U K Insurance Limited and RSA, further details of which are set out in Part 3 (Principal Terms and Conditions of the Transaction) of this document
Business Days	means a day (other than a Saturday or Sunday) on which banks are open for general business in London
Business Transfer Agreement	has the meaning given in Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document, further details of which are set out in Part 3 (Principal Terms and Conditions of the Transaction) of this document
Business Warranties	has the meaning given in Part 3 (Principal Terms and Conditions of the Transaction) of this document
Charged Accounts	has the meaning given in Part 3 (Principal Terms and Conditions of the Transaction) of this document
Churchill Expert Brand Licence Agreement	the brand licence agreement relating to the “Churchill Expert” brand including certain trademarks and domain names between U K Insurance Limited and RSA, further details of which are set out in Part 3 (Principal Terms and Conditions of the Transaction) of this document
Circular	this document
Companies Act	the Companies Act 2006, as amended from time to time
Company	Direct Line Insurance Group plc, a public limited company incorporated in England with registered number 02280426 and whose registered office is Churchill Court, Westmoreland Road, Bromley, Kent BR1 1DP
Computershare	means Computershare Investor Services PLC
Condition	has the meaning given in Part 3 (Principal Terms and Conditions of the Transaction) of this document
Continuing Group	Direct Line Group following the sale of the Brokered Commercial Insurance Business pursuant to the Transaction
Court	the High Court of England and Wales

CREST	the electronic transfer and settlement system for the paperless settlement of trades in listed securities operated by Euroclear
CREST Manual	the manual, as amended from time to time, produced by Euroclear describing the CREST system and supplied by Euroclear to users and participants thereof
CREST Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
Custodian	has the meaning given in Part 3 (Principal Terms and Conditions of the Transaction) of this document
DAIP	the Deferred Annual Incentive Plan operated by Direct Line Group under which a portion of an executive’s Annual Incentive Plan award is made in the form of a share award
Directors	the directors of the Company whose names appear on page 6 of this document
Disclosure Guidance and Transparency Rules	the disclosure guidance and transparency rules made by the FCA under section 73A of FSMA, as amended from time to time
DL Insurance Services Limited	DL Insurance Services Limited, a private limited company incorporated in England with registered number 03001989 and whose registered office is Churchill Court, Westmoreland Road, Bromley, Kent BR1 1DP
Domain Name and Social Media Account Transfer Agreement	the domain name and social media account transfer agreement relating to the “FarmWeb” and “NIG” brands between U K Insurance Limited and RSA, further details of which are set out in Part 3 (Principal Terms and Conditions of the Transaction) of this document
Direct Line Group	the Company and, where the context requires, its subsidiary undertakings as at the date of this document
Earn-Out	has the meaning given in Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document
Enforcement Notice	has the meaning given in Part 3 (Principal Terms and Conditions of the Transaction) of this document
Euroclear	Euroclear UK & International Limited, the operator of CREST (as defined in the CREST Regulations)
Executive Directors	Jonathan Greenwood and Neil Manser
Extended Long Stop Date	has the meaning given in Part 3 (Principal Terms and Conditions of the Transaction) of this document
FCA or Financial Conduct Authority	the UK Financial Conduct Authority
Form of Proxy	the personalised Form of Proxy accompanying this document or otherwise provided to Shareholders
FSMA	the Financial Services and Markets Act 2000, as amended from time to time
Fundamental Warranties	has the meaning given in Part 3 (Principal Terms and Conditions of the Transaction) of this document
General Meeting	the general meeting of the Company to be convened in connection with the Transaction, notice of which accompanies this document, including any adjournment of it
Initial Consideration	has the meaning given in Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document
Initial Consideration Payment Date	has the meaning given in Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document
Intact or Intact Financial Corporation	a corporation registered in Canada, with corporation number 4273974 whose head office is situated at 700 University Avenue, Toronto, Ontario, Canada
Joint Sponsors	Morgan Stanley and RBC (acting as joint sponsors)

Latest Practicable Date . . .	29 September 2023 (being the last practicable date before publication of this document)
Listing Rules	the listing rules made by the FCA under section 73A of FSMA (as amended from time to time)
Long Stop Date	has the meaning given in Part 3 (Principal Terms and Conditions of the Transaction) of this document
LTIP	the Long-Term Incentive Plan operated by Direct Line Group under which executives are made performance-based share awards
Market Abuse Regulation .	Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse, and any implementing legislation, in each case as it forms part of UK law under the European Union (Withdrawal) Act 2018, as amended from time to time
Morgan Stanley	Morgan Stanley & Co. International plc, in its capacities as Lead Financial Adviser and Joint Sponsor in relation to the Transaction
Non-Executive Directors . .	Danuta Gray, Dr Richard Ward, Tracy Corrigan, Mark Gregory, Sebastian James, Adrian Joseph OBE, Mark Lewis, Fiona McBain and Gregor Stewart
Notice of General Meeting	the notice of General Meeting contained in Part 8 (Notice of General Meeting) of this document
Operational Transfer	has the meaning given in Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document
Operational Transfer Date	the date on which Operational Transfer occurs
Ordinary Shares	the ordinary shares of £0.10 10/11 each in the share capital of the Company
Part VII Transfer	has the meaning given in Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document
Part VII Transfer Date . .	the date on which the Part VII Transfer becomes effective
Posted Collateral	has the meaning given in Part 3 (Principal Terms and Conditions of the Transaction) of this document
PRA or Prudential Regulation Authority	the Prudential Regulation Authority
Pro-Forma Financial Information	has the meaning given in Part 5 (Unaudited Pro Forma Statement of Net Assets of the Continuing Group) of this document
Prospectus Delegated Regulation	UK version of the Commission delegated regulation (EU) 2019/980 supplementing the Prospectus Regulation which is part of UK law under the European Union (Withdrawal) Act 2018, as amended from time to time
Prospectus Regulation . . .	UK version of Regulation (EU) No 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, which is part of UK law under the European Union (Withdrawal) Act 2018, as amended from time to time
Prospectus Regulation Rules	the Prospectus Regulation Rules of the FCA under Part 7 of FSMA (or a particular paragraph of such rules)
Purchaser or RSA	has the meaning given in Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document
Quota Share Portfolio . . .	new insurance business written by U K Insurance Limited between the Risk Transfer Date and the Operational Transfer Date and the unearned portion of certain Back Book Policies
Quota Share Reinsurance Agreement	has the meaning given in Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document, further details of which are set

	out in Part 3 (Principal Terms and Conditions of the Transaction) of this document
RBC	RBC Europe Limited, in its capacities as Financial Adviser and Joint Sponsor in relation to the Transaction
Registrar	Computershare Investor Services PLC
Related Rights	has the meaning given in Part 3 (Principal Terms and Conditions of the Transaction) of this document
Reinsurance	has the meaning given in Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document
Resolution	the ordinary resolution to be proposed and considered at the General Meeting to approve the Transaction, as set out in the Notice of General Meeting forming part of this document
Reverse Transitional Services Agreement	the reverse transitional services agreement to be entered into between Direct Line Group and RSA, further details of which are set out in Part 3 (Principal Terms and Conditions of the Transaction) of this document
Risk Transfer Date	has the meaning given in Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document
Royal & Sun Alliance Insurance Limited or RSA	a company registered in England and Wales, with registered number 00093792 whose registered office is at St Marks Court, Chart Way, Horsham, West Sussex RH12 1XL
Sale	has the meaning given in Part 3 (Principal Terms and Conditions of the Transaction) of this document
Sale Assets	has the meaning given in Part 3 (Principal Terms and Conditions of the Transaction) of this document
Security Deed	has the meaning given in Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document, further details of which are set out in Part 3 (Principal Terms and Conditions of the Transaction) of this document
Selling Entities	has the meaning given in Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document
Separation Plan	has the meaning given in Part 3 (Principal Terms and Conditions of the Transaction) of this document
Shareholder	a holder of Ordinary Shares from time to time
Signing Date	6 September 2023
SIP	the Share Incentive Plan operated by Direct Line Group under which eligible employees can invest a certain amount of their pre-tax salary to purchase shares in the Company
SME	has the meaning given in Part 3 (Principal Terms and Conditions of the Transaction) of this document
Sponsors' Agreement	the sponsors' agreement between the Company and Morgan Stanley and RBC, as further described in Part 6 (Additional Information) of this document
Sterling, GBP or £	the lawful tender for the time being and from time to time of the United Kingdom
Superior Proposal	has the meaning given in Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document
Trade Mark Assignment Agreement	the trade mark assignment agreement relating to the "NIG" and "FarmWeb" brands between U K Insurance Limited and RSA

Transaction	has the meaning given in Part 1 (Letter from the Chair of the Board of Direct Line Insurance Group plc) of this document
Transaction Documents	the Business Transfer Agreement, the Quota Share Reinsurance Agreement, the Transitional Services Agreement, the Reverse Transitional Services Agreement, the Secondment Agreement, the Brand Licence Agreements, the Trade Mark Assignment Agreement, the Domain Name and Social Media Account Transfer Agreement, the Security Deed and the Account Control Agreement, further details of each of which are set out in Part 3 (Principal Terms and Conditions of the Transaction) of this document
Transitional Services Agreement	the transitional services agreement to be entered into between Direct Line Group and RSA, further details of which are set out in Part 3 (Principal Terms and Conditions of the Transaction) of this document
UK or United Kingdom	the United Kingdom of Great Britain and Northern Ireland
U K Insurance Business Solutions Limited or UKIBS	U K Insurance Business Solutions Limited, a private limited company incorporated in England with registered number 05196274 and whose registered office is Churchill Court, Westmoreland Road, Bromley, Kent, BR1 1DP
U K Insurance Limited	U K Insurance Limited, a private limited company incorporated in England with registered number 01179980 and whose registered office is The Wharf, Neville Street, Leeds, LS1 4AZ

All references to legislation in this document are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension of it.

For the purpose of this document, “subsidiary” and “subsidiary undertaking” have the meanings given by the Companies Act.

Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.

PART 8
NOTICE OF GENERAL MEETING



Direct Line Insurance Group plc

(Incorporated in England and Wales with registered number 02280426)

Notice is hereby given that a general meeting of Direct Line Insurance Group plc (the “**Company**”) will be held at 10 a.m. on 19 October 2023 at Riverbank House, 2 Swan Lane, London, EC4R 3AD to consider and, if thought appropriate, pass the following resolution, which will be proposed as an ordinary resolution of the Company.

ORDINARY RESOLUTION

The Transaction

THAT:

- (i) the proposed transfer of a business as a going concern, which includes (among other things):
 - (a) products written by Direct Line Group under the “NIG” and “FarmWeb” brands and certain broker brands (in each case, whether using a single brand or on a co-branded basis);
 - (b) certain of Direct Line Group’s brands, properties, contracts, data, intellectual property rights and employees;
 - (c) business arranged by U K Insurance Business Solutions Limited branded “Churchill Expert” (including fleet insurance traded directly by U K Insurance Business Solutions Limited and insurance offered through its portfolio of partnerships with third parties) substantially on the terms and subject to the conditions of the business transfer agreement dated 6 September 2023 between the Company, U K Insurance Limited, DL Insurance Services Limited, U K Insurance Business Solutions Limited and Royal & Sun Alliance Insurance Limited (the “**Purchaser**”) and Intact Financial Corporation (the “**Business Transfer Agreement**”) and the reinsurance transaction in relation to new and certain existing business substantially on the terms and subject to the conditions of the quota share reinsurance agreement dated 6 September 2023 between U K Insurance Limited and the Purchaser (the “**Quota Share Reinsurance Agreement**”), as described in the circular to the Company’s shareholders dated 3 October 2023 (the “**Circular**”) and all other agreements and ancillary documents contemplated by the Business Transfer Agreement and the Quota Share Reinsurance Agreement (the “**Transaction**”), be and are approved for the purposes of Chapter 10 of the Listing Rules of the Financial Conduct Authority with any changes as are permitted in accordance with the below; and
- (ii) the directors of the Company (the “**Directors**”) (or any duly authorised committee of the Directors) be and are authorised: (a) to do or procure to be done all such acts and things, execute all such agreements and make all such arrangements on behalf of the Company and any of its subsidiaries as the Directors (or any duly authorised committee of the Directors) consider necessary, expedient or desirable in connection with, and to implement, the Transaction; and (b) to agree such modifications, variations, revisions, waivers, extensions, additions or amendments (not being modifications, variations, revisions, waivers, extensions, additions or amendments of a material nature for the purposes of Listing Rule 10.5.2R) as the Directors (or any duly authorised committee of the Directors) may in their absolute discretion deem necessary, expedient or desirable to or in connection with the Business Transfer Agreement, the Quota Share Reinsurance Agreement, the Transaction and/ or any associated and ancillary agreements.

By order of the Board

Roger Clifton
Company Secretary
Direct Line Insurance Group plc

3 October 2023

Registered office: Churchill Court, Westmoreland Road, Bromley, Kent, BR1 1DP

NOTES

Appointment of Proxy

1. Members are entitled to appoint a proxy to exercise any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the General Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this Notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact Computershare Investor Services PLC (the “**Registrar**”) on +44 (0)370 873 5880.
2. To be valid, any proxy form or other instrument appointing a proxy and any power of attorney or other authority, if any, under which it is signed or a notarially certified or office copy of such power or authority must be received at the office of the Registrar (Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY) or at the electronic address provided in Note 6, in each case no later than 10 a.m. on 17 October 2023.
3. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in Note 8) will not prevent a shareholder attending the General Meeting and voting in person if he/she wishes to do so. You must inform the Company’s Registrar in writing of any termination of the authority of a proxy.

Nominated Persons

4. Any persons to whom this notice is sent who is nominated under section 146 of the Companies Act 2006 to enjoy information rights (a “**Nominated Person**”) may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
5. The statement of the rights of shareholders in relation to the appointment of proxies in Notes 1 and 2 above does not apply to Nominated Persons. The rights described in these Notes can only be exercised by shareholders of the Company. Nominated Persons are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investment in the Company.

Electronic submission of proxy form

6. It is possible for you to submit your proxy votes via the internet. You can do so by visiting www.investorcentre.co.uk/eproxy. You will require the control number, your unique PIN and Shareholder Reference Number (“**SRN**”). This information can be found on your form of proxy, or if you receive communications from us electronically, voting information will be contained within your email broadcast.

CREST electronic proxy voting

7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
8. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a “**CREST Proxy Instruction**”) must be properly authenticated in accordance with Euroclear UK & International Limited’s specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Registrar (ID number 3RA50) by no later than 10 a.m. on 17 October 2023. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer’s agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

9. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & International Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that their CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
10. The Company may treat a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 as invalid.

The Company's total voting rights

11. As at 29 September 2023 (being the latest practicable date prior to the publication of this Notice) the Company's issued share capital consisted of 1,311,388,157 ordinary shares, all carrying one vote each. Therefore, the total number of voting rights in the Company as at 29 September 2023 was 1,311,388,157. No shares are held in treasury.

Corporate Representatives

12. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member, provided that they do not do so in relation to the same shares.
13. In the event a corporate representative wishes to attend the General Meeting, they will need their custodian / nominee to issue them with a letter of representation.

Voting record date, attendance and questions

14. Members of the Company as at 8.00 p.m. on 17 October 2023 shall be entitled to attend and vote at the meeting in person or by proxy in respect of the number of shares registered in their names at that time (or, in the event of any adjournment, at the time which is not more than 48 hours before the time of the adjourned meeting (disregarding non-business days)). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
15. Any member attending the meeting in person or by proxy has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered. Shareholders are reminded that unacceptable behaviour will not be tolerated at the meeting and will be dealt with appropriately by the Chair.

Electronic addresses

16. You may not use any electronic address provided either in this Notice or any related documents (including the proxy form) to communicate with the Company for any purposes other than those stated.

