

DIRECT LINE INSURANCE GROUP PLC FREQUENTLY ASKED QUESTIONS

The following sets out some frequently asked questions and provides brief responses.

Please read both the questions and answers below and the circular relating to the share capital consolidation of Direct Line Insurance Group plc (“Direct Line Group”) dated 5 June 2015 available at www.directlinegroup.com/shareholdermeetings (the “Circular”) as a whole.

1. What is being proposed?

On Friday, 29th May 2015, the Board announced the completion of the disposal of the Group’s International division, which comprised its Italian and German operations, to Mapfre, S.A.. Gross proceeds were €550.0 million (£430.9 million) and, after taking into account transaction costs, Direct Line Group proposes to return approximately £412.5 million to Shareholders via a Special Dividend of 27.5 pence per Ordinary Share.

The special interim dividend (the “Special Dividend”) will be paid on each Existing Ordinary Share on the register at 6.00 pm on 29 June 2015 and is conditional on shareholder approval of a consolidation of the Existing Ordinary Shares on the basis of 11 new ordinary shares of 10 10/11 pence each in the capital of Direct Line Group (“New Ordinary Shares”) for each 12 Existing Ordinary Share held (the “Share Capital Consolidation”) being approved.

2. Why is Direct Line Group returning this cash?

On Friday, 29 May, Direct Line Group announced the completion of the disposal of Direct Line Group’s International division, which comprised its Italian and German operations, to Mapfre, S.A.. Gross proceeds were €550.00 million (£430.9 million) and, after taking into account transaction costs, the Board has proposed to return approximately £412.5 million to Shareholders via the Special Dividend of 27.5 pence per Existing Ordinary Share. The Special dividend is in line with the Board’s policy to return capital which in its view is excess to the Group’s requirements.

3. Why is Direct Line Group proposing to consolidate its share capital?

It is anticipated that, as a result of the decrease in market value of Direct Line Group following payment of the Special Dividend, there would, without a consolidation of Direct Line Group’s ordinary share capital, be a corresponding decrease in the market price of the Existing Ordinary Shares. Accordingly, as is customary where companies pay a significant special dividend to their shareholders, in order to maintain (subject to normal market fluctuations) the market price for ordinary shares at approximately the same level as prevailed immediately prior to the Special Dividend, a consolidation of Direct Line Group’s ordinary share capital is proposed.

4. What is the impact of the Share Capital Consolidation?

Under the Share Capital Consolidation, every 12 Existing Ordinary Shares you hold will be replaced by 11 New Ordinary Shares, meaning the aggregate number of Ordinary Shares in issue is reduced. Expressed as a percentage, the reduction in the number of Ordinary Shares as a result of the Share Capital Consolidation is broadly equivalent to 8 per cent. of Direct Line Group’s market capitalisation at 4 June 2015, which is equivalent to the amount to be returned to Shareholders by way of the Special Dividend.

No. of shares pre-consolidation	No. of shares post consolidation
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500	458
1,000	916
1,500	1,375
2,000	1,833
2,500	2,291

5. What does the Share Capital Consolidation mean to me?

Your Existing Ordinary Shares will be consolidated into a lesser number of New Ordinary Shares. You will continue to own the same proportion of Direct Line Group’s Ordinary Shares immediately after the Share Capital Consolidation as you did just before, subject to fractional entitlements arising on the Share Capital Consolidation – please see question 11 below on fractional entitlements. We will send you a notification of the number of New Ordinary Shares you hold once we complete the Share Capital Consolidation.

For example

If you hold 1,000 Existing Ordinary Shares, you will receive a dividend of £275. In addition, the number of shares that you hold will be reduced by the consolidation ratio 11:12 and you will receive 916 New Ordinary Shares.

Any fractional entitlement will be parcelled together with other fractional entitlements and sold in the market, with the proceeds going to charity. Please see question 11 below for further information on fractional entitlements.

In overall value terms the Special dividend and the New Ordinary Shares should be broadly equivalent in value to the Existing Ordinary Shares allowing for normal market movements.

If you have elected for Dividend Reinvestment Plan (“DRIP”) on your shareholding the Special Dividend will be used to buy additional shares.

6. Can I continue to trade my current Existing Ordinary Shares?

You are still free to buy or sell your Existing Ordinary Shares up until 4.30 pm on 29 June 2015, but you will only be entitled to have New Ordinary Shares issued in respect of Existing Ordinary Shares held at 8.00am on 30 June 2015.

7. Why is Shareholder approval required?

In order to maintain the market price for ordinary shares, Direct Line Group will be consolidating its Existing Ordinary Shares into New Ordinary Shares which, under the Companies Act 2006, requires Shareholder approval.

8. How do I vote?

We intend to hold a general meeting at 10.00am on Monday, 29 June 2015 at Allen & Overy LLP, One Bishops Square, London E1 6AD (the “General Meeting”). The Circular contains the full notice of this general meeting. It is important to us that you have your say.

You need to complete, sign and return the Form of Proxy enclosed with the Circular or submit a CREST Proxy Instruction, as soon as possible and, in any event, no later than 10.00am on Thursday 25 June 2015. If you return a complete Form of Proxy or submit an online or CREST Proxy Instruction, this does not prevent you from attending and voting at the meeting itself.

9. Should I vote at the General Meeting?

Yes, it is important that you submit your vote in respect of the resolutions to be proposed. The payment of the Special Dividend is conditional upon Shareholder approval of the resolution to implement the Share Capital Consolidation, and the other resolutions to be proposed at the General Meeting include renewals of some of the authorities granted at Direct Line Group’s most recent Annual General Meeting which are necessary in light of the Share Capital Consolidation. Your directors therefore recommend that you vote in favour of the resolutions to be proposed at the General Meeting.

10. Where do I find the Form of Proxy?

The Form of Proxy is enclosed with the Circular. If you do not have a Form of Proxy and believe you should have one, or if you require additional forms, please contact the Company’s registrars, Computershare, on +44 (0)870 873 5880.

11. What if the number of Existing Ordinary Shares I hold on the Record Date does not divide exactly by 12?

If your holding of Existing Ordinary Shares on the Record Date does not divide exactly by 12, you will be left with a fractional entitlement to a New Ordinary Share. You will only receive a whole number of New Ordinary Shares. We will combine all fractions and arrange to have them sold in the market. It is expected that you will be sent a cheque for your proportion of the sale proceeds that relate to any fractional entitlements on Tuesday, 7 July 2015. Any amounts of less than £3.00 in the case of any one shareholder will be donated to charities chosen by the Company. The value of any one Shareholder’s fractional entitlement will not exceed the value of one New Ordinary Share.

12. What happens to my current share certificate?

Your Existing Ordinary Share certificate will no longer be valid once the New Ordinary Shares have been listed. Therefore, you should destroy it upon receipt of your New Ordinary Share certificate.

If you currently hold Existing Ordinary Shares in uncertified form through CREST, your CREST account will be adjusted to reflect your entitlement to New Ordinary Shares on 30 June 2015.

13. When do I get my New Ordinary Share certificate?

New Ordinary Share certificates will be despatched by Tuesday, 7 July 2015. Please make every effort to ensure that Computershare holds details of your current address.

14. What if I want to sell my New Ordinary Shares before I have received my New Ordinary Share certificate?

You will be able to sell your New Ordinary Shares from 30 June 2015 even though you will not have a New Ordinary Share certificate for them on that date. Direct Line Group will not be issuing temporary documents of title. Instead the New Ordinary Shares will be certified against the register held by Computershare.

15. Will any of the shares which I receive as part of the consolidation be listed?

Application will be made to the UK Listing Authority for the New Ordinary Shares to be admitted to the premium segment of the Official List and to the London Stock Exchange for the New Ordinary Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that admission of the New Ordinary Shares will become effective and dealings for normal settlement will commence at 8.00am on 30 June 2015.

16. When will I receive my proceeds from the Special Dividend and how will these be paid?

The dividend will be paid on 24 July 2015. Payments will be made in line with the method of payment and currency by which we pay ordinary dividends to you and will be eligible for DRIP entitlement.

17. Will I still receive the interim dividend normally payable in mid September?

Yes, this Special dividend connected to the sale of the International division is in addition to the regular dividends paid by the Group.

18. What if I hold my Existing Ordinary Shares in an ISA?

If you hold your Existing Ordinary Shares in an ISA, you should be able to hold the New Ordinary Shares in an ISA (subject to the terms and conditions of your ISA). You should contact your ISA plan manager who will be able to advise you of the procedure for voting on the consolidation at the General Meeting.

19. What is my tax position if I am resident in the UK or the US?

A summary of certain taxation consequences of the Special Dividend and the Share Consolidation for certain categories of UK resident Shareholders, and certain US Shareholders, is set out in paragraph 5 of Appendix I of the Circular.

As described more particularly in Section A of that paragraph, the Company has been advised that: (a) the tax treatment of UK resident Shareholders who receive the Special Dividend will generally be similar to the tax treatment of such holders receiving any other dividend paid by the Company; and (b) UK resident Shareholders should not generally be treated as having made a disposal of their Existing Ordinary Shares for the purposes of UK taxation of chargeable gains as a result of the Share Consolidation.

As described more particularly in section B of that paragraph, the Company has been advised that from a US federal income tax perspective: (a) the Special Dividend will be included in a US Shareholder's income as a dividend, will not be eligible for the dividends-received deduction and may be taxable at preferential rates for certain US Shareholders; and (b) the Share Consolidation will not cause a US Shareholder to recognise a gain or loss except to the extent of cash received in lieu of fractional entitlements.

Shareholders should read paragraph 5 of Appendix I of the Circular and consult their own independent tax advisers concerning the tax consequences of the Special Dividend and Share Capital Consolidation.