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AON PLC

FORM 10-Q
(Quarterly Report)

Filed 11/14/96 for the Period Ending 09/30/96

Telephone	(44) 20 7623 5500
CIK	0000315293
Symbol	AON
SIC Code	6411 - Insurance Agents, Brokers, and Service
Industry	Insurance (Miscellaneous)
Sector	Financial
Fiscal Year	12/31

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AON CORP

FORM 10-Q
(Quarterly Report)

Filed 11/14/1996 For Period Ending 9/30/1996

Address	200 EAST RANDOLPH STREET
	CHICAGO, Illinois 60601
Telephone	312-381-1000
CIK	0000315293
Industry	Insurance (Miscellaneous)
Sector	Financial
Fiscal Year	12/31

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

X — QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1996

OR

--- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

Commission file number 1-7933

Aon Corporation

(Exact Name of Registrant as Specified in its Charter)

DELAWARE	36-3051915
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
123 N. WACKER DR., CHICAGO, ILLINOIS	60606
(Address of Principal Executive Offices)	(Zip Code)

(312) 701-3000

(Registrant's Telephone Number)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO

Number of shares of common stock outstanding:

Class	No. Outstanding as of 9-30-96
$1.00 par value Common	108,270,863

Part 1
Financial Information
Aon CORPORATION
Condensed Consolidated Statements of Financial Position

(millions) ASSETS	As of Sept. 30, 1996 (Unaudited)	As of Dec. 31, 1995
Investments		
Fixed maturities available for sale	$ 2,707.4	$ 7,687.1
Equity securities at fair value		
Common stocks	303.0	300.0
Preferred stocks	518.3	706.3
Mortgage loans on real estate	33.5	632.0
Real estate (net of accumulated depreciation)	19.4	36.5
Policy loans	58.3	226.3
Other long-term investments	108.4	112.6
Short-term investments	1,174.2	938.3
Total investments	4,922.5	10,639.1
Cash	226.4	115.3
Receivables		
Insurance brokerage and consulting services	3,055.2	2,264.1
Premiums and other	790.3	580.2
Accrued investment income	74.7	152.4
Total receivables	3,920.2	2,996.7
Deferred Policy Acquisition Costs	621.7	1,261.5
Intangible Assets	1,393.4	1,597.7
Property and Equipment at Cost (net of accumulated depreciation)	277.5	307.8
Assets Held Under Special Contracts	305.9	2,307.2
Other Assets	559.4	510.5
Total Assets	$ 12,227.0	$ 19,735.8
LIABILITIES AND EQUITY		
Policy Liabilities		
Future policy benefits	$ 886.4	$ 1,475.1
Policy and contract claims	867.1	970.9
Unearned and advance premiums	1,674.7	1,646.2
Other policyholder funds	367.0	5,464.2
Total policy liabilities	3,795.2	9,556.4
General Liabilities		
Insurance premiums payable	3,394.1	2,722.8
Commissions and general expenses	502.8	562.4
Accrued income taxes	118.1	332.6
Short-term borrowings	59.6	352.7
Notes payable	476.8	497.5
Debt guarantee of ESOP	46.1	56.8
Liabilities held under special contracts	305.9	2,307.2
Other liabilities	760.3	623.7
Total Liabilities	9,458.9	17,012.1
COMMITMENTS AND CONTINGENT LIABILITIES		
Redeemable Preferred Stock	50.0	50.0
Stockholders' Equity		
Preferred stock - $1 par value	7.6	8.1
Common stock - $1 par value	111.5	111.4
Paid-in additional capital	454.1	431.8
Net unrealized investment gains	96.3	123.1
Net foreign exchange gains/(losses)	(11.5)	1.8
Retained earnings	2,312.7	2,212.1
Less - Treasury stock at cost	(119.3)	(97.3)
Deferred compensation	(133.3)	(117.3)

Total Stockholders' Equity	2,718.1	2,673.7
Total Liabilities and Equity	$ 12,227.0	$ 19,735.8

See the accompanying notes to the condensed consolidated financial statements.

Aon CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(millions except per share data)

	Third Quarter Ended		Nine Months Ended	
	Sept. 30, 1996	Sept. 30, 1995	Sept. 30, 1996	Sept. 30, 1995
REVENUE				
Brokerage commissions and fees	$ 454.5	$ 400.9	$ 1,368.0	$ 1,225.7
Premiums earned	382.1	358.1	1,141.4	1,058.5
Net investment income	92.4	86.6	269.7	245.0
Realized investment gains	3.1	8.8	3.1	9.3
Other income	12.2	11.3	36.6	32.3
Total revenue	944.3	865.7	2,818.8	2,570.8
BENEFITS AND EXPENSES				
Commissions and general expenses	537.2	491.6	1,621.4	1,454.7
Benefits to policyholders	203.3	174.8	582.1	513.8
Interest expense	9.1	9.7	28.4	27.6
Amortization of deferred policy acquisition costs	48.3	53.5	156.4	153.5
Amortization of intangible assets	18.4	19.9	55.6	60.3
Total benefits and expenses	816.3	749.5	2,443.9	2,209.9
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX	128.0	116.2	374.9	360.9
Provision for income tax	44.2	39.2	129.3	121.7
INCOME FROM CONTINUING OPERATIONS	$ 83.8	$ 77.0	$ 245.6	$ 239.2
DISCONTINUED OPERATIONS: (1)				
Income from discontinued operations, net of tax	-	23.0	22.4	70.7
Gain on disposal of discontinued operations, net of tax	-	-	21.0	-
NET INCOME	$ 83.8	$ 100.0	$ 289.0	$ 309.9
Net Income Available for Common Stockholders	$ 78.8	$ 94.2	$ 273.8	$ 290.5
PER SHARE:				
Income from continuing operations (2)	$ 0.72	$ 0.66	$ 2.11	$ 2.03
Income from discontinued operations (1)	-	0.21	0.20	0.65
Gain on disposal of discontinued operations (1)	-	-	0.19	-
Net income (2)	$ 0.72	$ 0.87	$ 2.50	$ 2.68
Cash dividends paid on common stock	$ 0.36	$ 0.34	$ 1.06	$ 1.00
Average common and common equivalent shares outstanding	109.4	108.1	109.7	108.5

(1) In April, 1996, Aon completed the sales of two of its insurance subsidiaries, Union Fidelity Life Insurance Company and The Life Insurance Company of Virginia. Their results are classified as discontinued operations.

(2) Includes the effect of $5 million and $15.2 million, and $5.8 million and $19.4 million of dividends incurred on the 8%, 6.25% and Series C preferred stock in third quarter and nine months ended September 30, 1996 and 1995, respectively.

See the accompanying notes to the condensed consolidated financial statements.

Aon CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(millions)

	Nine Months Ended	
	Sept. 30, 1996	Sept. 30, 1995
Cash Provided by Operating Activities	$ 375.6	$ 439.4
Cash Flows from Investing Activities:		
Purchase of short term investments-net	(307.8)	(155.6)
Sale or maturity of fixed maturities		
Available for sale - Maturities	105.4	86.1
Calls and Prepayments	145.2	158.8
Sales	569.4	2,195.3
Held to maturity - Maturities	-	0.8
Calls and prepayments	-	123.1
Sales	-	3.0
Sale or maturities of other investments	471.5	705.5
Purchase of fixed maturities - available for sale	(1,276.6)	(2,761.6)
Purchase of other investments	(630.2)	(720.4)
Disposition (acquisition) of subsidiaries - net	1,253.2	(74.5)
Property and equipment and other	(56.9)	(81.9)
Cash Provided (Used) by Investing Activities	273.2	(521.4)
Cash Flows from Financing Activities:		
Treasury stock transactions - net	(35.9)	(49.4)
Issuance (repayment) of short-term borrowings - net	(293.1)	78.3
Issuance of long-term debt	-	18.0
Repayment of long-term debt	(4.1)	(19.1)
Interest sensitive life, annuity and investment contract deposits	371.0	1,008.2
Interest sensitive life, annuity and investment contract withdrawals	(432.1)	(1,138.4)
Retirement of preferred stock	(14.2)	(75.4)
Cash dividends to stockholders	(129.5)	(128.2)
Cash Used by Financing Activities	(537.9)	(306.0)
Effect of Exchange Rate Changes on Cash	0.2	3.4
Increase (Decrease) in Cash	111.1	(384.6)
Cash at Beginning of Period	115.3	508.8
Cash at End of Period	$ 226.4	$ 124.2

See the accompanying notes to condensed consolidated financial statements.

Aon CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Statement of Accounting Principles

The financial results included in this report are stated in conformity with generally accepted accounting principles and are unaudited but include all normal recurring adjustments which the Registrant (Aon) considers necessary for a fair presentation of the results for such periods. These interim figures are not necessarily indicative of results for a full year as further discussed below.

Refer to the consolidated financial statements and notes in the Annual Report to Stockholders (Annual Report) for the year ended December 31, 1995 for additional details of Aon's financial position, as well as a description of the accounting policies which have been continued without material change. The details included in the notes have not changed except as a result of normal transactions in the interim and the events mentioned in the footnotes below.

Certain prior period amounts have been reclassified to conform to the current period presentation.

2. Statement of Financial Accounting Standards (SFAS)

In June 1996, the Financial Accounting Standards Board (FASB) issued Statement No. 125 (Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities). This Statement provides accounting and reporting standards for sales, securitization, and servicing of receivables and other financial assets and extinguishments of liabilities. The provisions of this Statement are to be applied to transactions occurring after December 31, 1996. Aon anticipates adopting this Statement in its 1997 financial statements as required. Implementation of this Statement is not expected to have a material effect on Aon's financial statements.

3. Capital Stock

During nine months 1996, Aon purchased 1,151,000 shares of its common stock, at a total cost of $56.7 million. Aon reissued 575,000 shares of common stock from treasury for employee benefit plans during the nine months 1996. In addition, Aon reissued 491,000 shares of treasury stock in connection with business combinations. There were 3.2 million shares of common stock held in treasury at September 30, 1996.

During nine months 1996, Aon purchased and retired 553,000 shares of its 8% Cumulative Perpetual Preferred Stock at a total cost of $14.2 million.

On September 20, 1996, Aon exercised its option to call for redemption on November 1, 1996, all of the then outstanding 6.25% Cumulative Convertible Exchangeable Preferred Stock ("6.25% preferred stock"). Shareholders had the option of either having shares redeemed for $51.8750 per share, plus accrued dividends, or converting shares into 1.220 shares of common stock at any time prior to the close of business on October 31, 1996. Substantially all of the 6.25% preferred stock shareholders elected to convert their shares into common stock.

4. Discontinued Operations

On April 1, 1996, Aon completed the sales of Union Fidelity Life Insurance Company (UFLIC) and The Life Insurance Company of Virginia (LOV) and received after-tax sales proceeds of approximately $1.2 billion. The gain on disposal of discontinued operations was $21 million after taxes of approximately $175 million.

5. Subsequent Event

On October 18, 1996, Aon acquired all of the outstanding shares of Bain Hogg Group plc ("Bain Hogg"), a wholly-owned subsidiary of Inchcape plc for approximately $250 million. The acquisition was financed primarily by internal funds. Bain Hogg is an international insurance brokerage and consulting organization with twelve months 1995 revenues of approximately $350 million.

Aon CORPORATION

MANAGEMENT'S ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITION REVENUE AND INCOME BEFORE INCOME TAX FOR THIRD QUARTER AND NINE MONTHS 1996

GENERAL

In fourth quarter 1995, Aon and its wholly owned subsidiary Combined Insurance Company of America (CICA) reached definitive agreements to sell two of its domestic insurance subsidiaries, UFLIC and LOV. The sales of UFLIC and LOV were completed in April, 1996, and resulted in a $21 million after-tax gain on disposal. The results of UFLIC and LOV are classified in the consolidated statements of income as discontinued operations. For purposes of the following discussions, comparisons against prior years' results are based on continuing operations.

The after-tax proceeds from the sales of UFLIC and LOV were $1.2 billion. The majority of the proceeds were initially used for both short-term debt reductions and investments. The potential long-term uses of the proceeds are the further repayment of debt, the repurchase of capital stock, and other general corporate purposes, including acquisitions.

CONSOLIDATED RESULTS

Brokerage commissions and fees increased $53.6 million or 13.4% and $142.3 million or 11.6% in third quarter and nine months 1996, respectively, primarily reflecting business combination activity.

Premiums earned increased $24 million or 6.7% and $82.9 million or 7.8% in third quarter and nine months 1996, respectively, compared with the same periods last year. Extended warranty premiums earned increased $23 million or 31.7% in the quarter, primarily reflecting a continuing higher volume of new business in the appliance and electronic equipment line. Direct sales earned premium grew 1.1% from third quarter 1995 of which the strongest growth was in the international segment.

Net investment income increased $5.8 million or 6.7% in third quarter 1996 when compared to prior year. Growth in the quarter was primarily attributable to investment income associated with the proceeds from the sales of UFLIC and LOV, and was impacted by lower income from certain private equity investments. For the nine months 1996, investment income increased $24.7 million or 10.1% primarily reflecting investment income on the sales proceeds.

Total revenue increased $78.6 million or 9.1% and $248 million or 9.6% in the third quarter and nine months 1996, respectively. Total benefits and expenses increased $66.8 million or 8.9% and $234 million or 10.6% in the same periods. The increase in the nine months expenses reflects the inclusion of special charges of $30.2 million related to the completion of a voluntary early retirement program introduced domestically in the second quarter as well as similar programs internationally. Total benefits and expenses, excluding the 1996 special charges, increased 9.2% for the nine months 1996. Income before income tax increased $11.8 million or 10.2% and $14 million or 3.9% in third quarter and nine months 1996, respectively. Excluding these special charges, income before income tax increased 12.2% when compared to nine months 1995, primarily due to the inclusion

of investment income associated with the proceeds from the sale of discontinued operations and to growth in the insurance brokerage and consulting services segment related primarily to business combination activity.

MAJOR LINES OF BUSINESS

GENERAL

Beginning with the 1995 Annual Report, Aon reclassified its operating segments to reflect the focus of its continuing operations. Insurance underwriting operations were presented as one segment based on the related nature, distribution channels and markets of the continuing products. Insurance underwriting primarily includes life, accident and health insurance and extended warranty products. In this report, 1995 segments have been reclassified to conform to the 1996 presentation.

In second quarter 1996, Aon reported a gain on disposal of discontinued operations, net of tax, of $21 million related to the sales of UFLIC and LOV. In addition, investment income associated with the sales proceeds was included in the Corporate and Other segment in the quarter. Aon also reported second quarter pretax special charges of $30.2 million related to early retirement programs. For the purposes of the following line of business discussions, comparisons against last year's results exclude the gain on sale of discontinued operations and the special charges.

INSURANCE BROKERAGE AND CONSULTING SERVICES

Beginning in first quarter 1996, Aon combined the retail brokerage and reinsurance and wholesale subsegments of insurance brokerage and consulting services into one subsegment called "Insurance and other services". Also included in this subsegment is revenue from financing services operations which includes service fees received from the placement of insurance premiums and retail auto financing receivables with unaffiliated parties. This operation was previously reported in the corporate segment. All prior period data has been reclassified to conform to the 1996 presentation. Insurance and other services revenue increased $48.1 million or 13.4% for the third quarter 1996 when compared with the same period last year. This growth was primarily attributable to various acquisition programs, both internationally as well as domestically. Insurance and other services revenue continued to reflect highly competitive property and casualty pricing in the domestic market.

"Consulting" provides a full range of employee benefits and compensation consulting, specialized employee assessment and training programs, and administrative services. This business showed revenue growth of $3.1 million or 5% for the third quarter when compared to prior year, primarily due to the expanding integrated human resources consulting practice. Partially limiting this growth was an unanticipated decline in revenues in the automotive consulting operations.

Overall, revenue for the insurance brokerage and consulting services segment increased $51.2 million or 12.2% in the third quarter and $137.8 million or 10.8% for nine months 1996. The brokerage segment continues to be impacted by a soft property and casualty market. Income before income tax increased $9.9 million or 21.6% and $25.2 million or 14.6% when compared to third quarter and nine months 1996, respectively, primarily reflecting acquisition activity. Excluding the impact of acquisitions, revenue and income before income tax results demonstrated modest growth while operating in a competitive environment.

Domestic/International Results

Third quarter domestic insurance brokerage and consulting services revenue and income before income tax represent 70% and 96%, respectively, of the total segment. International brokerage revenue of $141.2 million increased 21.6% for the third quarter, primarily reflecting acquisition activity. International brokerage income before income tax declined for the quarter primarily reflecting the brokerage revenue pattern in the insurance and other services subsegment with revenues being highest in the first quarter of the year, while expenses are incurred on a more even basis throughout the year.

INSURANCE UNDERWRITING

The insurance underwriting line of business provides direct sales life and accident and health products, and extended warranty products to individuals. On June 30, 1996, Aon completed the sale of North American auto credit underwriting and distribution operations, including the distribution of extended warranties throughout North America. However, the extended warranty products will continue to be underwritten by Aon's subsidiary, Virginia Surety Company. The North American auto credit underwriting business written prior to the sale will continue to run off as planned. Total North American auto credit insurance underwriting revenues included in Aon's consolidated statements of income for the third quarter and nine months ended September 30, 1996 were approximately $30 million and $95 million, respectively.

Revenue increased 7.3% or $30 million and 8.9% or $108.3 million for the third quarter and nine months 1996, respectively, when compared to prior year primarily due to the continued expansion, both domestically and internationally, of the extended warranty appliance and electronic line. Certain specialty programs and auto credit business continue to be profitably run off. CICA's revenues for the quarter were up 1.5% to $255.6 million. CICA's direct sales business continues to produce modest revenue growth, stable earnings and strong cash flow.

Pretax income from insurance underwriting increased $5.2 million or 8% and $11.4 million or 6.2% in third quarter and nine months 1996, respectively, compared with last year. In general, expense margins in the third quarter 1996 decreased while benefit levels increased slightly, particularly in the extended warranty line. Overall, benefit and expense margins in third quarter 1996 did not suggest any significant shift in operating trends.

Domestic/International Results

Third quarter domestic insurance underwriting revenue and income before income tax represent 72% and 69%, respectively, of the total segment. International insurance underwriting revenue of $125.9 million increased 10.5%, principally due to improved premiums earned in the extended warranty lines. International pretax income improved 10.8% primarily due to expansion in the appliance and electronic extended warranty line.

CORPORATE AND OTHER

Revenue in this category consists primarily of investment income on capital and realized investment gains and losses. Allocation of investment income to the insurance underwriting segment is based on the invested assets which underlie policyholder liabilities. Excess invested assets and related investment income, which do not underlie underwriting liabilities, are reported in this segment. Expenses include interest and other financing expenses, goodwill amortization (primarily associated with insurance brokerage and consulting acquisitions), and corporate administrative costs.

Revenue decreased 8% for the third quarter compared to last year, primarily due to a lower level of realized investment gains. Pretax realized investment gains for the third quarter were $3.1 million and $8.8 million in 1996 and 1995, respectively. Excluding realized investment gains, revenue increased 13.1% when compared to prior year. Third quarter revenue in this segment benefited from investment income associated with the proceeds from the sales of UFLIC and LOV and was offset, in part, by lower income from certain private equity investments. Unlike public securities, income flows on these private investments are based on events that are not scheduled. Nine months 1996 revenue increased 2.5%, largely due to investment income generated by the sales proceeds. Excluding realized investment gains, revenue increased 12.3%. Income before income tax decreased $3.3 million to $1.9 million in third quarter 1996, primarily due to the decrease in realized investment gains and offset in part by an increase in investment income. Income before income tax, excluding realized investment gains, increased $2.4 million over the same quarter last year. Nine months 1996 income before income tax increased 200% over 1995, largely due to investment income from the sales proceeds and to an improved level of general expenses.

DISCONTINUED OPERATIONS

Discontinued operations are composed principally of capital accumulation products and direct response products. Substantially all of the revenue and income before income tax generated from discontinued operations is domestic. These amounts have been segregated as "Income From Discontinued Operations" in the consolidated statements of income.

With the completion of the sales of UFLIC and LOV on April 1, 1996, there are no operating results from these discontinued operations going forward. The effective operating income tax rate on discontinued operations was 35% in 1996 and 1995. In addition, in second quarter 1996, a $21 million gain on disposal of discontinued operations, net of taxes of approximately $175 million, was recorded.

Aon CORPORATION
MAJOR LINES OF BUSINESS

(millions)

	Third Quarter Ended		Nine Months Ended	
	Sept. 30, 1996	Percent Change (1)	Sept. 30, 1996	Percent Change (1)
Revenue				
Insurance brokerage and consulting services	$ 471.4	12.2 %	$ 1,418.7	10.8 %
Insurance underwriting	443.0	7.3	1,323.1	8.9
Corporate and other	29.9	(8.0)	77.0	2.5
Total revenue	$ 944.3	9.1 %	$ 2,818.8	9.6 %
Income Before Income Tax				
Insurance brokerage and consulting services	$ 55.7	21.6 %	$ 198.1	14.6 %
Special charges	-	-	(22.4)	-
Including special charges	55.7	21.6	175.7	1.6
Insurance underwriting	70.4	8.0	195.6	6.2
Special charges	-	-	(6.4)	-
Including special charges	70.4	8.0	189.2	2.7
Corporate and other	1.9	(63.5)	11.4	200.0
Special charges	-	-	(1.4)	-
Including special charges	1.9	(63.5)	10.0	163.2
Total income before income tax	$ 128.0	10.2 %	$ 374.9	3.9 %

(1) Prior period amounts have been reclassified to conform to the 1996 presentation.

Aon CORPORATION
REVENUE BY MAJOR PRODUCT LINE

(millions)

	Third Quarter Ended		Nine Months Ended	
	Sept. 30, 1996	Percent Change (1)	Sept. 30, 1996	Percent Change (1)
Insurance brokerage and consulting services				
Insurance and other services	$ 406.5	13.4 %	$ 1,211.3	10.7 %
Consulting	64.9	5.0	207.4	11.0
Total revenue	$ 471.4	12.2 %	$ 1,418.7	10.8 %
Insurance underwriting				
Direct sales - life, accident and health	$ 255.6	1.5 %	$ 766.4	1.7 %
Warranty and other	187.4	16.2	556.7	20.7
Total revenue	$ 443.0	7.3 %	$ 1,323.1	8.9 %
Corporate and other				
Investment income on capital and other	$ 26.8	13.1 %	$ 73.9	12.3 %
Realized investment gains	3.1	(64.8)	3.1	(66.7)
Total revenue	$ 29.9	(8.0)%	$ 77.0	2.5 %

(1) Prior period amounts have been reclassified to conform to the 1996 presentation.

NET INCOME FOR THIRD QUARTER AND NINE MONTHS 1996

Third quarter net income was $83.8 million ($0.72 per share) compared to $100 million ($0.87 per share) in 1995. Net income for the nine months was $289 million ($2.50 per share) compared to $309.9 million ($2.68 per share) in 1995. The decrease in third quarter 1996 net income is not comparable to 1995 due to the completion of the sales of UFLIC and LOV early in the second quarter 1996. In third quarter 1995, UFLIC and LOV contributed $0.21 per share to net income. The principal factor that partially offset this third quarter 1996 decrease is the inclusion of investment income associated with the sales proceeds. Third quarter and nine months operating income from continuing operations, which excludes after-tax realized investment gains and losses, and before special charges, was $81.8 million ($0.70 per share) and $263.1 million ($2.27 per share) in 1996, respectively, compared to $71.4 million ($0.61 per share) and $233.2 million ($1.97 per share) in 1995, respectively. Included in third quarter 1996 and 1995 net income are after-tax realized investment gains of $0.02 and $0.05 per share, respectively. The effective tax rate on operating income from continuing operations, was 34.5% and 33.7% for nine months 1996 and 1995, respectively. The effective tax rate for realized gains and losses was 36% for 1996 and 1995. Average shares outstanding for third quarter increased 1.2% when compared to 1995.

CASH FLOW AND FINANCIAL POSITION AT THE END OF NINE MONTHS 1996

GENERAL

Consistent with financial statement presentation, the following cash flow and financial position discussion reflects the completion of the sales of UFLIC and LOV in April, 1996. As a result of the sales, the condensed consolidated statement of financial position at September 30, 1996 has been significantly impacted when compared to year end 1995. Amounts contained in the condensed consolidated statement of cash flows for the nine months ended September 30, 1996 compared to the same period in 1995 also reflect the impact of the sales of UFLIC and LOV.

Cash flows from operating activities (including discontinued operations) in nine months 1996 were $375.6 million, a decrease of $63.8 million from nine months 1995. This decrease reflects federal income tax payments relating to the sales of UFLIC and LOV.

Investing activities provided cash of $273.2 million which was made available from the completed sales of UFLIC and LOV, and offset in part, by net purchases of investments. Cash used for acquisition activity during the nine months 1996 was $70.5 million.

Cash totaling $537.9 million was used during nine months 1996 for financing activities. Net cash used from capital accumulation product deposits and withdrawals was $61.1 million in nine months 1996, primarily related to discontinued operations. Cash was used to pay dividends of $114.3 million on common stock, $8.3 million on 8% cumulative perpetual preferred stock, $5 million on 6.25% cumulative convertible exchangeable preferred stock and $1.9 million on Series C preferred stock.

Included in notes payable at September 30, 1996 is approximately $3 million which represents the principal amount of notes due within one year. Aon's operating subsidiaries anticipate that there will be adequate liquidity to meet their needs in the foreseeable future. Aon anticipates continuation of the company's positive cash flow, the ability of the parent company to access adequate short-term lines of credit, and sufficient cash flow in the long-term.

The businesses of Aon's operating subsidiaries continue to provide substantial positive cash flow. Brokerage cash flow has been used primarily for servicing acquisition-related debt. Due to the contractual nature of its insurance policyholder liabilities which are intermediate to long-term in nature, Aon has invested primarily in fixed maturities. With a carrying value of $2.7 billion, Aon's total fixed maturity portfolio is invested primarily in investment grade holdings (95.2%) and has a market value which is 103.3% of amortized cost.

Mortgage-backed securities, primarily collateralized mortgage obligations (CMO's), included in the fixed maturities portfolio, totaled $45.2 million, down approximately $2 billion from year end 1995 with the difference attributed to discontinued operations.

Total assets decreased $7.5 billion to $12.2 billion, while invested assets at September 30, 1996 decreased $5.7 billion from year-end levels, primarily due to the sales of UFLIC and LOV. The amortized cost and fair value of less than investment grade fixed maturity investments at September 30, 1996 were $116.9 million and $120.7 million, respectively. The carrying value of non-income producing investments in Aon's portfolio at September 30, 1996 was $41 million, or 0.8% of total invested assets.

Mortgage loans totaled $33.5 million or 0.7% of total invested assets. Aon maintains investment reserves related to mortgage loan losses on real estate holdings (including real estate ventures and limited partnerships) totaling $5.8 million at the end of third quarter 1996, down $25 million from the year end 1995 level of $30.8 million. Substantially all of the decrease in reserves relates to discontinued operations.

Aon uses derivative financial instruments (primarily financial futures, swaps and options) to: (a) manage certain asset/liability duration matches; (b) hedge asset price risk associated with financial instruments which are reported at their fair values; and (c) hedge other business risks. As of September 30, 1996, Aon had open contracts which had unrealized losses of approximately $0.2 million.

Short-term borrowings decreased at the end of third quarter 1996 by $293.1 million when compared to year end 1995 primarily due to the use of sales proceeds to pay down debt.

Stockholders' equity increased $44.4 million in third quarter 1996 to $23.29 per share, an increase of $0.52 per share since year-end 1995. The principal factors influencing this increase were net income which includes the after tax gain on disposal of discontinued operations of $21 million. Partially offsetting this increase was a decrease in net unrealized investment gains of $26.8 million, a change in net foreign exchange gains and losses of $13.3 million, the repurchase of common stock for treasury for a cost of $40 million, and dividends to stockholders of $168.3 million. Included in the reduction for dividends is an accrual for the fourth quarter 1996 common stock dividend.

Review by Independent Auditors

The condensed consolidated financial statements at September 30, 1996, and for the third quarter and nine months then ended have been reviewed, prior to filing, by Ernst & Young LLP, Aon's independent auditors, and their report is included herein.

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors and Stockholders
Aon Corporation

We have reviewed the accompanying condensed consolidated statement of financial position of Aon Corporation as of September 30, 1996, and the related condensed consolidated statements of income for the three-month and nine-month periods ended September 30, 1996 and 1995, and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 1996 and 1995. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated statement of financial position of Aon Corporation as of December 31, 1995, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended, not presented herein, and in our report dated February 8, 1996, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 1995, is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

ERNST & YOUNG LLP

Chicago, Illinois
November 5, 1996

PART II
OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits - The exhibits filed with this report are listed on the attached Exhibit Index.

(b) Reports on Form 8-K - No Current Reports on Form 8-K were filed for the quarter ended September 30, 1996.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Aon Corporation
(Registrant)

November 14, 1996

/s/ Harvey N. Medvin

HARVEY N. MEDVIN
EXECUTIVE VICE PRESIDENT,
CHIEF FINANCIAL OFFICER AND
TREASURER
(Principal Financial and Accounting Officer)

Aon CORPORATION

EXHIBIT INDEX

Exhibit Number
In Regulation S-K,

Item 601 Exhibit Table	Page No.
(11) Statement regarding Computation of Per Share Earnings.	18
(12) Statements regarding Computation of Ratios.	
(a) Statement regarding Computation of Ratio of Earnings to Fixed Charges.	19

(b) Statement regarding Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends. 20

(15) Letter re: Unaudited Interim Financial Information. 21

(27) Financial Data Schedule

Aon Corporation and Subsidiaries

CONSOLIDATED NET INCOME PER SHARE COMPUTATION

(millions except per share data)

	Third Quarter Ended		Nine Months Ended	
	Sept. 30, 1996	Sept. 30, 1995	Sept. 30, 1996	Sept. 30, 1995
EARNINGS PER SHARE				
Net income	$ 83.8	$ 100.0	$ 289.0	$ 309.9
Preferred stock dividends	5.0	5.8	15.2	19.4
Net income available for common stockholders	$ 78.8	$ 94.2	$ 273.8	$ 290.5
Average common shares issued	111.5	110.8	111.5	110.6
Net effect of treasury stock activity	(3.1)	(3.4)	(3.0)	(2.8)
Net effect of dilutive stock compensation plans based on the treasury stock method	1.0	0.7	1.2	0.7
Average common and common equivalent shares outstanding	109.4	108.1	109.7	108.5
Net income per share	$ 0.72	$ 0.87	$ 2.50	$ 2.68

Aon Corporation and Consolidated Subsidiaries
Combined With Unconsolidated Subsidiaries
Computation of Ratio of Earnings to Fixed Charges

(millions except ratios)	Nine Months Ended Sept 30, 1996	Nine Months Ended Sept 30, 1995	Years Ended December 31, 1995	1994	1993	1992 (1)	1991
Income from continuing operations before provision for income taxes	$ 374.9	$ 360.9	$ 458.0	$ 397.0	$ 331.6	$ 179.1	$ 242.4
Add back fixed charges:							
Interest on indebtedness	32.9	41.2	55.5	46.4	42.3	41.9	40.7
Interest on ESOP	3.5	4.1	5.3	5.9	6.5	6.9	7.2
Portion of rents representative of interest factor	20.0	18.0	21.4	28.7	26.1	19.2	15.4
Income as adjusted	$ 431.3	$ 424.2	$ 540.2	$ 478.0	$ 406.5	$ 247.1	$ 305.7
Fixed charges:							
Interest on indebtedness	$ 32.9	$ 41.2	$ 55.5	$ 46.4	$ 42.3	$ 41.9	$ 40.7
Interest on ESOP	3.5	4.1	5.3	5.9	6.5	6.9	7.2
Portion of rents representative of interest factor	20.0	18.0	21.4	28.7	26.1	19.2	15.4
Total fixed charges	$ 56.4	$ 63.3	$ 82.2	$ 81.0	$ 74.9	$ 68.0	$ 63.3
Ratio of earnings to fixed charges	7.6	6.7	6.6	5.9	5.4	3.6	4.8
Ratio of earnings to fixed charges (2)	8.3	8.4	8.4	7.6	7.4	5.3	6.2

(1) Income from continuing operations before provision for income taxes excludes the cumulative effect of changes in accounting principles.
(2) The calculation of this ratio of earnings to fixed charges reflects the addition of the income from discontinued operations before the provision for income tax component for each period presented.

Aon Corporation and Consolidated Subsidiaries
Combined With Unconsolidated Subsidiaries
Computation of Ratio of Earnings to Combined Fixed Charges
and Preferred Stock Dividends

(millions except ratios)	Nine Months Ended Sept 30, 1996	Nine Months Ended Sept 30, 1995	Years Ended December 31, 1995	1994	1993	1992 (1)	1991
Income from continuing operations before provision for income taxes	$ 374.9	$ 360.9	$ 458.0	$ 397.0	$ 331.6	$ 179.1	$ 242.4
Add back fixed charges:							
Interest on indebtedness	32.9	41.2	55.5	46.4	42.3	41.9	40.7
Interest on ESOP	3.5	4.1	5.3	5.9	6.5	6.9	7.2
Portion of rents representative of interest factor	20.0	18.0	21.4	28.7	26.1	19.2	15.4
Income as adjusted	$ 431.3	$ 424.2	$ 540.2	$ 478.0	$ 406.5	$ 247.1	$ 305.7
Fixed charges and preferred stock dividends:							
Interest on indebtedness	$ 32.9	$ 41.2	$ 55.5	$ 46.4	$ 42.3	$ 41.9	$ 40.7
Preferred stock dividends	23.2	29.4	37.5	48.4	47.5	20.3	3.5
Interest and dividends	56.1	70.6	93.0	94.8	89.8	62.2	44.2
Interest on ESOP	3.5	4.1	5.3	5.9	6.5	6.9	7.2
Portion of rents representative of interest factor	20.0	18.0	21.4	28.7	26.1	19.2	15.4
Total fixed charges and preferred stock dividends	$ 79.6	$ 92.7	$ 119.7	$ 129.4	$ 122.4	$ 88.3	$ 66.8
Ratio of earnings to combined fixed charges and preferred stock dividends	5.4	4.6	4.5	3.7	3.3	2.8	4.6
Ratio of earnings to combined fixed charges and preferred stock dividends (2)	5.9	5.7	5.8	4.8	4.5	4.1	5.9

(1) Income from continuing operations before provision for income taxes excludes the cumulative effect of changes in accounting principles.
(2) The calculation of this ratio of earnings to fixed charges reflects the addition of the income from discontinued operations before the provision for income tax component for each period presented.

Exhibit 15

Board of Directors and Stockholders
Aon Corporation

We are aware of the incorporation by reference in the Registration Statements of Aon Corporation ("Aon") described in the following table of our report dated November 5, 1996 relating to the unaudited condensed consolidated interim financial statements of Aon Corporation that are included in its Form 10-Q for the quarter ended September 30, 1996:

Registration Statement

Form	Number	Purpose
S-8	2-79114	Pertaining to Aon's stock option plan
S-8	2-82791	Pertaining to Aon's stock option plan
S-8	33-27984	Pertaining to Aon's savings plan
S-8	33-42575	Pertaining to Aon's stock award plan and stock option plan
S-8	33-59037	Pertaining to Aon's stock award plan and stock option plan
S-3	33-57562	Registration of Aon's 8% cumulative perpetual preferred stock and 6 1/4% cumulative convertible exchangeable preferred stock

Pursuant to Rule 436(c) of the Securities Act of 1933, our report is not a part of the registration statements prepared or certified by accountants within the meaning of Section 7 or 11 of the Securities Act of 1933.

ERNST & YOUNG LLP

Chicago, Illinois
November 5, 1996

ARTICLE 7

This schedule contains summary financial information extracted from Condensed Consolidated Statements of Financial Position and Condensed Consolidated Statements of Income and is qualified in its entirety by reference to such financial statements.

MULTIPLIER: 1,000,000

PERIOD TYPE	9 MOS	
FISCAL YEAR END	DEC 31 1996	
PERIOD START	JAN 01 1996	
PERIOD END	SEP 30 1996	
DEBT HELD FOR SALE	2,707	
DEBT CARRYING VALUE	0	
DEBT MARKET VALUE	0	
EQUITIES	821	
MORTGAGE	34	
REAL ESTATE	19	
TOTAL INVEST	4,923	
CASH	226	
RECOVER REINSURE	0	[1]
DEFERRED ACQUISITION	622	
TOTAL ASSETS	12,227	
POLICY LOSSES	886	
UNEARNED PREMIUMS	1,675	
POLICY OTHER	867	
POLICY HOLDER FUNDS	367	
NOTES PAYABLE	583	[2]
PREFERRED MANDATORY	50	
PREFERRED	8	[3]
COMMON	112	[4]
OTHER SE	2,598	
TOTAL LIABILITY AND EQUITY	12,227	
PREMIUMS	1,141	
INVESTMENT INCOME	270	
INVESTMENT GAINS	3	
OTHER INCOME	1,405	[5]
BENEFITS	582	
UNDERWRITING AMORTIZATION	156	
UNDERWRITING OTHER	1,706	
INCOME PRETAX	375	
INCOME TAX	129	
INCOME CONTINUING	246	
DISCONTINUED	43	
EXTRAORDINARY	0	
CHANGES	0	
NET INCOME	289	
EPS PRIMARY	2.50	
EPS DILUTED	0	
RESERVE OPEN	715	
PROVISION CURRENT	0	[1]
PROVISION PRIOR	0	[1]
PAYMENTS CURRENT	0	[1]
PAYMENTS PRIOR	0	[1]
RESERVE CLOSE	0	[1]
CUMULATIVE DEFICIENCY	0	[1]

[1] Available on an annual basis only.

[2] Includes short term borrowings and debt guarantee of ESOP.

[3] Preferred stock at par value.

[4] Common stock at par value.

[5] Includes brokerage commissions and fees and other income.

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