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If you sell or have sold or otherwise transferred all of your Ordinary Shares you should forward this Circular and the accompanying Form of Proxy to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. If you have sold or otherwise transferred only part of your holding of Ordinary Shares, please immediately contact your stockbroker, bank or other agent through whom the sale or transfer was effected.

This document does not constitute an offer or invitation for any person to subscribe for or purchase any securities in Donegal Investment Group plc (“**Donegal**” or the “**Company**”). This document is provided in connection with the Extraordinary General Meeting, and is not a prospectus, offering circular, placement memorandum or the like containing the information accompanying a securities offering.



**PROPOSED €20 MILLION RETURN OF CAPITAL TO  
SHAREHOLDERS  
and  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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This Circular should be read as a whole. Your attention is drawn to the letter from the Chairman of Donegal set out on pages 7 to 13 of this Circular, which explains the purpose of the Resolutions to be proposed at the Extraordinary General Meeting and includes the recommendation from the Board to vote in favour of the Resolutions.

The Notice of the Extraordinary General Meeting of Donegal to be held at the Company’s Head Office, Ballyraine, Letterkenny, Co. Donegal, on Friday, 11 February 2022 at 12:00pm is set out on page 29 of this Circular.

**Please take note of the enclosed statement of arrangements for the Extraordinary General Meeting, which set out the arrangements for the conduct of the Extraordinary General Meeting in view of government restrictions on travel and public gatherings introduced to reduce the spread of COVID-19.**

A Form of Proxy for use at the Extraordinary General Meeting is enclosed. You are requested to complete and return the Form of Proxy as soon as possible whether or not you propose to attend the meeting in person. To be valid, the enclosed Form of Proxy should be completed and returned by hand

or by post to Donegal's Registrar, Computershare Investor Services (Ireland) Limited, 3100 Lake Drive, Citywest Business Campus, Dublin 24, D24 AK82 (the "**Registrar**") to be received by the Registrar by no later than 12:00pm on Wednesday, 9 February 2022. Completion and return of a Form of Proxy will not preclude you from attending and voting at the Extraordinary General Meeting should you so wish.

The appointment of a proxy may be submitted electronically by one of the means described in paragraph 4 of the Statement of Procedures in the notice convening the EGM set out in this Circular.

J&E Davy, trading as Davy, which is regulated in Ireland by the Central Bank of Ireland, is Euronext Growth adviser (pursuant to the Euronext Growth Rules) to Donegal. Davy is acting exclusively for Donegal in connection with the arrangements described in this Circular and is not acting for any other person and will not be responsible to any person for providing the protections afforded to customers of Davy nor for advising any other person in connection with the arrangements described in this Circular.

This document has not been approved by the Central Bank of Ireland, the Euronext Dublin or any other regulator. The distribution of this Circular in certain jurisdictions may be restricted by law and therefore persons receiving this Circular should inform themselves about and observe any such restrictions. This document does not constitute, nor is it intended to constitute, investment research or investment advice under the European Union (Markets in Financial Instruments) Regulations 2017 (as amended) of Ireland by Donegal or any other person. This document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research (whether pursuant to the European Union (Markets in Financial Instruments) Regulations 2017 (as amended) of Ireland or otherwise).

This document is a circular to Shareholders and does not constitute a prospectus for the purposes of the Irish IMC Rules and has not been approved by or filed with the Central Bank of Ireland. This document does not constitute, and the Company is not making, an offer to the public within the meaning of article 2(d) of the EU Prospectus Regulation 2017/1129.

## **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this Circular are or may constitute forward-looking statements. Such forward-looking statements involve risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements are typically identified by the use of forward-looking terminology such as “believes”, “expects”, “may”, “will”, “would”, “should”, “intends”, “estimates”, “plans”, “assumes” or “anticipates” or the negative of such words or other variations on them or comparable terminology, or by discussions of strategy which involve risks and uncertainties. Such risks, uncertainties and other factors include, among others: general economic and business conditions and changes in technology, government policy, regulation, ability to attract and retain personnel and natural and manmade disasters. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Circular. The Company assumes no obligation to update or correct the information contained in this Circular, whether as a result of new information, future events or otherwise, except to the extent required under any law or regulation to which the Company is subject.

The statements contained in this Circular are made as at the date of this Circular, unless some other time is specified in relation to them, and publication of this Circular shall not give rise to any implication that there has been no change in the facts set out in this Circular since such date. Nothing contained in this Circular shall be deemed to be a forecast, projection or estimate of the future financial performance of the Company except where expressly stated.

## **PRESENTATION OF FINANCIAL INFORMATION**

Unless otherwise indicated, all references in this Circular to “€”, “euro” or “cent” are to the lawful currency of participating member states of the European Union. The financial information presented in this Circular is in euro millions rounded to one decimal place except where otherwise indicated. In addition, certain percentages, rounded to one decimal place, presented in this Circular reflect calculations based upon underlying information prior to rounding and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

## **TIME**

All references in this Circular to times are to Irish Standard Time, unless otherwise stated.

## **DEFINITIONS**

Capitalised terms used in this Circular have the meaning ascribed to them in the section headed “Definitions” in this Circular.

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## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

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Publication of this Circular	19 January 2022
Latest time and date for receipt of Forms of Proxy for the Extraordinary General Meeting	12:00pm on Wednesday, 9 February 2022
Extraordinary General Meeting	12:00pm on Friday, 11 February 2022
Record time and date for entitlement to Return of Capital Payments	6:00pm on Monday, 14 February 2022
Conversion and Redemption Date	14 February 2022
Expiry of old ISIN	6:00pm on 14 February 2022
Dealings in Ordinary Shares with no entitlement to Return of Capital Payments (the “ <b>Ex-Date</b> ”)	15 February 2022
New ISIN enabled	15 February 2022
Return of Capital Payments dispatched	Within 14 days of the Conversion and Redemption Date

**Note:**

Some of the times and dates set out above are indicative only and may be adjusted by the Company. If any details contained in the timetable above should change, the revised times and dates will be notified by means of an announcement through a Regulatory Information Service.

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## DIRECTORS, COMPANY SECRETARY AND ADVISERS

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<b>Directors</b>	Geoffrey Vance (Chairman) Ian Ireland (Managing Director) Padraic Lenehan (Finance Director) Patrick J Kelly Michael Griffin Henry McGarvey
<b>Company Secretary</b>	Padraic Lenehan
<b>Registered Office</b>	Ballyraine Letterkenny Co Donegal
<b>Euronext Growth Adviser and Broker</b>	Davy Davy House 49 Dawson Street Dublin D02 PY05
<b>Auditors</b>	KPMG 1 Stokes Place St Stephen's Green Dublin D02 DE03
<b>Solicitors</b>	Mason Hayes & Curran South Bank House Barrow Street Dublin D04 TR29
<b>Registrar</b>	Computershare Investor Services (Ireland) Limited 3100 Lake Drive Citywest Business Campus Dublin D24 AK82



*(Incorporated and registered in Ireland under the Companies Act 2014 with registered number 162921)*

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**PART I - LETTER FROM THE CHAIRMAN**

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*Directors:*

Geoffrey Vance (Chairman)\*  
Ian Ireland (Managing Director)  
Padraic Lenehan (Finance Director)  
Patrick J Kelly\*  
Michael Griffin\*  
Henry McGarvey\*

*Registered Office*

Ballyraine  
Letterkenny  
Co Donegal

19 January 2022

*\*Denotes non-executive director*

*Company Secretary:*

Padraic Lenehan

*To the Shareholders of Donegal Investment Group plc*

**Proposed €20 million Return of Capital to Shareholders and  
Notice of Extraordinary General Meeting**

Dear Shareholder,

**1. INTRODUCTION**

I am writing to you today in connection with certain proposals which are being put forward by the Board in the context of making a proposed Return of Capital to Shareholders of an amount expected to be approximately €20 million, facilitated by a redemption of shares at the price of €15.30 per share redeemed.

This Circular sets out a number of steps, including obtaining the approval of Shareholders, which are required to be undertaken prior to the proposed Return of Capital.

**2. SUMMARY**

The Board is proposing to provide for a Return of Capital to Shareholders of up to €20 million by the creation (through conversion of certain existing Ordinary Shares Outstanding) and subsequent redemption of the Redeemable Ordinary Shares.

Under the Board's proposals, if the Resolutions are approved and the Conversion and Redemption are fully implemented, then 46.21% of each Shareholder's total holding of

Ordinary Shares will be converted into Redeemable Ordinary Shares and redeemed and each Shareholder will receive:

- cash of €15.30 per Ordinary Share converted into a Redeemable Ordinary Share and subsequently Redeemed, this being the Redemption Price; or
- a Deferred Share for each Ordinary Share, which would otherwise have been Converted and Redeemed, had such Shareholder not notified the Company in accordance with section 83(4) of the Companies Act 2014 before the Conversion and Redemption Date of their unwillingness to have the pro rata portion of their Ordinary Shares at the Conversion and Redemption converted into Redeemable Ordinary Shares.

Following 6:00pm on 14 February 2022, which is the record time and date for entitlement to Return of Capital Payments, a purchaser of Ordinary Shares will not have a market claim for the relevant Return of Capital Payment. Therefore, unless the parties specifically agree otherwise, a buyer of the Company's Ordinary Shares ahead of the Conversion and Redemption Date (14 February 2022) will assume the benefit to the Return of Capital Payment and the seller would need to pass the benefit to the buyer, even if the seller is the recorded owner at the Record Date. Accordingly, from 15 February 2022 (the Ex-Date) dealings in Ordinary Shares will carry no entitlement to Return of Capital Payments. Any open transactions as at the Record Date will be transformed by Euroclear Bank in accordance with the EB Service Description.

The Redemption Price of €15.30 per Ordinary Share converted into a Redeemable Ordinary Share and subsequently redeemed is based on the weighted average price of the Company's Ordinary Shares in the period between the announcement of the disposal of Nomadic Dairy Limited on 5 November 2021 and the Latest Practicable Date.

### 3. **BACKGROUND TO AND REASONS FOR THE RETURN OF CAPITAL**

In the last number of years, Donegal has released capital from surplus proceeds generated from the disposal of non-core assets. This resulted in returns of capital to shareholders by way of share conversion and redemptions as approved at previous extraordinary general meetings of the Company.

Donegal has recently generated and received further surplus capital from proceeds generated from:

- the disposal of its majority interest in Nomadic Dairy Limited announced by the Company on 5 November 2021; and
- the disposal of surplus property assets.

As at 31 August 2021, the Group's year end reporting date, cash at bank net of overdraft was €4.4m, with no existing debt other than liabilities arising out of leasing arrangements of €0.7m. Following the sale of its shares in Nomadic Dairy Limited the Group received initial consideration of €21.3m before costs of disposal.

The purpose of the Resolutions proposed at the 2022 EGM is to approve the Return of Capital, which will take effect on a similar basis to previous redemptions.

In the absence of the proposed Return of Capital, the Board would expect the Group's positive surplus cash position to continue to increase further, notwithstanding the current pandemic environment.



The Board has, in consultation with its advisers, considered a range of strategic and financial options to enhance shareholder value. However, it is the unanimous belief of the Board that it is in the best interests of Shareholders to effect the Return of Capital to Shareholders by means of the proposed Redemption as it provides:

- an ability to maximise the Return of Capital up to the €20 million level;
- greater certainty and value realisation for certain of Donegal's retail investors;
- the ability for all Shareholders to retain their proportional registered and/or beneficial interest held at the Conversion and Redemption in the Company following the proposed Redemption;
- the ability for all Shareholders, including those with smaller shareholdings, to participate in the proposed Redemption; and
- a significant liquidity event for all Shareholders.

If the Redemption is implemented in full, this is expected to result in the Redemption of approximately 1,307,190 Ordinary Shares (or 46.21% of the Ordinary Shares Outstanding), which contrasts with the modest levels of liquidity in the Company's Ordinary Shares, as evidenced by the total volume of Ordinary Shares traded on Euronext Growth over the six month period to 18 January 2022, the latest practicable date prior to the announcement of the Return of Capital.

The Board believes that a return of approximately €20 million of capital in cash represents the most effective use of Company funds and that the continued strength of the Group's balance sheet and its cashflows after the Return of Capital will be sufficient to pursue the Group's activities. Accordingly, the Directors have undertaken to vote their respective shareholdings in Donegal in favour of the Resolutions at the Extraordinary General Meeting.

#### 4. **SHAREHOLDER APPROVAL**

Shareholders are being requested to authorise the creation of Redeemable Ordinary Shares through the conversion of certain existing Ordinary Shares Outstanding into Redeemable Ordinary Shares. If approved, the Conversion will be on a pro rata or proportional basis in respect of the shareholdings of all Shareholders held at the record time for entitlement to Return of Capital Payments (excluding any Ordinary Shares held by the Company as Treasury Shares resulting from prior share buy backs). The exact number of Ordinary Shares Outstanding to be converted will be determined by the Board based on the Ordinary Shares Outstanding at the relevant time. Following the Conversion, all of the Redeemable Ordinary Shares will be redeemed at a price of €15.30 per share. All Shareholders (excluding the Company in respect of its holding of Treasury Shares) will receive a cash amount which will be pro rata or proportional to their entire shareholding and each such Shareholder will retain the same percentage shareholding in the Company following the Redemption as that held on the Conversion and Redemption.

Arising from this process, it is intended that an amount of approximately €20 million will be returned to Shareholders. It is anticipated that the Redemption will be implemented on 14 February 2022.

However, if a Shareholder notifies the Company pursuant to section 83(4) of the Companies Act 2014 before the Conversion and Redemption Date of his/her/its unwillingness to have the pro rata portion of his/her/its Ordinary Shares converted into Redeemable Ordinary Shares, those shares will be converted into Deferred Shares. A Deferred Share shall have no rights

other than a right to participate in any surplus arising on the winding up of the Company up to the nominal amount paid up on the Deferred Share, being €0.13 per Deferred Share. Taking up a Deferred Share, instead of participating in the proposed Return of Capital, would be expected to result in a loss for each Ordinary Share currently held equivalent to €15.17 per share. Shareholders should note that: (i) Deferred Shares will have no rights other than a right to participate in any surplus arising on the winding up of the Company up to the nominal amount paid up on the Deferred Share, being €0.13 per Deferred Share and; (ii) unlike Ordinary Shares, the Deferred Shares will not be listed on Euronext Growth.

On the basis that the Redemption is implemented in full, this is expected to result in the Redemption of approximately 1,307,190 Ordinary Shares (or 46.21% of the current issued Ordinary Shares Outstanding) and the number of issued Ordinary Shares Outstanding of the Company, following cancellation of the Redeemable Ordinary Shares so redeemed, is expected to be approximately 1,521,600.

The purpose of this Circular is to provide Shareholders with details of the Board's proposals to:

- convert certain of the Company's existing Ordinary Shares into Redeemable Ordinary Shares;
- redeem all of the Redeemable Ordinary Shares at a price of €15.30 per share; and
- pay each Shareholder their Redemption Price within fourteen days of the Conversion and Redemption Date.

**A notice convening the EGM, at which the Resolutions will be proposed, is set out at the end of this Circular. The EGM will take place at 12:00pm on Friday, 11 February 2022. Shareholders wishing to vote on the proposed Resolutions but who cannot attend or are restricted from attending the EGM, may appoint a proxy to exercise all or any of their rights to attend, vote and speak at the EGM by using one of the methods set out in the notes to the Notice of the EGM.**

## 5. **CONVERSION OF CERTAIN ORDINARY SHARES INTO REDEEMABLE ORDINARY SHARES AND REDEMPTION OF REDEEMABLE ORDINARY SHARES**

It is expected that, if Shareholders approve the Resolutions and all Shareholders opt to participate, the Company will convert approximately 1,307,190 of its 2,828,790 Ordinary Shares Outstanding into Redeemable Ordinary Shares on a basis proportionate to each Shareholder's holding of Ordinary Shares in the Company as at the Conversion and Redemption. Any partial entitlement to Redeemable Ordinary Shares will be rounded down to the nearest whole share. The Board will determine the number of Ordinary Shares which it deems appropriate to convert into Redeemable Ordinary Shares at the time of the Conversion, bearing in mind the relevant circumstances of the Company at that time. Confirmation of the exact number of shares converted and redeemed and the date of the and Redemption (which is expected to be 14 February 2022) will be notified by way of an announcement on the Company's website.

Pursuant to the Companies Act 2014, a company, such as the Company, may not redeem its own shares except out of Profits Available for Distribution by reference to the relevant financial statements, as defined by section 121 of the Companies Act 2014, and, in the case of a public limited company, such as the Company, unless if at the time of redemption, the amount of its net assets is not less than the aggregate of its called up share capital and its undistributable reserves and the redemption will not result in a reduction of the amount of those assets to less

than that aggregate. As at the date of this Circular, the Board is satisfied that the Company will have sufficient Profits Available for Distribution to implement the Redemption and that, at the time of implementing the Redemption, the amount of the Company's net assets will not be less than the aggregate of its called up share capital and its undistributable reserves and implementation of the Redemption will not result in a reduction of the amount of those assets to less than that aggregate. Any such Redemption will also be dependent on the financial position of the Company at the time of the Redemption and will be subject to Board approval at that time.

The Redemption is conditional on the approval of the Shareholders to change the Articles of Association to allow for it. The Redemption is also conditional on the Company's continued compliance with the requirements of Irish company law, including the requirement that the Directors continue to be satisfied that the Company can, and will continue to be able to, satisfy all liabilities as they fall due. If the Directors form the view that it is no longer possible for whatever reason to proceed with the Redemption, Shareholders will be notified as soon as practicable thereafter.

Assuming the Resolutions are passed and the Company's circumstances at the time have not changed adversely on the Conversion and Redemption Date, the Company will redeem all of the Redeemable Ordinary Shares at a price of €15.30 per share.

Under the terms of the Redemption, the Company will be authorised to redeem all of the Redeemable Ordinary Shares at a Redemption Price of €15.30 per Redeemable Ordinary Share. As at the Latest Practicable Date, the issued ordinary share capital of the Company was €376,474.54 and the Ordinary Shares Outstanding were 2,828,790.

The Redeemable Ordinary Shares redeemed pursuant to the Redemption will be redeemed free of commissions and dealing charges.

Once a Redeemable Ordinary Share has been redeemed, it will be cancelled and will not rank for any future dividends or Return of Capital.

In accordance with section 83(4) of the Companies Act 2014, in the event that a Shareholder notifies the Company, before the Conversion and Redemption Date, of his/her/its unwillingness to have the pro rata portion of his/her/its Ordinary Shares converted into Redeemable Ordinary Shares, those shares will be converted into Deferred Shares. A Deferred Share shall have no rights other than a right to participate in any surplus arising on the winding up of the Company up to the nominal amount paid up on the Deferred Share, being €0.13 per Deferred Share. Accordingly, the maximum value of such a Deferred Share is €0.13 per share, which is €15.17 less per share than would be received if the Shareholder had participated in the Redemption. It is not the Board's intention to seek a listing for any Deferred Shares.

Once the Resolutions at the EGM are passed, no further action will be required on the part of Shareholders in relation to the proposed Redemption.

## 6. **DIRECTORS' SHAREHOLDINGS**

Each of the Directors who holds Ordinary Shares: (i) intends to vote in favour of the Resolutions; and (ii) will **not** notify the Company in accordance with section 83(4) of the Companies Act 2014 of their unwillingness to have some or all of their Ordinary Shares converted into Redeemable Ordinary Shares.

The table below sets out how the Directors' shareholdings will be affected if the Company redeems the expected number (1,307,190) of Redeemable Ordinary Shares for aggregate maximum Return of Capital Proceeds of €20 million.

Director	Shareholding as at the Latest Practicable Date	% Ordinary Shares Outstanding	Shareholding post implementation of the Redemption(ii)	% Ordinary Shares Outstanding post Redemption
Geoffrey Vance	65,748	2.32	35,366	2.32
Ian Ireland	97,827	3.46	52,621	3.46
Padraic Lenehan	-	-	-	-
Patrick J Kelly	2,362	0.08	1,271	0.08
Michael Griffin	8,995	0.32	4,838	0.32
Henry McGarvey	13,286	0.47	7,147	0.47
<b>Total</b>	<b>188,218</b>	<b>6.65</b>	<b>101,243</b>	<b>6.65</b>

(i) Assumes no change in the Directors' respective holdings between the Latest Practicable Date and the Conversion and Redemption Date.

(ii) Assumes that the Redemption is implemented in full.

## 7. HOLDERS OF SHARE OPTIONS

Option holders through the Company's Share Option Schemes will participate in the Return of Capital on the same economic basis to actual Shareholders and the cost thereof shall be reflected in the Company's financial statements as opposed to being included within the Return of Capital Proceeds.

## 8. TAXATION

A guide to the general tax position of Shareholders resident, ordinarily resident and domiciled in Ireland and Shareholders resident and domiciled in the United Kingdom is set out in Part IV of this Circular. However, all Shareholders, regardless of their residence or domicile status, are strongly advised to consult their own professional advisers as to their tax position, based on their own particular circumstances, in relation to the tax implications of the proposed Redemption.

## 9. EXTRAORDINARY GENERAL MEETING

Page 29 of this Circular sets out a notice convening the EGM to be held at the Company's Head Office, Ballyraine, Letterkenny, Co. Donegal, on Friday, 11 February 2022 at 12:00pm. At the EGM, Shareholders will be asked to consider and, if thought fit, pass the Resolutions. The implementation of the Redemption is conditional on, inter alia, the passing of each of the Resolutions. If the Resolutions are not passed by Shareholders at the EGM, the Company will not implement the Redemption and the proposed €20 million Return of Capital.

Ordinary Resolutions require the approval of the majority of those Shareholders present and voting (in person or by proxy) at the EGM. Special Resolutions require the approval of not less than 75 per cent of those Shareholders present and voting (in person or by proxy) at the EGM.

At the EGM, the following resolutions will be proposed:

### Resolution 1

Resolution 1 will be proposed as an ordinary resolution. This resolution will authorise an increase in the authorised share capital of the Company by the creation of an additional

authorised amount of 1,307,190 Redeemable Ordinary Shares of €0.13 and 1,307,190 Deferred Shares of €0.13 each having the rights provided for in the Articles of Association of the Company as amended by Resolution 2. It will also authorise a decrease in the authorised share capital of the Company by the cancellation of 800,000 Redeemable Ordinary Shares of €0.13 each and 800,000 Deferred Shares of €0.13 each.

## **Resolution 2**

Resolution 2 (which is conditional on Resolution 1 being passed and becoming effective) will be proposed as a special resolution. This resolution will authorise the conversion of certain of the existing Ordinary Shares into Redeemable Ordinary Shares and will do this by amending the Memorandum and Articles of Association of the Company so that the Board can determine the number of Ordinary Shares which may be converted into Redeemable Ordinary Shares and redeemed.

The passing of Resolution 2 requires the support of not less than 75% of the votes cast (whether in person or by proxy) at the EGM.

### **10. ACTION TO BE TAKEN**

You will find enclosed a Form of Proxy for use at the EGM. Whether or not you intend to be present at the EGM, you are requested to complete the Form of Proxy (in accordance with the instructions printed thereon) and return it to the Company's registrars, Computershare Investor Services (Ireland) Limited, 3100 Lake Drive, Citywest Business Campus, Dublin 24, D24 AK82, Ireland as soon as possible and in any event so as to be received by no later than 12:00pm on Wednesday, 9 February 2022. The completion and return of the Form of Proxy will not preclude you from attending the EGM and voting in person should you wish to do so.

The appointment of a proxy may be submitted electronically by one of the means described in paragraph 4 of the Statement of Procedures in the notice convening the EGM set out in this Circular.

### **11. RECOMMENDATIONS**

The Board considers the proposed Redemption to be in the best interests of the Company and the Shareholders as a whole and, accordingly, unanimously recommends that the Shareholders vote in favour of the Resolutions to be proposed at the EGM and participate in the Redemption.

Each of the Directors who holds Ordinary Shares intends to participate in the Redemption and will not notify the Company in accordance with section 83(4) of the Companies Act 2014 of their unwillingness to have any of their Ordinary Shares converted into Redeemable Ordinary Shares. The Directors intend to vote in favour of the Resolutions in respect of their beneficial interests amounting, as at the Latest Practicable Date, to an aggregate of 188,218 Ordinary Shares, representing approximately 6.65% of the Ordinary Shares Outstanding of the Company.

Choosing the option of taking Deferred Shares will cause any such Shareholder to lose the opportunity to participate in and receive the Return of Capital.

Shareholders who are in any doubt how to proceed are recommended to consult their independent advisers and make their own decision.

Yours sincerely,

Geoffrey Vance

**Chairman**

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## PART II – QUESTIONS AND ANSWERS

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### Questions and Answers regarding the Redemption

Set out below are some questions and answers relating to the Redemption.

**Note: You should read the whole of this Circular and not rely solely on any single part of this Circular.**

#### **Q1. What is being proposed by Board of Donegal?**

The Board is proposing to provide for a Return of Capital to Shareholders of up to €20 million by the creation (through conversion of certain existing Ordinary Shares Outstanding) and subsequent redemption of the Redeemable Ordinary Shares.

Under the Board's proposals, if the Resolutions are approved and the Conversion and Redemption are fully implemented, then 46.21% of each Shareholder's total holding of Ordinary Shares will be converted into Redeemable Ordinary Shares and redeemed and each Shareholder will receive:

- cash of €15.30 per Ordinary Share converted into a Redeemable Ordinary Share and subsequently Redeemed, this being the Redemption Price; or
- a Deferred Share for each Ordinary Share, which would otherwise have been Converted and Redeemed, had such Shareholder not notified the Company in accordance with section 83(4) of the Companies Act 2014 before the Conversion and Redemption Date of their unwillingness to have the pro rata portion of their Ordinary Shares at the Conversion and Redemption converted into Redeemable Ordinary Shares.

#### **Q2. Why is the Return of Capital being proposed now?**

In the last number of years, Donegal has released capital from surplus proceeds generated from the disposal of non-core assets. This resulted in returns of capital to shareholders by way of share conversion and redemptions as approved at previous extraordinary general meetings of the Company.

Donegal has recently generated and received further surplus capital from proceeds generated from:

- the disposal of its majority interest in Nomadic Dairy Limited announced by the Company on 5 November 2021; and
- the disposal of surplus property assets.

As at 31 August 2021, the Group's year end reporting date, cash at bank net of overdraft was €4.4m, with no existing debt other than liabilities arising out of leasing arrangements of €0.7m. Following the sale of its shares in Nomadic Dairy Limited the Group received initial consideration of €21.3m before costs of disposal.

The purpose of the Resolutions proposed at the 2022 EGM is to approve the Return of Capital, which will take effect on a similar basis to previous redemptions.

**Q3. What is the Return of Capital?**

The Return of Capital is the method by which the Company intends to return approximately €20 million of cash to Shareholders.

**Q4. What is the Redemption Price?**

The Redemption Price is €15.30 per Ordinary Share converted into a Redeemable Ordinary Share and subsequently redeemed. This price is based on the weighted average price of the Company's Ordinary Shares in the period between the announcement of the disposal of Nomadic Dairy Limited on 5 November 2021 and the Latest Practicable Date.

**Q5. How is the Return of Capital being made?**

The Return of Capital is made by the redemption by the Company of Redeemable Ordinary Shares. Approximately 46.21% of your Ordinary Shares will be converted into Redeemable Ordinary Shares, rounded down to the nearest whole share and the Redeemable Ordinary Shares will then be redeemed by the Company at the Redemption Price of €15.30 per share redeemed.

**Q6. Who is eligible to receive a Return of Capital Payment?**

The Return of Capital is open to all Shareholders on the register of members of the Company at 6:00 p.m. on 14 February 2022.

**Q7. Do I continue to be a shareholder after the Return of Capital?**

Yes, immediately following the Return of Capital you continue to hold the same proportion of Ordinary Shares as you held before it. The only difference is that number of Ordinary Shares held by you will have been reduced by approximately 46.21%, similarly with all other Shareholders. Further details of the Return of Capital are set out in the Letter from the Chairman in Part I of this Circular and the terms and conditions of the Redemption are set out in Part III of this Circular.

**Q8. Will my shareholding in the Company be diluted?**

No. All shareholders will hold at least the same percentage of Ordinary Shares Outstanding in the Company after the Redemption is completed as they did beforehand. This is because the Board does not expect Shareholders owning a material number of Ordinary Shares to notify the Company, prior to the Conversion and Redemption, pursuant to section 83(4) of the Companies Act 2014 of his/her/its unwillingness to have the pro rata portion of his/her/its Ordinary Shares converted into Redeemable Ordinary Shares.

**Q9. Can I choose to retain all my Ordinary Shares rather than participate in the Redemption?**

No, any Shareholder who objects prior to the Conversion and Redemption to having the pro-rata portion of his/her/its shareholding converted into Redeemable Ordinary Shares will instead have those shares converted into Deferred Shares. A Deferred Share will have no rights other than a right to participate in any surplus arising on the winding up of the Company up to the nominal amount paid up on the Deferred Share, being €0.13 per Deferred Share.

**Q10. If I participate in the Redemption, how many of my Ordinary Shares will be converted to Redeemable Ordinary Shares?**

Approximately 46.21% of the Ordinary Shares that you hold at the Conversion and Redemption will be converted into Redeemable Ordinary Shares, rounded down to the nearest whole share.



**Q11. Under the Redemption, what will happen to my Redeemable Ordinary Shares?**

The Redeemable Ordinary Shares will be redeemed by the Company and cancelled and you will receive €15.30 per Redeemable Ordinary Share held.

**Q12. How many Ordinary Shares will there be in issue after the Redemption?**

Assuming the Redemption is implemented in full, the Redemption will result in the redemption (and subsequent cancellation) of approximately 1,307,190 Ordinary Shares (representing approximately 46.21% of the Ordinary Shares Outstanding as at the Latest Practicable Date). It is therefore expected that there will be approximately 1,521,600 Ordinary Shares Outstanding after the completion of the Redemption.

**Q13. How much cash will I receive and what percentage of the Ordinary Shares will I hold after the Redemption completes?**

Assuming the Redemption is implemented in full, you will receive €15.30 for each Redeemable Ordinary Share that is redeemed. Your percentage holding of Ordinary Shares will be the same after the Redemption as beforehand as the Redemption is being effected on a pro rata basis amongst all Shareholders.

**Q14. Can I delay having my shares redeemed until a later date?**

No. Once the relevant shares are converted to Redeemable Ordinary Shares, Shareholders will not be able to determine the timing of the redemption of their holding of Redeemable Ordinary Shares.

**Q15. What do I need to do?**

You are encouraged to sign and return the Form of Proxy by 12:00pm on Wednesday, 9 February 2022 to vote on the resolutions necessary to facilitate the Redemption. The appointment of a proxy may be submitted electronically, subject to the terms and conditions of electronic voting, via the internet by accessing the Company's Registrar's website [www.eproxyappointment.com](http://www.eproxyappointment.com). Further details on this are set out in section 10 of the Letter from the Chairman in Part I of this Circular. You should contact the Company's registrar, Computershare Investor Services (Ireland) Limited, 3100 Lake Drive, Citywest Business Campus, Dublin 24, D24 AK82 during normal business hours on telephone number 01 4475462 if calling from Ireland or 00 353 14475462 if calling from outside Ireland if you have any query in relation to your shareholding in the Company.

**Q16. When will I receive my Return of Capital Payment?**

Under the expected timetable of events, it is expected that if you hold your Ordinary Shares in certificated form, a cheque would be despatched to you within 14 days of the Capital Return Record Date.

Payment will also be sent to Euroclear Bank within this same timeframe for onward distribution by Euroclear Bank under the terms of the EB Service Description.

**Q17. What is the tax treatment for Irish or UK resident Shareholders?**

For summary information about certain Irish and UK taxation aspects of the Redemption please see Part IV of this Circular. If you are in any doubt about your tax position, or if you are subject to tax in a jurisdiction other than Ireland or the UK, you should consult a professional adviser. All Shareholders are strongly advised to consult their professional advisers regarding their own

tax position, based on their own personal circumstances, in relation to the tax implications of the proposed Redemption.

**Q18. Do I have to take Redeemable Ordinary Shares?**

Section 83(4) of the Companies Act 2014 provides that any Shareholder may notify the Company of his/her/its unwillingness to have his/her/its Ordinary Shares converted into Redeemable Ordinary Shares before the Conversion and Redemption Date. However, if a Shareholder is proposing to do this, he or she should note that Resolution 2 provides that the percentage of his/her/its Ordinary Shares which would have been converted into Redeemable Ordinary Shares shall instead be converted into Deferred Shares. Resolution 2 will also amend the Articles so as to provide that a Deferred Share shall have no rights other than a right to participate in any surplus arising on the winding up of the Company up to the nominal amount paid up on the Deferred Share, being €0.13 per Deferred Share.

**Q19. What happens if the Resolutions are not approved at the EGM?**

In such circumstances, the planned Return of Capital will not proceed and Shareholders will not receive the Return of Capital of up to €20 million at the Redemption Price of €15.30 per Redeemable Ordinary Share.

**Q20. Are there any plans to redeem any more shares thereafter?**

There are no plans to redeem any more shares after the proposed Redemption.

**Q21. Will I receive a new share certificate?**

Those holding shares through the EB System do not have share certificates.

New share certificates will be issued to each certificated Shareholder post-Redemption to reflect the new number of Ordinary Shares held by it.

All existing share certificates will cease to be of value.

**Q22. Who do I contact if I have a query?**

If you have a query in respect of your shareholding, please contact the Company's Registrar on 01 4475462. If you have a query in respect of the taxation implications of this proposal, please contact your tax adviser. Should you wish to be sent a copy of the Company's 2020 Annual Report, you may request this by telephoning the Company's Registrars on 01 4475462 or by writing to the Company Secretary at the registered office.

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## PART III – TERMS AND CONDITIONS

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### Terms and Conditions of the Redemption

**Shareholders are encouraged to sign and return the Form of Proxy to be received by 12:00pm on Wednesday, 9 February 2022 to vote on the Resolutions.**

**Shareholders who wish to object to having the pro rata portion of his/her/its shareholding converted into Redeemable Ordinary Shares (such shares to instead be converted into Deferred Shares) must notify the Company of this objection prior to the Conversion by notice in writing to the Company's Registrar, Computershare Investor Services (Ireland) Limited, 3100 Lake Drive, Citywest Business Campus, Dublin 24, D24 AK82, such notice to be received by no later than 5:00pm on 14 February 2022.**

#### 1. INTRODUCTION

Under the terms of the proposed Redemption: (i) a pro rata number of participating Shareholders' Ordinary Shares at the Conversion and Redemption will be converted into Redeemable Ordinary Shares; (ii) the Redeemable Ordinary Shares will be redeemed by the Company at a price of €15.30 per Redeemable Ordinary Share; (iii) all Shareholders will receive a cash amount which will be pro rata to their entire shareholding at the Conversion and Redemption; and (iv) each Shareholder will retain the same percentage holding of Ordinary Shares in the Company following the Redemption as that held at the Conversion and Redemption.

The Board is proposing that approximately 1,307,190 Ordinary Shares will be converted into Redeemable Ordinary Shares and redeemed at the Redemption Price. Each relevant Shareholder will be entitled to approximately 46.21% of their Ordinary Shares registered in his/her/its name at the Conversion and Redemption (rounded down to the nearest whole number) converted into Redeemable Ordinary Shares, assuming that no options to subscribe for Ordinary Shares are exercised before the Conversion and Redemption.

Ordinary Shares converted pursuant to the Return of Capital will be converted free of all liens, charges, restrictions, claims, equitable interests and encumbrances and together with all rights attaching thereto. All Ordinary Shares converted into Redeemable Ordinary Shares shall be cancelled by the Company upon payment of the Return of Capital Payments.

#### 2. TERMS AND CONDITIONS OF THE RETURN OF CAPITAL

Shareholders are hereby invited to: (i) vote in favour of the Resolutions; and (ii) participate in the Return of Capital subject to the following terms and conditions:

- (a) the Return of Capital is conditional on:
  - (i) the passing of the Resolutions; and
  - (ii) the Board passing the required resolutions to convert and redeem the relevant shares;
- (b) if these conditions are not satisfied, the Return of Capital will not proceed and the Company will not effect the Conversion and subsequent Redemption;

- (c) each Redeemable Ordinary Share will be redeemed under the Return of Capital at the Redemption Price;
- (d) the Return of Capital is only available to Shareholders on the register of members of the Company on the Conversion and Redemption and only in respect of the number of Redeemable Ordinary Shares registered in their names on that date;
- (e) the Board determining in its absolute discretion the number of Ordinary Shares which it deems appropriate to convert into Redeemable Ordinary Shares at the time of the Conversion;
- (f) the Company's continued compliance with the requirements of Irish company law, including the requirement that the Directors continue to be satisfied that the Company can, and will continue to be able to, satisfy all liabilities as they fall due. If the Directors form the view that it is no longer possible for whatever reason to proceed with the Redemption, Shareholders will be notified as soon as practicable thereafter;
- (g) subject to the satisfaction or waiver (where applicable) of the conditions referred to in paragraph 2(a) above, Ordinary Shares will be converted into Redeemable Ordinary Shares and redeemed at the Redemption Price by the Company fully paid and free of all liens, charges, restrictions, claims, equitable interests and encumbrances and together with all rights attaching thereto. The Company will cancel such Redeemable Ordinary Shares redeemed by the Company;
- (h) the Return of Capital will be governed by and construed in accordance with the laws of Ireland;
- (i) all documents and remittances sent by or to Shareholders and all instructions made by or on behalf of a Shareholder via the EB System or CREST will be sent at the risk of the Shareholder concerned;
- (j) further copies of the Form of Proxy may be obtained on request from Computershare Investor Services (Ireland) Limited by telephone on 01 4475462 from within Ireland or on +353 14475462 calling from outside Ireland. Lines are open 9:00am to 5:00pm Monday to Friday (except Irish public holidays). The helpline cannot provide advice on the merits of the Return of Capital nor give any financial, legal or tax advice;
- (k) the decision of the Company as to all matters relating to the Return of Capital shall be final and binding on all Ordinary Shareholders who participate in the Return of Capital;
- (l) all questions as to the number of Ordinary Shares converted into Redeemable Ordinary Shares and redeemed, and the validity, form, eligibility (including the time of receipt) and payment of any Redemption Price will be determined by the Company, in its sole and absolute discretion, which determination shall be final and binding on all of the parties (except as otherwise required under applicable law);
- (m) all Ordinary Shares converted to Redeemable Ordinary Shares and redeemed will be redeemed by Donegal, as principal and not as agent, nominee or trustee, at the Redemption Price and free of commissions and any other charges;

- (n) the failure of any person to receive a copy of this Circular or the Form of Proxy shall not invalidate any aspect of the Return of Capital. None of the Company, the Registrar or any other person will incur any liability in respect of any person failing to receive this Circular or the Form of Proxy. Additional copies of this Circular and the Form of Proxy can be obtained from the Registrar;
- (o) no acknowledgement of receipt of any Form of Proxy will be given;
- (p) the appointment of a proxy may be submitted electronically by one of the means described in paragraph 4 of the Statement of Procedures in the notice convening the EGM set out in this Circular;
- (q) the Company reserves the right to treat any Form of Proxy not strictly complying with the terms and conditions of the Return of Capital as nevertheless valid;
- (r) the Company shall not be required to issue any share certificates in respect of any shares which are converted into Redeemable Ordinary Shares; and
- (s) should any fractions arise from scaling down, the number of Ordinary Shares converted and the number of Redeemable Ordinary Shares redeemed shall be rounded down to the nearest whole share.

### 3. MISCELLANEOUS

Shareholders whose Ordinary Shares are converted into Redeemable Ordinary Shares and redeemed, will not be obliged to pay brokerage fees, commissions or transfer taxes or duty in Ireland on the Conversion and Redemption Date.

If you are in any doubt as to the procedure to follow, please contact the Registrar by telephone on 01 4475462 from within Ireland, or on 00 353 14475462 if calling from outside Ireland. Lines are open 9:00am to 5:00pm Monday to Friday (except Irish public holidays). The helpline cannot provide advice on the merits of the Return of Capital nor give any financial, legal or tax advice.

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## PART IV - TAX ASPECTS OF THE RETURN OF CAPITAL

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This Part IV does not constitute tax or financial advice and is intended only as a general guide to certain applicable taxation laws and published practice in certain jurisdictions at the date of issue of this Circular (both of which are subject to change, possibly with retrospective effect).

**All Shareholders, regardless of their residence or domicile status, are strongly advised to consult with their professional advisers as to their tax position, based on their own particular circumstances.**

### 1. SHAREHOLDERS RESIDENT IN IRELAND

1.1 The following summary is intended as a general guide only and is based on current tax legislation and the Office of the Revenue Commissioners practice in Ireland at the date of issue of this Circular. It does not constitute tax or legal advice. It summarises the Irish taxation consequences which would arise on a conversion of Ordinary Shares to Redeemable Ordinary Shares and the subsequent Redemption of the Redeemable Ordinary Shares for Shareholders who are resident, ordinarily resident and domiciled in Ireland for tax purposes and who beneficially own their Ordinary Shares as an investment and not for trading purposes. The following comments may not apply to certain Shareholders, such as dealers in securities, insurance companies and collective investment schemes, Shareholders who are exempt from taxation and Shareholders who have (or are deemed to have) acquired their Ordinary Shares by virtue of an office or employment. Such persons may be subject to special rules.

#### 1.2 Individual Shareholders

Individual Shareholders who are tax resident, ordinarily resident and domiciled in Ireland who have some of their Ordinary Shares converted to Redeemable Ordinary Shares may be liable to Irish capital gains tax on the Redemption of their Redeemable Ordinary Shares. Any capital gain should be calculated by reference to the Return of Capital Payment less the amount paid by the individual Shareholder to acquire the Ordinary Shares which were converted to Redeemable Ordinary Shares (the conversion of Ordinary Shares to Redeemable Ordinary Shares should not constitute a disposal for Irish tax purposes, rather the Redeemable Ordinary Shares should be deemed to have been acquired on the same date and at the same cost as the Ordinary Shares which were converted). The Irish capital gains tax rate is currently 33%.

If the Return of Capital Payment received by the individual Shareholder is less than the amount paid by them to acquire the Ordinary Shares which were converted to Redeemable Ordinary Shares, the difference may give rise to a capital loss for Irish tax purposes, which may be offset against other capital gains arising to the individual Shareholder.

There will be no withholding tax applied to the cash payment made by the Company to the individual Shareholders for the Redemption of their Redeemable Ordinary Shares.

### 1.3 **Corporate Shareholders**

Corporate Shareholders who are tax resident in Ireland and who have some of their Ordinary Shares converted to Redeemable Ordinary Shares may be liable to Irish corporation tax on chargeable gains on the Redemption of their Redeemable Ordinary Shares. Any chargeable gain should be calculated by reference to the Return of Capital Payment less the amount paid by the corporate Shareholder to acquire the Ordinary Shares which were converted to Redeemable Ordinary Shares (the conversion of Ordinary Shares to Redeemable Ordinary Shares should not constitute a disposal for Irish tax purposes, rather the Redeemable Ordinary Shares should be deemed to have been acquired on the same date and at the same cost as the Ordinary Shares which were converted). The effective rate of Irish corporation tax on chargeable gains is currently 33%.

If the Return of Capital Payment received by the corporate Shareholder is less than the amount paid by them to acquire the Ordinary Shares which were converted to Redeemable Ordinary Shares, the difference may give rise to a capital loss for Irish tax purposes, which may be offset against other chargeable gains arising to the corporate Shareholder.

There will be no withholding tax applied to the cash payment made by the Company to corporate Shareholders for the Redemption of their Redeemable Ordinary Shares.

Certain corporate Shareholders holding at least 5 per cent of the total number of Ordinary Shares in issue may, depending on their circumstances, be able to claim the participation exemption from Irish corporation tax on chargeable gains so that no tax liability arises on the Redemption of their Redeemable Ordinary Shares (and similarly, any loss arising on the Redemption would not be treated as an allowable capital loss). Various conditions attach to this exemption and corporate Shareholders should seek their own tax advice as to whether this exemption would apply in their specific circumstances.

### 1.4 **Pension Funds and Approved Charities**

Shareholders who have some of their Ordinary Shares converted to Redeemable Ordinary Shares who are Irish approved pension funds or Irish approved charities may be exempt from tax in Ireland on the Redemption of their Redeemable Ordinary Shares.

## 2. **SHAREHOLDERS RESIDENT IN THE UNITED KINGDOM**

2.1 The following summary is intended as a general guide only, is based on current legislation and H.M. Revenue and Customs practice in the UK at the date of issue of this Circular, and does not constitute tax or legal advice. It summarises the UK taxation consequences which may arise on a conversion of Ordinary Shares to Redeemable Ordinary Shares and the subsequent Redemption of the Redeemable Ordinary Shares for Shareholders who are resident and domiciled in the UK for tax purposes and who beneficially own their Ordinary Shares as an investment and not for trading purposes. The comments may not apply to certain Shareholders, such as dealers in securities, insurance companies and collective investment schemes, Shareholders who are exempt from taxation and Shareholders who have (or are deemed to have) acquired their Ordinary Shares by virtue of an office or employment. Such persons may be subject to special rules.

2.2 The tax treatment of any Return of Capital Payment received by UK resident and domiciled Shareholders will depend on whether the payment is treated as either

‘capital’ or ‘income’ for UK tax purposes. This analysis is based on case law principles and on the form of the payment under Irish corporate law. Any Return of Capital Payment received by a Shareholder on a Redemption of shares by a company, involving a reduction in the number of shares held by that Shareholder, may be treated as a capital receipt subject to UK capital gains tax.

- 2.3 The paragraphs below describe the tax treatment of the proposed conversion of Ordinary Shares to Redeemable Ordinary Shares and the subsequent redemption of the Redeemable Ordinary Shares by UK resident and domiciled Shareholders assuming capital gains tax treatment applies.

### **Individual Shareholders**

- 2.4 Individual Shareholders who are tax resident and domiciled in the UK who have some of their Ordinary Shares converted to Redeemable Ordinary Shares may be liable to UK capital gains tax on the Redemption of their Redeemable Ordinary Shares. The capital gain is calculated by reference to the Return of Capital Payment less the amount paid by the individual Shareholder to acquire the Ordinary Shares which were converted to Redeemable Ordinary Shares (the conversion of Ordinary Shares to Redeemable Ordinary Shares should not constitute a disposal for UK tax purposes, rather the Redeemable Ordinary Shares should be deemed to have been acquired on the same date and at the same cost as the Ordinary Shares which were converted). The current UK capital gains tax rate is either 10% or 20% depending on the individual Shareholder’s marginal rate of tax in the relevant tax year, and the availability of certain reliefs. No indexation allowance would be available.
- 2.5 If the Return of Capital Payment received by the individual Shareholder is less than the amount paid by them to acquire the Ordinary Shares which were converted to Redeemable Ordinary Shares, the difference may give rise to a capital loss for UK tax purposes, which may be offset against other capital gains arising to the individual Shareholder.
- 2.6 There will be no withholding tax applied to the cash payment made by the Company to the individual Shareholders for the Redemption of their Redeemable Ordinary Shares.

### **Corporate Shareholders**

- 2.7 Corporate Shareholders who are tax resident in the UK who have some of their Ordinary Shares converted to Redeemable Ordinary Shares may be liable to UK corporation tax on chargeable gains on the Redemption of their Redeemable Ordinary Shares. The capital gain is calculated by reference to the Return of Capital Payment less the amount paid by the corporate Shareholder to acquire the Ordinary Shares which were converted to Redeemable Ordinary Shares (the conversion of Ordinary Shares to Redeemable Ordinary Shares should not constitute a disposal for UK tax purposes, rather the Redeemable Ordinary Shares should be deemed to have been acquired on the same date and at the same cost as the Ordinary Shares which were converted). The rate of UK corporation tax on chargeable gains is currently 19% (rising to 25% with effect from 1 April 2023).
- 2.8 If the Return of Capital Payment received by the corporate Shareholder is less than the amount paid by them to acquire the Ordinary Shares which were converted to Redeemable Ordinary Shares, the difference may give rise to a capital loss for UK tax purposes, which could be offset against other chargeable gains arising to the corporate



Shareholder or, in certain circumstances, other chargeable gains arising in companies in the same group as the corporate Shareholder.

- 2.9 There will be no withholding tax applied to the cash payment made by the Company to corporate Shareholders for the Redemption of their Redeemable Ordinary Shares.
- 2.10 Certain corporate Shareholders holding more than 10% of the total number of Ordinary Shares could, depending on their own circumstances, fall within the substantial shareholding exemption so that no corporation tax liability would arise on the Redemption of their Redeemable Ordinary Shares (and similarly, any loss arising on the Redemption would not be treated as an allowable capital loss). Various conditions attach to this exemption and corporate Shareholders should seek their own tax advice as to whether this exemption would apply in their specific circumstances.

#### **Pension Funds and Approved Charities**

- 2.11 Shareholders who have some of their Ordinary Shares converted to Redeemable Ordinary Shares who are UK registered pension schemes or UK approved charities may be exempt from tax in the UK on the Redemption of their Redeemable Ordinary Shares.

### **3. OTHER GENERAL TAXATION ISSUES**

There is no requirement for Shareholders to obtain a capital gains tax clearance certificate in advance of the Redemption as the shares in the Company do not derive the greater part of their value from specified assets (as defined in Irish tax legislation).

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## PART V – DEFINITIONS

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*In this Circular, and the accompanying Form of Proxy, the following expressions have the following meanings unless the context otherwise requires or unless otherwise provided:*

<b>“2020 Annual Report”</b>	the annual report and audited financial statements of Donegal for the year ended 31 August 2020;
<b>“Amended Articles”</b>	the Articles of Association as amended by Resolution 2 in the EGM Notice;
<b>“Articles of Association” or “Articles”</b>	the articles of association of the Company;
<b>“Board” or “Directors”</b>	the board of directors of Donegal;
<b>“Circular”</b>	this Circular;
<b>“Companies Act 2014”</b>	Companies Act 2014, as amended;
<b>“Conversion”</b>	the reclassification of up to 1,307,190 Ordinary Shares into Redeemable Ordinary Shares pursuant to the Amended Articles;
<b>“Conversion and Redemption Date”</b>	the date on which the Conversion and Redemption take place, which, if the Resolutions are passed, will be 14 February 2022;
<b>“CREST”</b>	the system for the evidencing and transfer of securities operated by Euroclear UK & International Limited;
<b>“Davy”</b>	J&E Davy, trading as Davy, including its affiliate Davy Corporate Finance and any other affiliates, or any of its subsidiary undertakings;
<b>“Deferred Shares”</b>	non-voting deferred shares of €0.13 each which will become part of the authorised share capital of the Company if the Resolutions are approved at the EGM;
<b>“Donegal” or the “Company”</b>	Donegal Investment Group plc;
<b>“EB Service Description”</b>	the document titled “Euroclear Bank as issuer CSD for Irish corporate securities” issued by Euroclear Bank in February 2021 and which has been made available on the Euroclear Bank website ( <a href="http://www.euroclear.com">www.euroclear.com</a> );
<b>“EB System”</b>	the central securities depository system operated by Euroclear Bank;

<b>“EGM” or “Extraordinary General Meeting”</b>	the extraordinary general meeting of Donegal, to be held at the Company’s Head Office, Ballyraine, Letterkenny, Co. Donegal on Friday, 11 February 2022 at 12:00pm;
<b>“EGM Notice” or “Notice of Extraordinary General Meeting”</b>	the notice of the EGM set out at the end of this Circular;
<b>“EGM Record Date”</b>	6:00pm on Wednesday, 9 February 2022;
<b>“Euroclear Bank”</b>	Euroclear Bank SA/NV;
<b>“Euronext Dublin”</b>	The Irish Stock Exchange plc, trading as Euronext Dublin;
<b>“Euronext Growth”</b>	the market of that name operated by Euronext Dublin;
<b>“Euronext Growth Rules”</b>	the rules governing the admission to and operation of the Euronext Growth market as published by Euronext Dublin from time to time;
<b>“Ex-Date”</b>	shall have the meaning given to that term in the Expected Timetable of Principal Events set out on page 5 of this Circular;
<b>“Form of Proxy”</b>	the form of proxy for use at the Extraordinary General Meeting enclosed with this Circular;
<b>“Group”</b>	Donegal and its subsidiaries;
<b>“Ireland”</b>	the island of Ireland, save for Northern Ireland, and the word “Irish” shall be construed accordingly;
<b>“Irish IMC Rules”</b>	the Central Bank (Investment Market Conduct) Rules 2019 of Ireland;
<b>“Latest Practicable Date”</b>	18 January 2022, being the latest practicable date prior to the publication of this Circular;
<b>“MiFID”</b>	the European Union (Markets in Financial Instruments) Regulations 2017 (as amended);
<b>“Ordinary Shareholder(s)” or “Shareholder(s)”</b>	holder(s) of Ordinary Shares;
<b>“Ordinary Shares”</b>	ordinary shares of €0.13 each in the capital of the Company;
<b>“Ordinary Shares Outstanding”</b>	the Company’s issued ordinary share capital of 2,828,790 Ordinary Shares, excluding the Treasury Shares;
<b>“Professional Investor”</b>	an investor who would be considered a ‘professional client’ under MiFID;

<b>“Profits Available for Distribution”</b>	a company’s accumulated, realised profits, so far as not previously utilised by distribution or capitalisation, less its accumulated, realised losses, so far as not previously written off in a reduction or reorganisation of capital duly made;
<b>“Prospectus Rules”</b>	the UK Prospectus Rules made by the Financial Conduct Authority;
<b>“Redeemable Ordinary Shares”</b>	Ordinary Shares which are converted into Redeemable Ordinary Shares in accordance with Article 2 of the Articles of Association of the Company, as amended by Resolution 2 in the EGM Notice, provided Resolution 2 is passed;
<b>“Redemption”</b>	the redemption by the Company of the Redeemable Ordinary Shares on the terms and subject to the conditions set out in this Circular;
<b>“Redemption Price”</b>	€15.30 per Redeemable Ordinary Share;
<b>“Registrar”</b>	the Company’s registrar, being Computershare Investor Services (Ireland) Limited, 3100 Lake Drive, Citywest Business Campus, Dublin 24, D24 AK82;
<b>“Resolutions”</b>	the resolutions set out in the EGM Notice;
<b>“Retail Investor”</b>	an investor who is not a Professional Investor;
<b>“Return of Capital”</b>	the Conversion and the Redemption;
<b>“Return of Capital Payments”</b>	proceeds payable in cash to the holders of Redeemable Ordinary Shares which are redeemed by the Company pursuant to the Redemption;
<b>“Return of Capital Proceeds”</b>	the aggregate of the Return of Capital Payments to be made pursuant to the Return of Capital, which amount is expected to be approximately €20 million;
<b>“Share Option Schemes”</b>	the Company’s share option schemes adopted on 27 July 2005 and 1 July 2015;
<b>“Treasury Shares”</b>	Ordinary Shares held by the Company as treasury shares from time to time, being 67,168 Ordinary Shares at the Latest Practicable Date; and
<b>“UK” or “United Kingdom”</b>	the United Kingdom of Great Britain and Northern Ireland.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### Donegal Investment Group plc

*(Registered in Ireland under registered number 162921)*

**NOTICE IS HEREBY GIVEN** that an Extraordinary General Meeting (“**EGM**”) of Donegal Investment Group plc (the “**Company**” or “**Donegal**”) will be held at 12:00pm on Friday, 11 February 2022 at the Company’s Head Office, Ballyraine, Letterkenny, Co. Donegal for the purpose of considering and, if thought fit, passing the following resolutions:

#### **AS AN ORDINARY RESOLUTION (Resolution 1)**

##### **THAT:**

- (a) the authorised share capital of the Company be and is hereby:
- (i) reduced from €6,708,000 to €6,500,000 by the cancellation and removal of 800,000 Redeemable Ordinary Shares of €0.13 each and 800,000 Deferred Shares of €0.13 each having the rights provided for in the Articles of Association of the Company as amended by Resolution 2; and
  - (ii) increased from €6,500,000 to €6,839,869.40 by the creation of 1,307,190 Redeemable Ordinary Shares of €0.13 each and 1,307,190 Deferred Shares of €0.13 each having the rights provided for in the Articles as amended by Resolution 2.

#### **AS A SPECIAL RESOLUTION (Resolution 2)**

**THAT** subject to Resolution 1 in the notice of this meeting being passed and becoming effective:

- (a) the memorandum of association of the Company is hereby amended by deleting clause 5 thereof and substituting therefor the following new clause 5:
- “5. The share capital of the Company is €6,839,869.40 divided into 50,000,000 Ordinary Shares of €0.13 each, 1,307,190 Redeemable Ordinary Shares of €0.13 each and 1,307,190 Deferred Shares of €0.13 each, with power to increase or decrease the share capital.”; and
- (b) the articles of association of the Company are hereby amended by deleting article 2 thereof and substituting therefor the following new article 2:
- “2 (a) The share capital of the Company is €6,839,869.40 divided into 50,000,000 Ordinary Shares of €0.13 each, 1,307,190 Redeemable Ordinary Shares of €0.13 each and 1,307,190 Deferred Shares of €0.13 each, with power to increase or decrease the share capital.
- (b) The Ordinary Shares and the Redeemable Ordinary Shares shall rank, save as specifically hereinafter provided, *pari passu* in all respects and any reference in these Articles to “Ordinary Shares” shall be deemed, save where the context clearly requires otherwise, to include reference to the Redeemable Ordinary Shares. A Deferred Share shall have no rights other than a right participate in any

surplus arising on the winding up of the Company up to the nominal amount paid up on the Deferred Share.

- (c) Subject to a member notifying the Company before the conversion of his Ordinary Shares of his unwillingness to have some of his Ordinary Shares converted into Redeemable Ordinary Shares in accordance with the provisions of this Article, the directors (or any director authorised by the directors for this purpose) may resolve to convert up to 1,307,190 of the existing Ordinary Shares into Redeemable Ordinary Shares provided that (i) such conversion will be done as near as possible on a pro rata basis for all Shareholders (excluding the Company in respect of its holding of Ordinary Shares) and the exact number to be converted will be determined by the Board of Directors at its discretion rounded to the nearest whole number; and (ii) no Ordinary Shares held by the Company as Treasury Shares (as defined in Section 106 of the Companies Act, 2014) shall be converted into Redeemable Ordinary Shares.
- (d) If a member notifies the Company in accordance with section 83 of the Companies Act 2014 of his unwillingness to have any of his Ordinary Shares converted into Redeemable Ordinary Shares, that percentage of his Ordinary Shares which would have been converted into Redeemable Ordinary Shares shall instead be converted into Deferred Shares.
- (e) The directors shall not convert Ordinary Shares into Redeemable Ordinary Shares pursuant to this Article and shall not redeem such Redeemable Ordinary Shares unless the redemption is in accordance with the provisions of this Article and with such of the provisions of the Companies Act 2014 as shall apply to any such conversion and/or redemption.
- (f) Subject to the preceding provisions of this Article, the directors may resolve that the Company will redeem all of the Redeemable Ordinary Shares in accordance with the provisions of this Article (the shares which are to be redeemed being hereinafter referred to in this Article as the “**Relevant Shares**”) at a price of €15.30 for each Relevant Share (the “**Redemption Price**”) on the basis that the Redemption Price shall be paid within 14 days of the redemption.
- (g) The directors may do all acts and things considered necessary or expedient to give effect to any conversion and redemption pursuant to this Article with full power to the directors to make such provisions as they think fit where shares would otherwise have been converted and/or redeemed in fractions (including provisions whereby, in whole or in part, fractional entitlements are disregarded). The directors may authorise any person to enter an agreement on behalf of all the Holders of Relevant Shares with the Company providing for such redemption and matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.
- (h) The Company shall not be required to issue any share certificates in respect of any shares which are converted into Redeemable Ordinary Shares except where the directors determine otherwise at their discretion.
- (i) The directors shall procure that there are delivered to the Registrar of Companies the appropriate returns in respect of the conversion of the Ordinary Shares and the redemption of the Redeemable Ordinary Shares and that an appropriate sum is transferred to a Capital Redemption Reserve Fund in the accounts of the

Company and the directors shall comply otherwise with such of the provisions of the Companies Act, 2014 as shall be applicable.”; and

- (c) subject to the provisions of the Companies Act 2014, such part of the issued share capital of the Company shall be converted into Redeemable Ordinary Shares of €0.13 each as the directors shall resolve in accordance with Article 2 of the articles of association of the Company as amended by this resolution and such Redeemable Ordinary Shares shall confer on the holder thereof the rights and obligations specified in the articles of association of the Company as amended on today’s date and as the same may be amended from time to time and be for the time being in force.

By Order of the Board  
*Padraic Lenehan*  
*Company Secretary*

Registered Office: Ballyraine, Letterkenny, Co Donegal  
Date: 19 January 2022

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## **STATEMENT OF PROCEDURES:**

### **Important notice to Shareholders regarding Coronavirus (COVID-19)**

- 1 We are closely monitoring the situation and the measures advised by the Government of Ireland in relation to the ongoing COVID-19 pandemic and will endeavour to take all recommendations into account in the deciding the procedures that will apply to the conduct of the EGM. The procedures for the holding of the EGM are set out in the attached Covid-19 Important Notice (together with any amendments notified via the Company’s website, the “**Covid-19 Important Notice**”)

### **Record date**

- 2 The Company, pursuant to Section 1087G of the Companies Act 2014, has specified that only those shareholders registered in the Register of Members of the Company as at 6:00pm on 7 February 2022 (or in the case of an adjournment as at 6pm on the day before a date not more than 72 hours before the adjourned meeting) shall be entitled to participate and vote at the EGM. Changes in the register after this time will be disregarded in determining the right of any person to attend, speak, ask questions and/or vote at the meeting.

### **Appointment of proxies and exercise of voting rights**

- 3 Following the migration of the Company’s ordinary shares from the CREST system to the EB System on 15 March 2021, the process for appointing a proxy and/or voting at the meeting now depends on the manner in which you hold your Ordinary Shares in the Company (see paragraph 4 below).
- 4 The ways in which a holder of Ordinary Shares can exercise a right to vote will depend on the manner in which such shares are held:
- (a) in the case of shareholders who are registered members and hold Ordinary Shares in certificated (i.e. paper) form (“**Certificated Holders**”):
- (i) in the absence of Covid-19 restrictions (which, as specified in the Covid-19 Important Notice as at the date of this Notice, preclude attendance in person), by attending the EGM in person;  
or

- (ii) by appointing (either by returning a completed Form of Proxy in accordance with paragraph 5 or electronically in accordance with paragraph 6) the Chair of the EGM or another person as a proxy to attend the EGM and vote on your behalf; or
- (b) in the case of holders of CREST Depository Interests (“**CDIs**”) (“**CDI Holders**”):
- (i) by sending electronic voting instructions to Euroclear Bank via Broadridge Financial Solutions Limited (“**Broadridge**”), a third party service provider; or
  - (ii) by appointing a proxy via the Broadridge Global Proxy Voting Service to attend and vote at the meeting; and
- (c) in the case of persons who hold their interests in Ordinary Shares through a participant account in the EB System (“**EB Participants**”):
- (i) by sending electronic voting instructions to Euroclear Bank via SWIFT or to EasyWay Corporate Actions; or
  - (ii) by sending a proxy voting instruction to Euroclear Bank to appoint a third party (other than Euroclear Nominees Limited (i.e. the nominee of Euroclear Bank) (“**Euroclear Nominees**”) or the Chair of the EGM) to attend and vote at the meeting.

Persons who hold their interests in the Ordinary Shares of the Company as Belgian law rights through the EB System or as CDIs should consult with their stockbroker or other intermediary at the earliest opportunity for further information on the processes and timelines for submitting proxies and voting instructions for the EGM through the respective systems.

For voting services offered by custodians holding Irish corporate securities directly with Euroclear Bank, please contact the relevant custodian.

#### **Appointment of proxies by Certificated Holders**

- 5 A Form of Proxy is enclosed. Certificated Holders who wish to appoint a proxy should complete the Form of Proxy in accordance with the instructions printed thereon and return it to the Company’s Registrar, Computershare Investor Services (Ireland) Limited, at 3100 Lake Drive, Citywest Business Campus, Dublin 24, D24 AK82, Ireland as soon as possible but in any event so as to be received by the Company’s Registrar no later than 12:00pm on Wednesday, 9 February 2022. In the absence of Covid-19 restrictions (which at the date of this Notice preclude attendance in person at the EGM), the completion and return of a Form of Proxy will not preclude a shareholder from attending and voting in person at the EGM, or any adjournment thereof, should they wish to do so.
- 6 Certificated Holders may appoint a proxy by way of electronic appointment. This facility enables shareholders whose names appear on the register of members of the Company to appoint a proxy by electronic means by logging on to [www.eproxyappointment.com](http://www.eproxyappointment.com). To appoint a proxy on this website shareholders need to enter a Control Number, a Shareholder Reference Number (“**SRN**”) and a PIN and agree to the terms and conditions specified by the Company’s Registrar. The Control Number, SRN and PIN can be found on the top of the Form of Proxy enclosed with this Notice.

#### **Proxy voting by CDI Holders**

- 7 In respect of CDI Holders, Euroclear UK & International Limited (“**EUI**”), the operator of the CREST system, has arranged for voting instructions relating to CDIs held in CREST to be received via Broadridge. Further details on this service are set out on the “All you need to know about SRD II in Euroclear UK & International” webpage of the Euroclear Bank website ([www.euroclear.com](http://www.euroclear.com)) which is accessible to CREST participants (see section CREST International Service – Proxy voting).



- 8 If you are a CDI Holder, you will be required to use the EUI proxy voting service facilitated by the Broadridge Global Proxy Voting service in order to receive meeting announcements and send back voting instructions, as required. To facilitate client set up, if you hold CDIs and wish to participate in the proxy voting service, you will need to complete a Meetings and Voting Client Set-up Form (CRT408), a copy of which is available on the Euroclear Bank website ([www.euroclear.com](http://www.euroclear.com)) which is accessible to CREST participants. Completed application forms should be returned to EUI by an authorised signatory with another relevant authorised signatory copied in for verification purposes using the following email address: [eui.srd2@euroclear.com](mailto:eui.srd2@euroclear.com).
- 9 Fully completed and returned application forms will be shared with Broadridge by EUI. This will enable Broadridge to contact you, share further detailed information on the service offering, and initiate the process for granting your access to the Broadridge platform.
- 10 Once CDI Holders have access to the Broadridge platform, they can complete and submit proxy appointments (including voting instructions) electronically. Broadridge will process and deliver proxy voting instructions received from CDI Holders by the Broadridge voting deadline date to Euroclear Bank, by its cut-off and to agreed market requirements. Alternatively, a CDI Holder can send a third party proxy voting instruction through the Broadridge platform in order to appoint a third party (who may be a corporate representative or the CDI Holder itself) to attend and vote at the meeting in respect of the number of Ordinary Shares specified in the proxy instruction (subject to the Broadridge voting deadline). There is no facility to offer a letter of representation/appoint a corporate representative other than through the submission of third party proxy appointment instructions through Broadridge.
- 11 Broadridge's voting deadline is expected to be earlier than Euroclear Bank's voting instruction deadline as set out below. In light of the expected requirement for a nationality declaration to be included on or with voting instructions to Broadridge, Broadridge may set a deadline that is more than two (2) days prior to Euroclear Bank's voting instruction deadline.

**CDI Holders should pay close attention to any notices specifically relating to this EGM and are strongly encouraged to familiarise themselves with Broadridge's arrangements, including the voting deadlines and procedures, and requirements in relation to nationality declarations, and to take any further actions required by Broadridge before they can avail of the Broadridge voting service as soon as possible.**

#### **Proxy voting by EB Participants**

- 12 EB Participants can submit proxy appointments (including voting instructions) electronically in the manner described in the EB Service Description.

EB Participants can either send:

- (a) electronic voting instructions to instruct Euroclear Nominees to either itself, or by appointing the Chair of the EGM as a proxy:
- (i) vote in favour of all or a specific resolution(s);
  - (ii) vote against all or a specific resolution(s);
  - (iii) abstain in respect of all or a specific resolution(s); or
  - (iv) give a discretionary vote to the Chair of the EGM for all or a specific resolution(s); or
- (b) a proxy voting instruction to appoint a third party (other than Euroclear Nominees or the Chair of the EGM), who may be a corporate representative or the EB Participant themselves, to attend the meeting and vote the number of Ordinary Shares specified in the proxy voting instruction by providing Euroclear Bank with the proxy details as requested in its notification (e.g. proxy first name, proxy last

name, proxy address). There is no facility to offer a letter of representation or to appoint a corporate representative other than through submission of third party proxy appointment instructions.

- 13 Euroclear Bank's voting instruction deadline is expected to be 11:00am on Wednesday, 9 February 2022. It is not expected that it will be possible to change or cancel voting instructions after Euroclear Bank's voting deadline.

**How to request/inspect documentation relating to the meeting**

- 14 The annual financial statements are contained in the Company's 2020 Annual Report is available, together with the proposed amendments to the memorandum and articles of association, on the Company's website, [www.donegaligroup.com](http://www.donegaligroup.com). Should you wish to be sent a copy of the Company's 2020 Annual Report, you may request this by contacting the Company Secretary at Ballyraine, Letterkenny, Co Donegal.