



COMMERCIAL UNION plc

*(Incorporated with limited liability in England and Wales under the Companies Act 1985
with registered number 2468686)*

Placing of 100,000,000 8¾ per cent. Cumulative Irredeemable Preference Shares of £1 each at 100.875 pence per share

Copies of this document, which comprises listing particulars relating to Commercial Union prepared in accordance with the listing rules made under Section 142 of the Financial Services Act 1986, have been delivered for registration to the Registrar of Companies in England and Wales in accordance with Section 149 of that Act.

Application has been made to the London Stock Exchange for the New Preference Shares to be admitted to the Official List. It is expected that such admission will become effective and that dealings will commence on 21 May 1992.

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

In connection with this issue, Cazenove may over-allot or effect transactions on the London Stock Exchange which stabilise or maintain the market price of the New Preference Shares at a level which might not otherwise prevail on that exchange. Such stabilising, if commenced, may be discontinued at any time.

CAZENOVE & CO.

**HOARE GOVETT CORPORATE
FINANCE LIMITED**

20 May 1992

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Expected Timetable of Events

	1992
Official dealings commence, fully paid, for account settlement	21 May
Definitive New Preference Share certificates despatched	29 May
Account settlement for initial dealings	8 June
First dividend payment on New Preference Shares	31 December

Definitions

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

"Commercial Union" or the "Company"	Commercial Union plc
"Commercial Union Group" or the "Group"	Commercial Union plc and its subsidiary undertakings or, in relation to dates or periods prior to 1 June 1990, Commercial Union Assurance Company plc and its subsidiaries
"Directors"	the directors of the Company
"Irredeemable Preference Shares"	the 200,000,000 cumulative irredeemable preference shares of £1 each in the Company created by a resolution passed on 14 April 1992
"New Preference Shares"	the 100,000,000 8¾ per cent. Irredeemable Preference Shares which are to be issued and subscribed pursuant to the Placing
"Existing Preference Shares"	the existing issued 3.5 per cent. cumulative redeemable preference shares of £1 each in the Company
the "Ordinary Shares"	the existing ordinary shares of 25p each in the Company
the "London Stock Exchange"	The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited
the "Placing"	the placing of the New Preference Shares as described in this document
"Placing Agreement"	an agreement dated 20 May 1992 between the Company, Cazenove and Hoare Govett relating to the Placing
"Placing Price"	100.875p per New Preference Share
"Cazenove"	Cazenove & Co.
"Hoare Govett"	Hoare Govett Corporate Finance Limited

In this document, all references to "£" and "Sterling" are to the lawful currency of, and all references to "UK" are to, the United Kingdom.

Directors and Company Secretary

The names of the Directors, each of whose business address is 6 Broadgate, 7th Level, London EC2M 2QS, and their principal outside activities of significance to the Group, are set out below:—

Directors

Nicholas Hugo Baring (*Chairman*)
Sir Martin Wakefield Jacomb (*Deputy Chairman*)
Anthony Louis Brend (*Chief Executive*)
John Gordon Thomas Carter (*Executive Director*)
Anthony Blake Wyand (*Executive Director*)
Roger Fauroux
Patrick John Gillam
Ronald Claus Hampel
Prof. Drs. Hendrik Meij
Ian Charles Strachan

N.H. Baring is a director of Barings plc, PosTel Investment Management Limited and the Baring Puma Fund Limited. He was appointed Chairman of the National Gallery Trustees on 1 January 1992 and is also a member of the Council of the National Trust.

Sir Martin Jacomb is Chairman of the British Council and of PosTel Investment Management Limited and Deputy Chairman of Barclays Bank PLC. Sir Martin's directorships include the Bank of England, The RTZ Corporation PLC, The Daily Telegraph plc and Marks & Spencer p.l.c.

A.L. Brend is a director of British Aviation Insurance Company Limited.

J.G.T. Carter is a director of British Aviation Insurance Company Limited and Trade Indemnity Group PLC.

A.B. Wyand is a director of Société Générale.

R. Fauroux is President d'Honneur de la Compagnie de Saint Gobain and a director of Eurotunnel Group.

P.J. Gillam is Chairman of Asda Group plc and Booker Tate Limited and Deputy Chairman of Standard Chartered plc.

R.C. Hampel is Chief Operating Officer and a director of Imperial Chemical Industries PLC and also a director of British Aerospace Public Limited Company.

Prof. Drs. H. Meij is professor in strategic management at the Free University of Amsterdam.

I.C. Strachan is Deputy Chief Executive and a director of The RTZ Corporation PLC.

Company Secretary

K.N. Grant

PART I – COMMERCIAL UNION GROUP

1. Description of the Business

Commercial Union is the holding company for the Commercial Union Group, whose principal activity is to transact all classes of general insurance and life assurance business in the United Kingdom, Continental Europe, North America and other territories throughout the world.

In the United Kingdom the Group has a wide spread of general insurance business, which includes fire, motor, liability and London market marine insurance. The Group has a limited exposure to residential mortgage guarantee business. In Continental Europe, the Group has a spread of personal and commercial insurance business with the Netherlands as its largest single source of general premium income. In North America the Group's portfolio comprises a balance of risks, both personal and commercial; the former consists mainly of motor insurance and the latter mainly property and motor insurance.

The Group's life assurance business, covering individual life policies, pension policies and investment-related products, is carried on in many countries throughout the world but with its principal focus of activity in the UK, the Netherlands and France.

The Group also provides a number of financial services related to its core business of insurance, including unit trust and investment management, banking, stockbroking and private client investment management.

Financial highlights of the Commercial Union Group for the years ended 31 December 1989, 1990 and 1991 are set out below. The status of the financial information relating to the Group in this Part is explained in paragraphs 10(h) and 10(i) on page 55.

	1991 £m	1990 £m	1989 £m
PREMIUM INCOME (LIFE)			
United Kingdom	384.1	360.9	318.5
Continental Europe	802.0	668.0	594.5
North America	174.4	133.7	109.4
Overseas	0.9	1.0	1.1
	1,361.4	1,163.6	1,023.5
PREMIUM INCOME (GENERAL)			
United Kingdom	1,159.6	985.9	963.7
Continental Europe	542.5	490.4	482.0
North America	872.0	809.8	929.1
Overseas	97.2	88.8	84.6
Group reinsurance retentions	74.3	57.1	41.8
	2,745.6	2,432.0	2,501.2
PREMIUM INCOME (TOTAL)	4,107.0	3,595.6	3,524.7

	1991 £m	1990 £m	1989 £m
Operating results before taxation			
Life profits	114.3	102.0	102.0
Non-life operating result	(182.9)	(100.6)	48.5
Operating (loss)/profit before taxation	(68.6)	1.4	150.5
Total assets	17,554.4	15,739.8	15,752.3
Total liabilities and provisions	16,344.3	14,504.8	14,044.0
Shareholders' funds	1,210.1	1,235.0	1,708.3

The appraisal value of the Group's life operations is estimated by the Directors to be in excess of the £1,500m which was disclosed in the Group report and accounts for the year ended 31 December 1989 on the basis of independent actuarial advice; of this amount, £557m was included in shareholders' funds at 31 December 1991.

Loan capital and other loans which appear in the Group consolidated balance sheet amounted to £407m at 31 December 1991. £100m 10¾ per cent. Guaranteed Bonds due 2002 were issued by the Company in March 1992 and the proceeds were applied principally in the repayment of short-term debt. Loan capital and other loans increased to £461m at 31 March 1992.

2. Current Trading and Prospects

Extracted highlights of Commercial Unions' first quarter results are set out below; the full statement is reproduced in Part VI on pages 56 to 60 of this document.

"UNAUDITED RESULTS : 3 MONTHS ENDED 31 MARCH 1992

Total premium income -	£1,285m	(1991 £1,107m)
Operating loss before taxation	£19.2m	(1991 £24.2m)
Loss attributable to shareholders	£8.7m	(1991 profit £10.5m)
Operating loss per share	5.3p	(1991 4.6p)

Tony Brend, Chief Executive, commenting on the results said:—

'The pre-tax loss for the first three months of £19.2m was an improvement over the corresponding period in 1991. The better result from general insurance business should gather momentum as benefits flow from management actions including premium rate increases in the United Kingdom.'

'Life operations made good progress with new life business increasing by 46 per cent. Life profits, although held back by new business growth, continued to make a substantial contribution of £27.0m.'

'General insurance trading conditions are improving in the United Kingdom with significant premium rate increases being obtained across most classes of business, although it will take time before these increases are fully reflected in our results. Opportunities are being taken to write selective additional business whilst maintaining strict underwriting standards.'

'United States results continued their steady and encouraging progress and the Netherlands produced a satisfactory performance, despite difficult market conditions in both countries. In other Continental European countries, general insurance markets remained depressed, particularly in France.'

'Bomb damage in the City of London on Friday, 10 April is expected to cost us approximately £15m after reinsurance recoveries. This loss will be charged to the second quarter's results. Considerable damage occurred to our head office and disaster recovery plans

were put into immediate effect. Due to a determined response from staff, operations were fully effective within 48 hours without inconvenience to customers and with minimal disruption to our business.'

Features of the results were:—

	1992 £m	1991 £m	Underlying increase %
Life premium income	454.4	358.1	24
General insurance premium income	830.3	748.9	11
Life profits	27.0	26.5	
Non-life operating result	(46.2)	(50.7)	
Operating loss before taxation	(19.2)	(24.2)	

- Life premiums rose strongly to £454.4m, a 24 per cent. increase after adjusting for changes in rates of exchange. New annual premiums increased by 27 per cent. and single premiums by 50 per cent. There was good new business growth in the Netherlands, United Kingdom and other territories. Life profits were at a similar level to 1991 due to new business growth.
- General insurance premium income increased by 11 per cent. to £830.3m in underlying terms. Strong growth in the United Kingdom from a combination of rate increases and selective new business was partially offset by the reduction of premiums in the Netherlands due to the transfer of medical expenses business to a third party at the end of 1991. The underwriting result improved to a loss of £113.6m (1991 loss £120.6m), reflecting an improved result in the United States and slightly better results in the United Kingdom and the Netherlands.
- Investment income amounted to £64.3m (1991 £69.0m) after charging external loan interest of £10.8m (1991 £11.5m) and the costs of our non-insurance activities of £1.6m (1991 £2.5m). The underlying decrease of 5 per cent. reflected lower interest rates and depressed cash flow which has not yet benefited from increased premium volumes.
- The loss attributable to shareholders was £8.7m (1991 profit £10.5m). This is after a tax charge of £3.8m (1991 credit £5.0m) and realised investment gains of £14.4m (1991 £30.2m).
- Shareholders' funds at 31 March 1992, which do not include the value of a substantial part of our life operations, were slightly lower at £1,185m (31 December 1991 £1,210m).
- Over the last five years to 31 March 1992, pre-tax investment gains have averaged £43m per annum."

3. Reasons for the Placing

The Group has, in recent years, greatly expanded its involvement in life assurance and it sees opportunities to continue this expansion. Life premiums have increased from 18 per cent. of total premium income in 1982 to 35 per cent. in the first quarter of 1992. In addition, in recent months, the Group has been able to achieve a significant improvement in premium rates in certain general insurance markets, particularly in the United Kingdom, and selectively to write additional business whilst maintaining strict underwriting standards. In order to take further advantage of profitable opportunities, the Directors have decided to make an issue in the form of the New Preference Shares, which they believe will be in the best interests of the Company and its ordinary shareholders.

PART II — DESCRIPTION OF THE RIGHTS ATTACHING TO THE NEW PREFERENCE SHARES

The following are the rights of the New Preference Shares and the limitations and restrictions to which they are subject.

1. Priority

The New Preference Shares are to rank in all respects after the Existing Preference Shares and *pari passu* with each other and in priority to the Ordinary Shares.

2. Denomination and Form

The New Preference Shares will have a nominal value of £1 each and will be issued at 100.875p per New Preference Share fully paid for cash. The New Preference Shares will be in registered form.

Transfers of the New Preference Shares must be in writing in the usual common form or in such other form as the Directors may approve. The Directors may, in their absolute discretion, decline to register any transfer of New Preference Shares (not being fully paid) on which the Company has a lien or in favour of a transferee of whom it does not approve and may also refuse to register a transfer if:—

- (i) the instrument of transfer is not lodged at the Transfer Office, duly stamped, accompanied by the certificate for the New Preference Shares to which it relates, or such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer or, if executed by some other person on the transferor's behalf, the authority of that person to do so, if not previously deposited with the Company;
- (ii) the transfer is in respect of more than one class of share; or
- (iii) in the case of a transfer to joint holders, the number of joint holders to whom the New Preference Shares are to be transferred exceeds four.

3. Income

Out of the profits available for distribution and resolved to be distributed, the holders of the New Preference Shares shall be entitled, in priority to any payment of dividend to the holders of any other class of shares (other than the Existing Preference Shares in issue at the date hereof) to be paid a fixed cumulative preferential dividend, payable in sterling, at the rate of 3¾ per cent. per annum of the nominal amount of each New Preference Share (exclusive of any associated tax credit) which will be payable in equal half-yearly instalments in arrear on 30 June and 31 December in each year (each a "Dividend Payment Date") and the first dividend instalment will be payable on 31 December 1992 in respect of the period from 29 May 1992 to 31 December 1992, provided that nothing in this paragraph shall prohibit the payment of a dividend on the shares of any other class in the capital of the Company ranking *pari passu* with or after the New Preference Shares at a rate not exceeding 0.1p per share in any calendar year.

If any Dividend Payment Date is not a day on which banks in London are open for business (a "Business Day"), then payment of the dividend otherwise payable on such

Dividend Payment Date will be made on the next succeeding Business Day and without any interest or other payment in respect of such delay.

Dividends payable on New Preference Shares in respect of any period shorter or longer than a full dividend period will be calculated on the basis of a 365 day year and the actual number of days elapsed in such period.

Dividends remaining unclaimed after a period of 12 years from the date when they become due for payment shall be forfeited and shall revert to the Company.

4. Capital

- (i) The New Preference Shares will not be redeemable, save with the approval of the holders of the New Preference Shares to a variation of the rights attached to such shares (as provided in paragraph 8(iii) below).
- (ii) On a return of capital on a winding up, the holders of the New Preference Shares shall be entitled to receive, out of the surplus assets of the Company remaining after payment of its liabilities and the repayment of the amount to which the holders of the Existing Preference Shares are entitled, an amount per New Preference Share equal to whichever is the greater of:—
 - (a) the nominal amount of a New Preference Share together with any premium paid on issue; and
 - (b) the price (rounded to 3 decimal places) at which the gross yield (as reported to the Company by three gilt-edged market makers selected by the Directors on the advice of a member of the Securities and Futures Authority Limited or equivalent regulatory authority) on each New Preference Share is equal to the mean gross yield on 3½ per cent. War Loan or such Government stock as the Company, with the advice of a member of the Securities and Futures Authority, may agree to be appropriate, calculated by reference to the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for that stock on the date of the commencement of the winding up, save that such price shall not exceed a sum equal to twice the nominal amount of a New Preference Share,together with, in either case, all arrears and accruals (if any) of the dividend payable thereon, whether or not such dividend has been earned or has become due and payable, to be calculated up to and including the day of the commencement of the winding up.
- (iii) On a return of capital (otherwise than on a winding up or on a redemption or purchase by the Company of shares of any class), the holders of the New Preference Shares shall be entitled to receive an amount per New Preference Share equal to the nominal amount of a New Preference Share with all arrears and accruals (if any) of the dividend payable thereon, whether or not such dividend has been earned or has become due and payable, to be calculated up to and including the day of the return of capital.
- (iv) The New Preference Shares (including all other shares of the Company ranking *pari passu* on a winding up) shall rank on a winding up in priority to all other shares of the Company from time to time in issue (other than the Existing Preference Shares in issue at the date hereof).
- (v) If, upon a return of capital on a winding up or otherwise, the amounts available for payment are insufficient to cover the amounts payable in full on the New Preference Shares and any other shares expressed to rank *pari passu* therewith as regards participation in assets, then the holders of the New Preference Shares and such other shares will share rateably in the distribution of surplus assets (if any) in proportion to the full respective preferential amount to which they are entitled.

5. Voting and General Meetings

- (i) The holders of the New Preference Shares shall, by virtue of and in respect of their holdings of New Preference Shares, have the right to receive notice of, attend, speak and vote at a general meeting of the Company only:—
 - (a) if and when, at the date of the notice convening such meeting, the preferential dividend on such shares for the dividend payment period immediately prior to the notice convening the relevant meeting is in arrears and it, and any arrears or deficiency of dividend in respect of any preceding dividend payment period, has not been paid in full; or
 - (b) if a resolution is to be proposed abrogating, varying or modifying any of the rights or privileges of the holders of the New Preference Shares or for the winding up of the Company or for the reduction of capital of the Company (otherwise than on a redemption or purchase of shares), in which case they shall only be entitled to vote on such resolution.

Save as aforesaid, the New Preference Shares shall not confer on the holders thereof the right to receive notice of, attend, speak or vote at any general meeting of the Company.

- (ii) Whenever the holders of the New Preference Shares are entitled to vote at a general meeting of the Company upon any resolution proposed at such a general meeting, on a show of hands every holder thereof who is present in person or (being a corporation) is present by a representative duly authorised under section 375 of the Companies Act 1985 shall have one vote and on a poll every holder thereof who is present in person or by proxy or (being a corporation) by a duly authorised representative shall have one vote in respect of each complete 25p nominal amount of New Preference Shares registered in the name of such holder.

6. Limitations

No New Preference Share shall:—

- (i) confer any right to participate in the profits or assets of the Company other than as set out in paragraphs 3 and 4 above;
- (ii) subject to the Statutes, confer any right to participate in any offer or invitation by way of rights or otherwise to subscribe for additional shares in the Company;
- (iii) confer any right of conversion; or
- (iv) confer any right to participate in any issue of bonus shares.

7. Purchase

- (i) Subject to the provisions of the Statutes, the rules of any relevant authority and as provided in paragraph 9 below, the Company may at any time purchase any New Preference Shares upon such terms as the Directors shall determine.
- (ii) Upon the purchase of any New Preference Shares the nominal amount of such shares comprised in the capital of the Company may thereafter be divided into, and reclassified as, Ordinary Shares without any further resolution or consent.

8. Further Issues and Variation of Rights

- (i) Save with such consent or sanction on the part of the holders of the New Preference Shares as is required for a variation of the special rights attaching to such shares, the Directors shall not authorise or create, or increase the amount of, any shares of any class or any securities convertible into any shares of any class ranking as regards participation in the profits or assets of the Company (otherwise than on redemption or purchase by the Company of any such share) in priority to the New Preference Shares.
- (ii) The special rights attached to the New Preference Shares shall not be deemed to be varied by the purchase or redemption of any shares of the Company or by the allotment or issue of any further preference shares (in this paragraph called "Further Preference Shares") ranking as regards participation in the profits and assets of the Company *pari passu* with (but not in priority to) the New Preference Shares, provided that, at the date of the allotment of the Further Preference Shares (the "Relevant Date"), the aggregate of the nominal amount (together with any premium paid or payable on issue) (i) of the New Preference Shares and (ii) of any other shares ranking *pari passu* with or in priority to the New Preference Shares allotted or in issue on the Relevant Date and, immediately following such issue, of the Further Preference Shares would not exceed a sum equal to one quarter of the Share Capital and Consolidated Reserves. Any such Further Preference Shares may either carry rights and restrictions as regards participation in the profits and assets of the Group which are identical in all respects with the New Preference Shares or with any other series of Further Preference Shares or rights and restrictions differing therefrom in any respect including (but without prejudice to the generality of the foregoing):—
 - (a) the rate of and/or the basis of calculation of dividend may differ and may be cumulative or non cumulative;
 - (b) the Further Preference Shares may rank for dividend from such date as may be provided by the terms of issue thereof and the dates for payment of dividend may differ;
 - (c) a premium may be payable on a return of capital or there may be no such premium;
 - (d) the Further Preference Shares may be redeemable on such terms and conditions as may be prescribed by the terms of the issue thereof or may be non-redeemable;
 - (e) the Further Preference Shares may be convertible into Ordinary Shares or any other class of shares ranking as regards participation in the profits and assets of the Company *pari passu* with or after the New Preference Shares in each case on such terms and conditions as may be determined by the terms of issue thereof.
- (iii) The rights attached to the New Preference Shares may be varied or abrogated with the written consent of the holders of three-quarters in nominal value of such shares then in issue or with the sanction of an extraordinary resolution passed at a class meeting of holders of such shares.

9. Restrictions on the Company

Save with such consent or sanction on the part of the holders of the New Preference Shares as is required for a variation of the special rights attached to such shares, the Directors shall not capitalise any part of the profits of the Company available for distribution or purchase or redeem any shares of the Company if either (i) the preferential dividend on the New Preference Shares for the dividend payment period immediately prior to the date of the proposed capitalisation, purchase or redemption is in arrears and it, and any arrears or deficiency of dividend in respect of any preceding dividend payment periods, have not been paid in full or (ii) after such capitalisation, purchase or redemption the amount of the profits of the Company available for distribution would be less than ten times the aggregate amount of the annual dividends (exclusive of any associated tax credit) payable on the New Preference Shares and any other preference shares then in issue ranking as regards dividends *pari passu* with or in priority to the New Preference Shares.

In addition to the definitions set out on page 3 of this document, words and expressions defined in, or for the purposes of, the Articles of Association of the Company shall bear the same meanings in this Part II. In the event of any conflict between the definitions used in the Articles of Association and those set out on page 3 of this document, the latter shall prevail.

PART III – FINANCIAL INFORMATION

The following summarises the financial information of the Group for the periods indicated. The information is extracted in all material respects from the published audited consolidated financial statements of the Group for the three years ended 31 December 1991, including the accounting policies described below and the notes on the Group's consolidated accounts for the year ended 31 December 1991. However, the Statements of Source and Application of Funds as reported in the Group accounts for the years ended 31 December 1990 and 1989 have been restated to conform with the basis of presentation adopted for the year ended 31 December 1991.

Commercial Union acquired the whole of the issued share capital of Commercial Union Assurance Company plc in exchange for shares in the Company under a Scheme of Arrangement which became effective on 1 June 1990. The figures for 1989 are for Commercial Union Assurance Company plc and its subsidiaries.

The status of the financial information relating to the Group contained in this part is explained in paragraphs 10(h) and 10(i) on page 55.

	Consolidated		
	1991	Year ended 31 December 1990	1989
	£m	£m	£m
PROFIT AND LOSS ACCOUNT			
Investment income net of loan interest (F & 17G)	271.6	243.5	276.8
Underwriting result (2)	(462.6)	(344.8)	(245.0)
Life profits (G & 5)	114.3	102.0	102.0
Associated undertakings' earnings (N)	8.1	0.7	16.7
Operating (loss)/profit before taxation (11)	(68.6)	1.4	150.5
Taxation (Q & 8A)	4.2	0.6	(57.1)
Minorities	(0.9)	(0.6)	(1.4)
Operating (loss)/profit after taxation (A)	(65.3)	1.4	92.0
Realised investment gains (16)	49.8	20.8	81.9
(Loss)/profit attributable to shareholders	(15.5)	22.2	173.9
Dividends (10)	(104.8)	(98.6)	(91.5)
Reserve transfer (15)	(120.3)	(76.4)	82.4
EARNINGS/(LOSS) PER ORDINARY SHARE (29B)			
Operating (loss)/profit after taxation	(15.00)p	0.30p	21.70p
(Loss)/profit attributable to shareholders	(3.60)p	5.20p	41.10p
DIVIDENDS	23.65p	23.00p	21.50p

The notes set out on pages 18 to 36 are an integral part of the financial information.

MOVEMENTS IN SHARE- HOLDERS' FUNDS	£m	1991 £m	£m	1990 £m	£m	Consolidated Year ended 31 December
						1989 £m
Operating (loss)/profit after taxation		(65.3)		1.4		92.0
Total investment gains less losses after taxation						
Realised	49.8		20.8		81.9	
Unrealised (16)	46.7		(255.9)		220.3	
		96.5		(235.1)		302.2
Foreign exchange gains less losses (15)		33.8		(146.7)		151.1
Adjustments arising on acquisition and disposal of subsidiaries and related items (15)		(24.0)		(6.2)		(7.2)
Taxation adjustments		—		—		(27.4)
Dividends (10)		(104.8)		(98.6)		(91.5)
Shares in lieu of dividends (15)		2.5		—		10.7
Increase in capital (27C)		36.4		11.9		9.0
Movements in shareholders' funds		(24.9)		(473.3)		438.9
Balance at 1 January		1,235.0		1,708.3		1,269.4
Balance at 31 December		1,210.1		1,235.0		1,708.3

The notes set out on pages 18 to 36 are an integral part of the financial information.

BALANCE SHEET

	1991	1990	Consolidated At 31 December 1989
	£m	£m	£m
SHAREHOLDERS' FUNDS			
Share capital (12)	111.8	109.1	108.4
Share premium (13)	40.6	6.9	197.1
Capital reserve (14)	201.4	201.4	—
Retained profits and reserves (A & 15)	333.4	441.4	670.7
Unrealised gains on investments after taxation (A & 16)	432.9	386.2	642.1
Interest in Northern Non-Participation Life fund (P)	90.0	90.0	90.0
	1,210.1	1,235.0	1,708.3
REPRESENTED BY:			
INVESTMENTS			
Government securities	1,477.3	1,252.7	1,792.4
Debentures	637.1	585.1	423.2
Preference shares	36.2	37.0	60.9
Ordinary shares	1,119.7	1,035.7	1,238.7
Cash deposits	309.1	274.2	221.5
Property	365.9	395.9	387.7
Mortgages and loans	418.5	495.3	495.1
Total investments (J, K & 17)	4,363.8	4,075.9	4,619.5
LIFE ASSETS	11,055.1	9,802.1	9,269.1
Valuation of Northern Non-Participation Life fund (P)	90.0	90.0	90.0
OTHER ASSETS			
Associated undertakings (N & 19)	109.2	116.6	118.5
Agents, companies and sundry assets (D & 20)	1,936.3	1,655.2	1,655.2
TOTAL ASSETS	17,554.4	15,739.8	15,752.3
LESS:			
LIABILITIES AND PROVISIONS			
GENERAL INSURANCE UNDERWRITING			
Outstanding claims and provisions (C & 21)	3,157.6	2,825.4	2,840.6
Unearned premiums (B, E & 22)	1,079.3	983.3	992.9
Total general insurance underwriting	4,236.9	3,808.7	3,833.5
LIFE LIABILITIES AND RESERVES	10,587.6	9,396.0	8,874.6
OTHER LIABILITIES			
Loan capital and other loans (L & 23)	407.2	414.5	430.7
Agents, companies and sundry liabilities (24)	1,112.6	885.6	905.2
TOTAL LIABILITIES AND PROVISIONS	16,344.3	14,504.8	14,044.0
	1,210.1	1,235.0	1,708.3

The notes set out on pages 18 to 36 are an integral part of the financial information.

		1991	1990	Consolidated Year ended 31 December 1989
	£m	£m	£m	£m
CASH FLOW STATEMENT				
OPERATING ACTIVITIES				
Net cash inflow from operating activities (27A)		192.7	259.8	358.5
SERVICING OF FINANCE				
Interest paid	(32.1)	(33.2)	(45.5)	
Dividends paid	(99.0)	(95.5)	(73.4)	
Net cash outflow from servicing of finance	(131.1)	(128.7)	(118.9)	
TAXATION				
Corporation tax paid (including advance corporation tax)	(30.5)	(39.6)	(79.7)	
INVESTING ACTIVITIES				
(Purchases) less sales of investments, excluding cash deposits (27B)				
Government securities	(122.1)	294.9	(100.5)	
Debentures	8.2	(217.8)	(96.8)	
Preference shares	2.5	5.1	20.3	
Ordinary shares	40.3	(65.5)	(23.9)	
Property	1.9	(15.5)	(10.6)	
Mortgages and loans	83.7	(21.7)	(54.7)	
	14.5	(20.5)	(266.2)	
Acquisitions and disposals of subsidiaries and related items	(22.9)	(12.9)	(11.4)	
Net cash outflow from investing activities	(8.4)	(33.4)	(277.6)	
Net cash inflow/(outflow) before financing activities	22.7	58.1	(117.7)	
FINANCING ACTIVITIES				
Issue of ordinary share capital (27C)	36.4	11.9	9.0	
Net (decrease)/increase in loan capital and other loans (27C)	(26.1)	(5.5)	42.1	
Net cash inflow from financing activities	10.3	6.4	51.1	
Increase in cash and cash equivalents (27D)	33.0	64.5	(66.6)	

The notes set out on pages 18 to 36 are an integral part of the financial information.

LIFE BALANCE SHEET	Consolidated		
	1991	1990	At 31 December 1989
	£m	£m	£m
LIFE FUNDS (G, 5A & 25)	9,624.9	8,478.7	8,162.4
OTHER LIABILITIES			
Outstanding claims and provisions	58.4	47.9	41.9
Agents and companies	622.6	574.9	502.6
Loans (23)	281.7	294.5	167.7
TOTAL LIFE LIABILITIES AND RESERVES	10,587.6	9,396.0	8,874.6
Shareholders' funds in life companies	467.5	406.1	394.5
TOTAL LIFE LIABILITIES AND SHAREHOLDERS' FUNDS	11,055.1	9,802.1	9,269.1
REPRESENTED BY:			
INVESTMENTS			
Government securities	1,835.3	1,503.3	1,178.1
Debentures	1,293.1	893.8	1,008.6
Preference shares	99.2	17.2	23.3
Ordinary shares	2,916.2	2,559.7	2,993.5
Cash deposits	311.8	351.7	161.3
Property	1,657.0	1,451.7	1,375.6
Mortgages and loans	3,764.6	3,698.4	3,863.0
Total investments (J, K, 17 & 25)	11,877.2	10,475.8	10,603.4
Investment reserves (J)	(1,510.1)	(1,257.2)	(1,799.4)
Value of investments after investment reserves	10,367.1	9,218.6	8,804.0
OTHER ASSETS			
Agents and companies	620.8	554.6	448.6
Bank balances	67.2	28.9	16.5
TOTAL LIFE ASSETS	11,055.1	9,802.1	9,269.1

MOVEMENTS IN LIFE FUNDS	Consolidated		
	1991	Year ended 1990	31 December 1989
	£m	£m	£m
Total life funds at 1 January	8,478.7	8,162.4	6,493.0
Adjustments to opening funds (29C)	108.2	(348.2)	699.9
Net premiums	8,586.9	7,814.2	7,192.9
Investment income net of loan interest (17H)	1,361.4	1,163.6	1,023.5
Transfer from investment reserves (J)	773.3	685.8	668.5
	210.9	6.6	328.7
Claims, surrenders and annuities (4)	10,932.5	9,670.2	9,213.6
Commission and expenses (29C)	(876.4)	(814.1)	(706.5)
Taxation (Q & 8C)	(316.7)	(261.2)	(245.3)
Shareholders' profits after taxation (G, 5 & 8A)	(30.1)	(42.0)	(30.1)
	(84.4)	(74.2)	(69.3)
Total life funds at 31 December	9,624.9	8,478.7	8,162.4

The notes set out on pages 18 to 36 are an integral part of the financial information.

Accounting Policies

A. Basis of Results

The consolidated accounts have been prepared in accordance with section 255A of, and the special provisions relating to insurance companies of schedule 9 to, the Companies Act 1985 and with the statement of recommended practice on accounting for insurance business issued by the Association of British Insurers. The accounting policies adopted reflect United Kingdom financial reporting standards and statements of standard accounting practice as considered appropriate for an insurance company.

The profit and loss account reflects all non-life income and expenditure (together with life profits due to shareholders), other than items charged to provisions set up in earlier years and the following items which are taken directly to reserves after taxation:

- unrealised gains and losses on investments;
- gains and losses on movements in rates of exchange;
- adjustments arising on acquisition or disposal of subsidiaries and agencies, including goodwill.

The general insurance underwriting result is determined on an annual basis with the following exceptions:

- London market business in respect of marine and aviation and non-marine non-proportional reinsurance which is accounted for on a three-year fund basis, with the result being determined at the end of the third year;
- London market non-marine proportional reinsurance business which is accounted for on a deferred annual basis, with the result being determined at the end of the second year.

Income and expenditure of life operations is reflected in the movements in life funds except for:

- realised and unrealised investment gains and losses, together with certain other items, which are taken directly to investment reserves. Transfers from these reserves are credited to the movements in life funds on the advice on the Group Actuary;
- acquisition costs which have been deferred in certain overseas life funds, in accordance with local practice.

B. Premiums

General insurance premiums written reflect business incepted during the year, with the exception of London market marine and aviation, and non-marine proportional and non-proportional reinsurance business which are accounted for when receivable. Life premiums are accounted for when payment falls due, except for investment-linked premiums which are accounted for when received.

General insurance unearned premiums are those proportions of the premiums written in a year that relate to the periods of risk subsequent to the balance sheet date. They are computed principally on either the daily or monthly pro-rata basis.

C. Claims

General insurance claims incurred comprise all claims occurring during the year, whether reported or not, together with related administrative expenses, and any adjustments to claims outstanding from previous years. Where applicable, deductions are made for salvage

and other recoveries. Significant delays are experienced in the notification of certain general insurance claims, particularly in respect of liability and marine business, the ultimate cost of which cannot be known with certainty at the balance sheet date. Life claims reflect the cost of all claims arising during the year.

Outstanding claims and provisions as shown in the consolidated balance sheet are based upon the estimated ultimate cost of all claims incurred but not settled at the date of the balance sheet, whether reported or not, together with related administrative expenses, subject to certain claims which are discounted. This discounting applies in the United States to some workers' compensation claims and, in the Netherlands, to permanent health and injury claims in accordance with industry practice in those countries. Additionally, within the United States, claims provisions in respect of certain discontinued business are determined after taking account of the estimated future investment earnings from matched assets. Outstanding claims and provisions also include the funds in respect of London market marine and aviation and non-marine reinsurance business.

D. Deferred Acquisition Costs

Deferred acquisition costs, which are included in agents, companies and sundry assets in the consolidated balance sheet, represent a proportion of commission and other acquisition costs.

E. Unexpired Risks

Provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums, after taking account of investment income on the relevant general insurance provisions.

F. Investment Income

Investment income comprises interest, dividends and rents receivable for the year, after adding back any related tax credit. Interest includes the interest rate differential on forward foreign exchange contracts. No depreciation charge is made in respect of investment property occupied by the Group since such property represents an immaterial proportion of total assets.

G. Life Profits and Fund Valuations

Life profits accrue to the Group as a result of annual actuarial valuations of the life funds, which are based on local practice, subject to movements to or from investment reserves made on the advice of the Group Actuary. The profits included in the profit and loss account are stated before taxation, with the related taxation being included in the taxation charge. Within the movements in life funds, the profits are stated after taxation.

H. Pension Costs

The Group operates defined-benefit pension schemes covering the majority of employees and contributions are made on a going-concern basis as recommended by actuaries. Where separate pension schemes exist, they are fully funded on a discontinuance actuarial valuation basis. The pension costs, which are included in expenses, are calculated on actuarial valuation methods which give a substantially even charge over the expected service lives of employees.

I. Fixed Assets

In the consolidated balance sheet fixed assets, including motor cars and computer equipment, are capitalised and depreciated over the estimated length of their useful lives. The depreciation charge for the year is included in expenses.

J. Investments

Investments are stated at their market values at the end of the year which comprise, for this purpose, stock exchange values for listed securities, directors' valuations for unlisted securities, and redemption values for mortgages and loans. Properties are valued by the directors, acting on advice from qualified members of staff, at open market value with the exception of trading properties, which are included at the lower of cost or directors' valuation.

In the life balance sheet, realised and unrealised investment gains and losses, together with certain other items, are included in the investment reserve, which is deducted from total investments. In addition, movements in investment values for unit-linked operations, where policyholders' benefits are determined by investment performance, are reflected in transfers to or from the investment reserve. Other such transfers are made on the advice of the Group Actuary.

K. Financial Instruments

The Group makes use of financial instruments, including forward foreign exchange contracts, interest rate swaps, futures and options, in order to hedge its exposure to movements in exchange rates, interest rates and investment values. The interest rate differential reflected in forward foreign exchange contracts is included in investment income while the effect of currency movements on these contracts is taken direct to reserves. Interest rate swaps are accounted for on an accruals basis with interest paid and received being offset within loan interest. Futures contracts are valued at market value and shown in the balance sheet under the category of investments to which the contracts relate. Purchased options on open contracts are included at market value in the balance sheet under the relevant investment category.

L. Loan Capital and Other Loans

Borrowings issued at a discount are included in the consolidated balance sheet at their issue price together with amortised discount to the balance sheet date. The discount, amortised on a compound basis, has been charged to loan interest in the profit and loss account.

M. Consolidation of Subsidiary Undertakings

The results of certain subsidiaries, each of which is immaterial, are consolidated on the basis of audited accounts prepared to dates before 31 December 1991. A number of overseas subsidiaries, which do not represent a material part of the Group's income or assets, have not been consolidated but have been treated as investments.

N. Associated Undertakings

Companies in which the Group has an equity interest in excess of 20% and not more than 50% and where significant influence is exercised are classified as associated undertakings. Within the consolidated profit and loss account, the appropriate proportion of the operating profit or loss before taxation of these companies is shown as 'associated undertakings' earnings' and that of realised investment gains within that heading. The appropriate proportion of shareholders' funds is included in the consolidated balance sheet at net asset value. A number of associated undertakings, which do not represent a material part of the Group's income or assets, have been treated as investments.

O. Goodwill

Goodwill arising on acquisition of subsidiaries and agencies is written off directly to reserves.

P. Value of Northern Non-Participation Life Fund

The value of the shareholders' interest in the existing business of the Northern Non-Participation Life fund, after taking account of taxation, is included in the consolidated balance sheet at the directors' valuation based on the advice of the Group Actuary. No embedded value has been included for other Group life funds, which the directors know to be of substantial value to shareholders.

Q. Taxation

The taxation charge in the profit and loss account is based on the taxable profits for the year and includes the amount of taxation attributable to the shareholders' proportion of life profits. In the movements in life funds, the taxation charge is based on the method of assessing taxation for life funds applicable in the relevant territory of operation. Provision is only made for deferred taxation where it is expected that a liability will crystallise in the foreseeable future. No provision is made for taxation that might arise if profits retained by overseas subsidiary and associated undertakings were remitted to the United Kingdom.

R. Exchange Rates

Assets, liabilities and revenue transactions in non-sterling currencies are translated into sterling at the relevant rates of exchange ruling at 31 December. The resulting exchange differences are taken direct to reserves.

NOTES ON THE ACCOUNTS

1. EXCHANGE RATES

Principal rates of exchange used for translation are:

	1991	1990
Netherlands	Fls 3.20	Fls 3.26
United States	\$1.87	\$1.93
Canada	C\$2.16	C\$2.24

2. UNDERWRITING RESULT

The analysis of the general insurance underwriting result is:

	1991 £m	1990 £m
Gross premiums written (B)	3,352.4	2,981.7
Outward reinsurance	(606.8)	(549.7)
Net premiums written	2,745.6	2,432.0
Transfer to unearned premiums (B)	(99.2)	(70.9)
Net premiums earned	2,646.4	2,361.1
Gross claims incurred (C)	(2,915.7)	(2,629.6)
Outward reinsurance	671.1	717.5
Net claims incurred	(2,244.6)	(1,912.1)
Commission	(499.0)	(435.6)
Expenses	(387.8)	(379.8)
Transfer to deferred acquisition costs (D)	22.4	21.6
	(3,109.0)	(2,705.9)
Underwriting result (A)	(462.6)	(344.8)

3. GROSS PREMIUMS

(A) The analysis of gross premiums by business segment and class of insurance business is:

	1991 £m	1990 £m
GENERAL		
Gross premiums written		
Fire	978.3	858.4
Motor	967.3	890.1
Other accident	885.6	810.0
Marine, aviation and transport	521.2	423.2
	3,352.4	2,981.7

Notes on the Accounts

3. GROSS PREMIUMS *continued*

LIFE	New business				Total premiums written	
	Annualised regular premiums		Single premiums			
	1991 £m	1990 £m	1991 £m	1990 £m	1991 £m	1990 £m
Gross premium written						
Life						
— non-linked	92.4	83.8	194.7	203.2	743.6	695.3
— linked	20.3	25.5	149.2	66.2	208.7	112.2
Annuity:						
— non-linked	33.5	29.2	269.0	211.7	490.7	407.9
— linked	0.1	0.3	2.3	2.3	2.4	2.8
Permanent health	1.9	2.0	0.2	—	11.7	9.7
Pension funds management	2.1	1.4	2.1	12.9	10.7	19.8
	150.3	142.2	617.5	496.3	1,467.8	1,247.7

(B) Life and general premium income by territory of origin is:	1991 £m	1990 £m
United Kingdom	1,919.4	1,659.5
Continental Europe	1,487.7	1,270.3
North America	1,257.3	1,159.9
Overseas	155.8	139.7
	4,820.2	4,229.4

(C) It is the nature of commercial insurance business that the risk covered may not be located where it is underwritten. In respect of most of the Group's insurance business, the risk is underwritten where it is located and, therefore, turnover by destination does not differ materially from turnover by origin.

4. LIFE CLAIMS, SURRENDERS AND ANNUITIES

Within the movements in life funds, claims, surrenders and annuities comprise:

	1991 £m	1990 £m
Gross claims, surrenders and annuities	913.4	839.3
Outward reinsurance	(37.0)	(25.2)
	876.4	814.1

5. SHAREHOLDERS' LIFE PROFITS

(A) The Group underwrites life business in many territories through a number of funds as follows:

- (i) Commercial Union Life fund, where the 'with profits' policyholders are entitled to at least 90% of the distributed profits, the shareholders receiving the balance.
- (ii) Life funds of Delta Lloyd, where the profits, after providing for certain specific prior rights of the policyholders, accrue for the benefit of the shareholders. The bases for determining the prior rights of the policyholders are complex, but are based on criteria which are followed generally in the Netherlands.
- (iii) Northern Non-Participation Life fund, where shareholders are entitled to 100% of the distributed profits. New business mainly comprises linked policies where shareholders' profits are derived largely from a management fee and policyholders' benefits are determined by investment performance.
- (iv) Other funds in the United Kingdom and overseas which are similar to the above bases.

5. SHAREHOLDERS' LIFE PROFITS *continued*

(B) Shareholders' profits, before taxation, from life business for the year released to the profit and loss account are:

	£m	1991 £m	£m	1990 £m
United Kingdom				
Commercial Union Life				
— annual	22.6		20.5	
— special bonus	3.3		—	
Northern Non-Participation Life	16.0		16.0	
Other life	3.5		2.4	
		45.4		38.9
Continental Europe				
Delta Lloyd Life	59.1		55.5	
Other life	2.8		3.9	
		61.9		59.4
North America		7.0		3.7
		114.3		102.0

6. DIRECTORS' EMOLUMENTS

(A) Total emoluments are:

	1991 £	1990 £
In respect of services as directors	141,460	152,457
Other emoluments (including pension contributions on behalf of executive directors)	660,607	718,489
	802,067	870,946

(B) The emoluments of the individual directors (including the Chairman and highest paid director) fall within the following ranges:

	1991 No.	1990 No.
£5,001 - £10,000	4	—
£10,001 - £15,000	2	4
£20,001 - £25,000	1	2
£50,001 - £55,000	—	1
£60,001 - £65,000	1	—
£185,001 - £190,000	1	—
£190,001 - £195,000	1	1
£195,001 - £200,000	—	1
£245,001 - £250,000	1	—
£270,001 - £275,000	—	1

The emoluments in the table above exclude pension contributions. No performance-related earnings were payable during 1991.

(C) Chairman's emoluments and highest paid director:

	1991 £	1990 £
N. H. Baring (1990 from 17 April 1990)	63,622	46,904
A. B. Marshall (1990 to 17 April 1990)	—	23,293
Highest paid director	248,629	274,214

7. AUDITOR'S REMUNERATION

Total remuneration for 1991 of the auditor is £1.434m (1990 £1.334m), of which £0.003m (1990 £0.003m) relates to the Company.

8. TAXATION

(A) Profit and loss account

United Kingdom and overseas taxation charged in the profit and loss account comprises:

	1991 £m	1990 £m
United Kingdom corporation tax at 33.25% (1990 35%) based on taxable profits for the year	(6.6)	(5.0)
Tax credit on United Kingdom dividends received	3.8	4.0
Overseas taxation	15.6	12.3
Relief for overseas taxation	—	(13.6)
Taxation attributable to shareholders' life profits	29.9	27.8
Associated undertakings	2.7	1.4
	45.4	26.9
Credited to operating result	(4.2)	(0.6)
Charged to realised investment gains	49.6	27.5
	45.4	26.9

The charge of £45.4m (1990 £26.9m) includes deferred taxation relief of £3.8m (1990 relief £10.1m) arising from short-term timing differences.

(B) Balance sheets

The provision for deferred taxation (excluding amounts relating to life business which are given in paragraph (C)), included within agents, companies and sundry liabilities comprises:

	1991 £m	Consolidated 1990 £m
Unrealised gains on investments	31.8	29.1
Provisions and other timing differences	49.0	56.6
Advance corporation tax recoverable	(21.1)	(20.0)
	59.7	65.7

The potential amount of taxation (excluding amounts relating to life business which are given in paragraph (C)) not expected to become a liability in the foreseeable future, for which provision has not been made, is:

	1991 £m	Consolidated 1990 £m
Unrealised gains on investments	43.9	100.7
Provisions and other timing differences less tax losses carried forward	52.2	9.3
	96.1	110.0

(C) Life

United Kingdom and overseas taxation, charged in the movements in life funds comprises:

	1991 £m	1990 £m
United Kingdom corporation tax based on profits and income for the year	9.3	11.6
Tax credit on United Kingdom dividends received (net of available reliefs)	2.8	12.8
Overseas taxation	18.0	17.6
	30.1	42.0

Notes on the Accounts

8. TAXATION *continued*

The charge of £30.1m (1990 £42.0m) includes deferred taxation relief of £4.9m (1990 relief £11.0m) arising from short-term timing differences.

The potential amount of taxation, arising on that proportion of unrealised gains on investments, net of investment reserve and other timing differences reflected in these accounts, is £87.0m (1990 £179.0m). No provision is made for this amount in the life balance sheet, except in the case of unit-linked funds, since it is not expected to become a liability in the foreseeable future.

9. PARENT COMPANY

The profit attributable to shareholders dealt with in the profit and loss account of Commercial Union plc for the year ended 31 December 1991, including dividends paid or proposed by subsidiaries, is £102.8m (1990 £158.2m). As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company has not been included in these accounts.

10. DIVIDENDS

Dividends in the profit and loss account comprise:	1991 £m	1990 £m
Preference	0.1	0.1
Ordinary		
Interim – 9.25p (1990 9.00p)	40.7	38.5
Final – 14.40p (1990 14.00p)	63.3	60.0
1990 Final dividend on new shares	0.7	—
	104.8	98.6

11. SEGMENTAL INFORMATION ON PROFITS AND NET ASSETS

(A) The operating (loss)/profit before taxation and net assets by business segment are:	Operating (loss)/profit before taxation		1991 £m	Net assets 1990 £m
	1991 £m	1990 £m		
Life	114.3	102.0	557.5	496.1
General insurance and non-insurance	(93.9)	(40.8)	1,724.7	1,464.3
Unallocated liabilities (dividends and tax)	—	—	(149.7)	(126.9)
Central financing	(89.0)	(59.8)	(922.4)	(598.5)
	(68.6)	1.4	1,210.1	1,235.0

(B) The operating (loss)/profit before taxation and net assets by territory are:	Operating (loss)/profit before taxation		1991 £m	Net assets 1990 £m
	1991 £m	1990 £m		
United Kingdom	(39.7)	2.3	678.1	551.0
Continental Europe	34.7	43.7	785.7	775.8
North America	40.0	22.5	703.0	525.7
Overseas	7.1	1.9	104.3	96.8
Group reinsurance retentions	(21.7)	(9.2)	11.1	11.1
Unallocated liabilities (dividends and tax)	—	—	(149.7)	(126.9)
Central financing	(89.0)	(59.8)	(922.4)	(598.5)
	(68.6)	1.4	1,210.1	1,235.0

11. SEGMENTAL INFORMATION ON PROFITS AND NET ASSETS *continued*

Group reinsurance retentions consist of certain reinsurance covers which are retained at Group level rather than being placed in external markets. Central financing comprises external and intra-group borrowings which are not allocated to territories.

12. SHARE CAPITAL

(A) The share capital of the Company is:	1991 £m	1990 £m
Authorised		
1,750,000 3.5% cumulative redeemable preference shares of £1 each	1.8	1.8
440,072,688 (1990 429,400,881) ordinary shares of 25p each	110.0	107.3
152,927,312 (1990 163,599,119) unissued shares of 25p each	38.2	40.9
	150.0	150.0
Issued and paid up		
1,750,000 3.5% cumulative redeemable preference shares of £1 each, redeemable 1989/2009	1.8	1.8
440,072,688 (1990 429,400,881) ordinary shares of 25p each	110.0	107.3
	111.8	109.1

(B) At 31 December 1991, 86,344 (1990 91,335) ordinary shares of 25p each, 5% paid, remained in issue to 13 participants (1990 15) under an executive share incentive scheme which was introduced in 1970 and has been discontinued.

(C) The whole or any part (to be determined by drawings) of the 3.5% cumulative redeemable preference shares may be redeemed by the Company at par on or before 1 July 2009, or as soon thereafter as the Company shall be able to comply with the statutory provisions relating to such redemption.

(D) At 31 December 1991, options to subscribe for ordinary shares of 25p each in the Company, granted under the Savings Related Share Option Schemes, were outstanding as follows:

Year options granted	Subscription price	Number of shares		Normally exercisable
		5 year term	7 year term	
1986	276.3p	23,678	403,109	1991 or 1993
1987	294.3p	85,797	56,654	1992 or 1994
1988	305.7p	142,813	83,731	1993 or 1995
1989	333.3p	170,227	77,389	1994 or 1996
1990	383.2p	670,497	523,587	1996 or 1998
1991	426.4p	639,078	340,535	1996 or 1998

During 1991, 622 options were exercised by participants under the above Schemes and, accordingly, 447,122 ordinary shares in the Company were issued with an aggregate nominal value of £111,781.

12. SHARE CAPITAL *continued*

(E) At 31 December 1991, options to subscribe for ordinary shares of 25p each in the Company, granted under the Executive Share Option Schemes, were outstanding as follows:

Year options granted	Subscription price	Number of shares	Normally exercisable
1987	329.00p	286,950	1990 to 1997
1988	339.67p	123,379	1991 to 1998
1989	378.00p	413,031	1992 to 1999
1990	468.33p	196,878	1993 to 2000
1990	462.33p	177,896	1993 to 2000
1990 (Netherlands Scheme)	504.33p	514,950	1990 to 1995
1991	531.00p	157,952	1994 to 2001
1991	488.67p	1,300,931	1994 to 2001
1991 (Netherlands Scheme)	488.67p	9,918	1991 to 1996
1991 (Netherlands Scheme)	517.00p	26,815	1991 to 1996

During 1991, 11 options were exercised by participants under the above Schemes and, accordingly, 127,969 ordinary shares in the Company were issued with an aggregate nominal value of £31,992.

(F) 487,281 ordinary shares of 25p each, with an aggregate nominal value of £121,820, were issued in lieu of cash dividends as follows:

Dividend	Price	Shares Issued
Final 1990, paid 17 May 1991	530.0p	332,900
Interim 1991, paid 15 November 1991	531.4p	154,381

(G) During the year, 9,609,435 ordinary shares of 25p each in the Company, with an aggregate nominal value of £2,402,359, were issued pursuant to the exercise of 39,545 warrants attached to the Sfr 200m 4.5% guaranteed bonds issued in 1986 by Commercial Union Finance BV, a wholly-owned subsidiary of the Company. Warrant holders were entitled to subscribe for 243 ordinary shares per Sfr 5,000 bond held at a subscription price of 365p per share. The entitlement to exercise warrants expired on 11 June 1991.

13. SHARE PREMIUM

Movements in share premium comprise:	1991 £m	1990 £m
Executive Share Option Scheme	0.4	0.6
Savings Related Share Option Scheme	1.1	—
Sfr 200m 4.5% guaranteed bonds (12G)	32.3	—
Shares in lieu of dividends	(0.1)	7.1
Preliminary expenses	—	(0.8)
Movements in share premium	33.7	6.9
Balance at 1 January	6.9	—
Balance at 31 December	40.6	6.9

In 1991, the Company revised its treatment of scrip dividends in respect of the 1990 final and 1991 interim dividends, so that the issue of shares in lieu of dividends is considered as a bonus issue under the terms of the Companies Act 1985 and the respective nominal value of the shares issued is charged to the share premium account. This accounting treatment was not used in 1990 as there was no share premium account in the Parent Company when it was incorporated in February 1990.

Notes on the Accounts

14. CAPITAL RESERVE

The capital reserve arises on the consolidation, under the merger relief provisions of the Companies Act 1985, of Commercial Union Assurance Company plc and represents its share premium account.

15. RETAINED PROFITS AND RESERVES

Movements in retained profits and reserves comprise:	1991 £m	1990 £m
Profit and loss account transfer	(120.3)	(76.4)
Foreign exchange gains less losses (R)	33.8	(146.7)
Adjustments arising on acquisition and disposal of subsidiaries and related items (O)	(24.0)	(6.2)
Shares in lieu of dividends	2.5	—
Movements in retained profits and reserves	(108.0)	(229.3)
Balance at 1 January	441.4	670.7
Balance at 31 December	333.4	441.4

Adjustments arising on acquisition and disposal of subsidiaries and related items include a charge of £17.2m in respect of the dilution in the Group's holding in Delta Lloyd Investment Fund NV, as explained in note 17(A).

The shares in lieu of dividends amount of £2.5m is in respect of the transfer to retained profits and reserves from the ordinary dividend account, arising from the treatment of the shares issued in lieu of the 1990 final and 1991 interim dividends, as explained in note 13.

The net cumulative amount of goodwill charged to the Group's retained profits and reserves, attributable to subsidiary undertakings acquired after 1 January 1968 and not subsequently sold, is £14.6m. Similar information relating to subsidiary undertakings acquired before 1968 is not readily available.

16. UNREALISED GAINS ON INVESTMENTS, AFTER TAXATION

Movements in unrealised investment gains after taxation comprise:	1991 £m	1990 £m
Total gains/(losses)		
Securities	124.2	(233.6)
Properties	(27.7)	(1.5)
	96.5	(235.1)
Less:		
Realised gains included in the profit and loss account		
Securities	(44.4)	(17.0)
Properties	(5.4)	(3.8)
	(49.8)	(20.8)
Movements in unrealised investment gains after taxation	46.7	(255.9)
Balance at 1 January	386.2	642.1
Balance at 31 December	432.9	386.2

17. INVESTMENTS

(A) In addition to the principal associated undertakings detailed in note 19, the Group holds investments exceeding 10% of a class of the equity capital of a number of other companies in the United Kingdom and elsewhere. These include a subsidiary's 30.0% shareholding in Midland Life Limited, an authorised life assurance company jointly-owned with Midland Bank plc. These investments do not represent a material part of the assets or investment income of the Group.

The Group's investment in its former subsidiary, Delta Lloyd Investment Fund NV, was diluted during the year to a 24.5% shareholding at 31 December 1991. As a consequence of this dilution, a charge of £17.2m has been made to retained profits and reserves. As this company invests mainly in equities and all dividends received are passed on to the shareholders, the Group's interest has been shown as an investment in these accounts. The economic benefits of ownership of an additional holding of 26.6% belong to the Delta Lloyd Pension Fund.

(B) In carrying on the business of investment, the Group has entered into future commitments, including property development, after 31 December 1991. These amounts are not reflected in the consolidated balance sheets on pages 15 and 17. The Group has in hand a number of property developments which will require expenditure of £33.5m (1990 £25.0m) for general insurance funds and £32.3m (1990 £56.0m) for life funds. Of these amounts, £32.8m (1990 £13.4m) and £21.4m (1990 £41.2m) respectively have been the subject of signed contracts.

(C) Included within debentures in the consolidated balance sheet are interests in United Kingdom leases amounting to £33.6m (1990 £54.7m) and United States leveraged leases of £28.4m (1990 £36.6m). These leases are consolidated to reflect their remaining equity value, which is stated net of non-recourse debt in respect of United States leveraged leases.

(D) Prior to 31 December 1991, the Group sold equity futures, maturing in 1992, amounting to £96.5m (1990 £59.9m) for life and purchased gilts futures amounting to £80.1m (1990 £35.2m) and £125.4m (1990 £45.3m) for general insurance and life respectively. No adjustment has been made to the classification of existing investments to reflect the settlement of these transactions.

(E) The valuation of properties has been undertaken by qualified members of staff reporting to the Managing Director of Commercial Union Properties Limited, who is a Fellow of The Royal Institution of Chartered Surveyors.

(F) During the year, a subsidiary company entered into an agreement to finance certain United Kingdom staff residential mortgages with deposits from a third party on a non-recourse basis. The mortgages and related deposits no longer represent an economic benefit or risk to the Group and consequently have not been included in the consolidated balance sheet. The principal amount of these mortgages at the date of the agreement and the balance as at 31 December 1991 were £124.0m and £122.4m respectively. The interest paid since the date of the agreement, which is included in expenses net of amounts paid by employees, amounted to £1.8m.

	1991 £m	1990 £m
(G) The total non-life investment return is:		
Investment income	332.1	306.2
Investment expenses	(12.2)	(15.0)
Loan interest	(48.3)	(47.7)
Investment income net of loan interest	271.6	243.5
Realised investment gains before taxation	99.4	48.3
Unrealised investment gains/(losses) before taxation	70.5	(289.7)
Total investment return before taxation	441.5	2.1

Investment income net of loan interest is included in the operating result and includes the interest rate differential on forward foreign exchange contracts of £8.3m. The comparative amount for 1990 of £9.2m is included in retained profits and reserves under foreign exchange gains less losses.

Notes on the Accounts

17. INVESTMENTS *continued*

Realised investment gains after taxation are included in the profit attributable to shareholders. Unrealised investment gains less losses after taxation are taken directly to reserves and included in shareholders' funds. Investment income is after charging the net costs of non-insurance activities amounting to £8.0m (1990 £14.5m). The loan interest in respect of loans which are repayable beyond 5 years included above is £4.4m (1990 £5.1m).

(H) In the movements in life funds, investment expenses of £21.6m (1990 £19.8m) and loan interest of £25.6m (1990 £20.2m) are deducted from investment income. The loan interest in respect of loans which are repayable beyond 5 years included above is £12.7m (1990 £11.8m).

18. SUBSIDIARY UNDERTAKINGS

(A) Shares in subsidiaries are valued at net asset value computed in accordance with the Company's accounting policies. The resulting gain over book value of £997.6m (1990 £1,059.4m) has been credited to the Company's unrealised gains on investments.

(B) Principal subsidiary undertakings are listed on page 53.

19. ASSOCIATED UNDERTAKINGS

(A) The Group's investments in associated undertakings comprise:	Share of capital £m	Share of reserves £m	Total £m
Profit for the year after taxation	—	5.4	5.4
Additions	0.6	—	0.6
Foreign exchange gains	—	0.9	0.9
Realised investment gains after taxation	—	1.4	1.4
Unrealised investment losses after taxation	—	(12.7)	(12.7)
Dividends received	—	(3.0)	(3.0)
Movements in associated undertakings	0.6	(8.0)	(7.4)
Balance at 1 January	18.6	98.0	116.6
Balance at 31 December	19.2	90.0	109.2

(B) The associated undertakings included above are:

Company	Class of share	Proportion held	Country of incorporation
Commercial Union Assurance			
Company of South Africa Limited	Ordinary R0.50 shares	36.0%	South Africa
Compania de Seguros La Republica SA	Ordinary shares – no par value	31.8%	Chile
Hibernian Group Public Limited			
Company (30.6.91)	Ordinary IR 25p shares	28.7%	Eire
Lion of Kenya Insurance Company Limited (30.9.91)	Ordinary K.Sh 20 shares	26.8%	Kenya
National Commercial Union Limited (30.6.91)	Ordinary A\$0.50 shares	45.7%	Australia
Plant Safety Limited	"A" Ordinary £1 shares	50.0%	England
Seguros La Republica SA	Ordinary M.P.s 10,000 shares	45.6%	Mexico
The British Aviation Insurance Company Limited (31.12.90)	Ordinary £1 shares	29.7%	England
The United Nigeria Insurance Company Limited (30.9.91)	Ordinary 50 Kobo shares	22.0%	Nigeria

Notes on the Accounts

19. ASSOCIATED UNDERTAKINGS *continued*

All associated undertakings are held by subsidiaries. Where the figures included in the accounts are not for the year ended 31 December 1991, the relevant accounting date is shown in brackets. The principal activity of these companies is the transaction of insurance business with the exception of Plant Safety Limited, which carries on the business of engineering plant inspection.

20. AGENTS, COMPANIES AND SUNDRY ASSETS

	1991 £m	1990 £m
Agents, companies and sundry assets comprise:		
Agents, companies and others	1,539.8	1,285.4
Deferred acquisition costs (D)	280.5	249.0
Fixed assets (I)	76.6	72.6
Bank balances	39.4	48.2
	1,936.3	1,655.2

21. OUTSTANDING CLAIMS AND PROVISIONS

	1991 £m	General insurance 1990 £m
(A) Outstanding claims and provisions comprise:		
Gross outstanding claims	4,041.0	3,475.9
Outward reinsurance	(883.4)	(650.5)
	3,157.6	2,825.4

(B) In the United States and the Netherlands, claims on certain classes of business are discounted as follows:

	Class	Rate	Mean term of liabilities	Treatment of investment income
United States	Workers' compensation	7.5%	8 years	Profit and loss account
	Discontinued business	9.0%	4 years	Underwriting result
Netherlands	Permanent health and injury	4.0%	8 years	Underwriting result

The effect of discounting these claims is to reduce outstanding claims and provisions by £90.2m (1990 £93.6m) and to worsen the operating result before taxation by £6.3m (1990 £7.6m). The United States claims provisions for discontinued business are determined after taking account of the estimated future investment earnings from matched assets.

22. UNEARNED PREMIUMS

	1991 £m	1990 £m
Unearned premiums comprise:		
Gross unearned premiums (B)	1,213.8	1,120.3
Outward reinsurance	(134.5)	(137.0)
Net unearned premiums	1,079.3	983.3
Unexpired risks (E)	—	—
	1,079.3	983.3

Notes on the Accounts

23. LOAN CAPITAL AND OTHER LOANS

	1991 £m	Non-life 1990 £m	1991 £m	Life 1990 £m
Loan capital and other loans comprise:				
8.75% Canadian sinking fund debenture 1977/1992	3.0	3.3	—	—
4.5% Swiss franc 200m bonds 2000	72.7	74.1	—	—
Medium term notes (average rate 7%)	16.0	46.2	—	—
Commercial paper (average rate 9%)	55.4	82.5	—	—
Deep discount loan stock 1993/1996 (average rate 11%)	146.3	131.1	—	—
Parallel borrowings 1995 (average rate 9%)	12.7	13.5	—	—
Institutional borrowings 1992/2001 (average rate general 9%, life 8%)	5.4	7.1	166.3	158.1
Other loans	2.1	1.9	1.3	1.3
Bank borrowings	93.6	54.8	114.1	135.1
	407.2	414.5	281.7	294.5
Repayable as follows:				
1 year or less	170.1	171.4	122.5	54.9
Between 1 and 2 years	142.1	20.2	—	80.2
Between 2 and 5 years	22.2	143.8	13.5	—
After 5 years	72.8	79.1	145.7	159.4
	407.2	414.5	281.7	294.5

The Swiss franc bonds were issued with warrants entitling the holders to subscribe for shares in the Company at any time before 11 June 1991. The value attributed to these warrants was Sfr 23.6m (£9.3m) which is being amortised over the full term of the bonds. At 31 December 1991, the unamortised amount was Sfr 16.1m (£6.4m) (1990 Sfr 17.8m (£7.2m)). The bonds are redeemable in total at the option of the issuer at any time on or after 11 June 1991 at a decreasing premium but are shown in the above table as repayable on the due date.

The deep discount loan stock falls due for repayment in three tranches, £140.0m in 1993, £30.0m in 1995 and £6.7m in 1996. The stockholders have options to require all three tranches to be repaid in 1993 or at any time by giving at least 180 days notice. However, repayment before 1993 is not expected but, if made, would be at a reduced amount. In the table above, these loans are included as repayable in the above tranches in 1993, 1995 and 1996 respectively.

Borrowings exclude intra-group loans, certain of which are guaranteed by third parties.

24. AGENTS, COMPANIES AND SUNDRY LIABILITIES

	1991 £m	1990 £m
Agents, companies and sundry liabilities comprise:		
Agents, companies and others	797.5	577.2
Proposed ordinary dividend	63.3	60.0
UK and overseas taxation (Q)	156.2	133.7
Deferred taxation (Q&8B)	59.7	65.7
Minority interests	7.3	9.8
Bank overdrafts	28.6	39.2
	1,112.6	885.6

Bank overdrafts arise substantially from unrepresented cheques.

Notes on the Accounts

25. LIFE FUNDS

	Commercial Union Life		Delta Lloyd Life		Other life	
The principal life funds of the Group and their constituent investments are:	1991 £m	1990 £m	1991 £m	1990 £m	1991 £m	1990 £m
Life funds	2,535.9	2,321.0	4,645.1	4,159.6	2,443.9	1,998.1
Investments before investment reserve:						
Government securities	720.8	659.8	649.9	459.5	464.6	384.0
Debentures	357.5	284.0	168.2	56.9	767.4	552.9
Preference shares	7.3	4.1	79.1	3.1	12.8	10.0
Ordinary shares	1,960.4	1,660.7	162.4	127.3	793.4	771.7
Cash deposits	78.3	63.3	64.9	134.8	168.6	153.6
Property	539.2	575.3	601.8	506.6	516.0	369.8
Mortgages and loans	95.9	97.5	3,593.8	3,536.1	74.9	64.8
Total investments	3,759.4	3,344.7	5,320.1	4,824.3	2,797.7	2,306.8

The directors have been advised by the Group Actuary that the assets of each of the life operations are at least sufficient to meet their respective liabilities at 31 December 1991.

26. PENSION COSTS

In the United Kingdom, the Netherlands and the United States, there are pension schemes whose membership comprises 80% of pension scheme members throughout the Group. With the exception of the Netherlands, where the scheme is written in the Delta Lloyd Life fund, the assets of these defined-benefit schemes are held in separate trustee-administered funds.

An actuarial valuation has been carried out for each of these schemes within the last twelve months, using appropriate methods for the respective territories and there are no material surpluses or deficiencies.

In the United Kingdom, the valuation carried out by the Group Actuary as at 31 December 1990 assumed a margin between investment return and salary and pension increases of 1.25% and 4.00% per annum respectively. The assets of the fund at market value amounted to £829.4m and the value of the accrued liabilities was £811.9m. Following advice from the Group Actuary, the employers' contribution rate for 1991 was reduced from 10% to 5% of pensionable salaries.

In the Netherlands, the accruing liabilities each year are secured by means of life assurance contracts in the Delta Lloyd Life fund and the premiums are calculated individually for each member.

For the United States scheme, the valuation carried out by independent actuaries at 31 December 1990 assumed a margin of 2.9% per annum between investment return and salary increases. The assets of the funds at market value amounted to £27.7m and the value of accrued liabilities was £23.7m. The employers' contribution rate for 1991 was approximately 7% of salaries.

The 1991 pension costs for the Group were £20.9m (1990 £23.3m). There were no significant contributions outstanding or prepaid as at 31 December 1991.

27. CASH FLOW STATEMENT

(A) The reconciliation of operating profit to net cash inflow from operating activities is:

	1991 £m	1990 £m
Operating (loss)/profit before taxation	(68.6)	1.4
Adjustments for financing expense and items not involving movements of cash:		
General insurance underwriting liabilities and provisions	353.5	347.0
Agents and other balances	(66.1)	(122.2)
(Increase)/decrease in sundry assets and liabilities	(10.8)	26.4
(Profits)/losses retained in associated undertakings	(5.1)	2.8
Profits not yet transferred from life funds	(54.7)	(39.3)
Loan interest expense	48.3	47.7
Tax on franked investment income	(3.8)	(4.0)
	261.3	258.4
Net cash inflow from operating activities	192.7	259.8

(B) Changes in investments, excluding cash deposits, during the year are:

	1991 £m	1990 £m
Purchases less sales of investments	(14.5)	20.5
Foreign exchange gains/(losses)	71.7	(377.7)
Changes in market value	195.8	(239.1)
Movements in investments	253.0	(596.3)
Balance at 1 January	3,801.7	4,398.0
Balance at 31 December	4,054.7	3,801.7

Separate figures for purchases and sales of investments are not readily available.

(C) Changes in financing during the year are:

	Share capital (including share premium and capital reserve)		Loan capital and other loans	
	1991 £m	1990 £m	1991 £m	1990 £m
Issue of ordinary share capital	36.4	12.7	—	—
Preliminary expenses	—	(0.8)	—	—
New loans drawn down	—	—	70.0	50.3
Repayment of loans	—	—	(96.1)	(55.8)
Net cash inflow/(outflow)	36.4	11.9	(26.1)	(5.5)
Foreign exchange losses/(gains)	—	—	2.7	(25.2)
Amortisation of discounts	—	—	16.1	14.5
Movements in financing	36.4	11.9	(7.3)	(16.2)
Balance at 1 January	317.4	305.5	414.5	430.7
Balance at 31 December	353.8	317.4	407.2	414.5

Notes on the Accounts

27. CASH FLOW STATEMENT *continued*

27. CASH FLOW STATEMENT *continued*

	1991 £m	1990 £m
(D) Changes in cash and cash equivalents during the year are:		
Net cash inflow	33.0	64.5
Foreign exchange gains/(losses)	3.7	(28.2)
Movements in cash and cash equivalents	36.7	36.3
Balance at 1 January	283.2	246.9
Balance at 31 December	319.9	283.2

	1991 £m	1990 £m	Change in year £m
(E) Balances of cash and cash equivalents included in the balance sheet comprise:			
Cash deposits	309.1	274.2	34.9
Cash at bank and in hand	39.4	48.2	(8.8)
Bank overdrafts	(28.6)	(39.2)	10.6
	319.9	283.2	36.7

28. ANALYSIS OF STAFF

The number of persons employed by the Group at 31 December by territorial location is:	1991 No.	1990 No.
United Kingdom	9,484	9,617
Continental Europe	5,828	5,697
North America	5,152	5,242
Overseas	1,318	1,242
	21,782	21,798

1990 staff numbers for Overseas have been restated to treat operations on a basis consistent with 1991.

29. GENERAL

(A) The Group has contingent liabilities amounting to £45.2m (1990 £44.8m) arising from activities not directly related to insurance. In addition, the Company has guaranteed the overdrafts and borrowings of certain subsidiary and associated undertakings. In the opinion of the directors, no material loss will arise in respect of these guarantees and indemnities.

(B) The calculation of earnings per share is on the 'net' basis using a weighted average of 436.5m (1990 average of 427.4m) ordinary shares in issue. The amount of earnings per share shown for operating (loss)/profit after taxation is based on a loss of £65.4m (1990 profit £1.3m) and the amount of earnings per share shown for (loss)/profit attributable to shareholders is based on a loss of £15.6m (1990 profit £22.1m).

(C) In the movements in life funds, adjustments to opening funds mainly comprise exchange rate adjustments and include £2.5m of development finance. Additionally, commission of £113.9m (1990 £68.6m) and expenses of £202.8m (1990 £192.6m) have been aggregated and total £316.7m (1990 £261.2m). Commission of £113.9m includes £31.4m relating to indemnity commissions which were previously charged over the life of the relevant policies but are now charged when paid.

PART IV – THE PLACING

At the Extraordinary General Meeting of the Company held on 14 April 1992, an ordinary resolution was passed, *inter alia*, (a) to increase the authorised share capital of the Company by the creation of £200,000,000 nominal of Irredeemable Preference Shares and (b) to authorise the Directors to allot and issue up to £200,000,000 nominal of such shares at any time prior to the date of the Annual General Meeting in 1993 or 14 July 1993, whichever is earlier. The terms of, and rights attaching to, the New Preference Shares are contained in the resolution passed at the Extraordinary General Meeting and in resolutions of the board of Directors and of a duly authorised committee of the board of Directors held on 19 May 1992 and are summarised in Part II above.

The Directors have decided to issue the New Preference Shares at a price of 100.875 pence per share and have determined that the rate of dividend attaching to the New Preference Shares shall be 8¾ per cent. per annum (exclusive of any associated tax credit) which will be payable in half yearly instalments in arrear on 30 June and 31 December in each year except that the first dividend instalment shall be payable in respect of the period from 29 May 1992 to 31 December 1992.

The Placing is conditional on the New Preference Shares being admitted to the Official List by the London Stock Exchange, on such admission becoming effective not later than 9.00 a.m. on 21 May 1992 and on the Placing Agreement becoming unconditional in accordance with its terms.

Under the Placing Agreement, each of Cazenove and Hoare Govett has separately agreed to use reasonable endeavours to procure subscribers for or, to the extent of its failing to procure such subscribers, itself to subscribe for 50,000,000 of the New Preference Shares at the Placing Price. The obligations of Cazenove and Hoare Govett are conditional on, *inter alia*, the London Stock Exchange granting permission for the New Preference Shares to be admitted to the Official List and such admission becoming effective not later than 21 May 1992.

The Placing Agreement contains certain representations, warranties, undertakings and indemnities given by the Company relating, *inter alia*, to the accuracy of the information contained in this document. Cazenove and Hoare Govett may terminate the Placing Agreement in certain exceptional circumstances (including on the occurrence of a “force majeure” event) prior to admission to listing becoming effective.

The Company has agreed to pay to Cazenove and Hoare Govett a commission to be shared equally, amounting in aggregate to ⅞ per cent. of the nominal amount of, and premium on, the New Preference Shares. The Company will also pay to Cazenove and Hoare Govett a sum equal to the expenses, charges and disbursements incurred by them (including reasonable legal fees and any accountancy or other professional fees incurred) in connection with or arising out of the Placing (together with any value added tax payable).

The subscription price for the New Preference Shares will be payable in cash in full on 29 May 1992. It is estimated that the cash proceeds (net of expenses) accruing to the Company from the Placing will amount to approximately £99,660,000.

The New Preference Shares will be in registered form. Definitive certificates for the New Preference Shares are expected to be despatched on or about 29 May 1992.

PART V — FURTHER INFORMATION

1. Incorporation

The Company was incorporated in England and Wales under the Companies Act 1985 as a public limited company on 9 February 1990 with the registered number 2468686. Its then existing issued Ordinary Shares and Existing Preference Shares were admitted to the Daily Official List of the London Stock Exchange on 4 June 1990.

2. Share capital and indebtedness

- (i) As at 18 May 1992 (the latest practicable date before the printing of this document), the authorised and issued share capital of the Company was as follows:—

	<i>Authorised</i>		<i>Issued</i>	
	£	No.	£	No.
Ordinary Shares	148,250,000	593,000,000	110,113,754.70	440,530,730
Existing Preference Shares	1,750,000	1,750,000	1,750,000	1,750,000
Irredeemable Preference Shares	200,000,000	200,000,000	0	0

All Existing Preference Shares and 440,451,034 Ordinary Shares are fully paid up. 79,696 Ordinary Shares (issued in respect of the Commercial Union Executive Share Scheme which was adopted on 6 April 1970 and was subsequently discontinued) are paid up as to 1.25p each.

- (ii) As at 18 May 1992 (the latest practicable date before the printing of this document), options to subscribe for Ordinary Shares granted under the Commercial Union Executive Share Option Scheme 1987, the Commercial Union Executive Share Option Scheme 1990 and the Commercial Union Netherlands Executive Share Option Scheme were outstanding as follows:—

<i>Year options granted</i>	<i>Subscription price</i>	<i>Number of shares</i>	<i>Normally exercisable</i>
1987	329.00p	279,950	1990 to 1997
1988	339.67p	123,379	1991 to 1998
1989	378.00p	376,861	1992 to 1999
1990	468.33p	180,482	1993 to 2000
1990	462.33p	177,896	1993 to 2000
1990 (Netherlands Scheme)	504.33p	514,950	1990 to 1995
1991	531.00p	157,952	1994 to 2001
1991	488.67p	1,297,845	1994 to 2001
1991 (Netherlands Scheme)	488.67p	9,918	1991 to 1996
1991 (Netherlands Scheme)	517.00p	26,815	1991 to 1996
1992	411.33p	36,467	1995 to 2002
1992 (Netherlands Scheme)	411.33p	157,460	1992 to 1997

- (iii) As at 18 May 1992 (the latest practicable date before the printing of this document), options to subscribe for Ordinary Shares granted under the Commercial Union Savings Related Share Option Schemes were outstanding as follows:—

<i>Number of shares</i>				
<i>Year option granted</i>	<i>Subscription price</i>	<i>5 year term</i>	<i>7 year term</i>	<i>Normally exercisable</i>
1986	276.3p	nil	398,653	1991 or 1993
1987	294.3p	23,357	56,654	1992 or 1994
1988	305.7p	136,928	182,358	1993 or 1995
1989	333.3p	167,527	77,389	1994 or 1996
1990	383.2p	660,891	517,014	1996 or 1998
1991	426.4p	637,320	336,103	1996 or 1998

- (iv) During the three year period preceding the date of this document, the following shares have been issued by the Company or, in respect of that part of the period prior to the Scheme of Arrangement referred to in paragraph (c) below becoming effective, by Commercial Union Assurance Company plc:—

- (a) following the acquisition in 1987 of 76 per cent. of the issued ordinary share capital and all of the preference shares of FMM Group Limited, on 18 August 1989 311,036 Ordinary Shares of 25p each were issued by Commercial Union Assurance Company plc at a price of 407p per share in respect of the purchase of the remaining 24 per cent. of the issued ordinary share capital of FMM Group Limited;
- (b) 3 Ordinary Shares were issued to the subscribers on the incorporation of the Company;
- (c) pursuant to a Scheme of Arrangement, which became effective on 1 June 1990, the following shares were issued to the holders of shares in Commercial Union Assurance Company plc at a rate of one share in the Company for each share held:—
 - 427,412,523 Ordinary Shares, credited as fully paid;
 - 94,268 Ordinary Shares, credited as 5 per cent. paid; and
 - 1,750,000 Existing Preference Shares credited as fully paid;
- (d) in October, November and December 1990, an aggregate of 27,803 Ordinary Shares were issued pursuant to an offer made by the Company on 3 September 1990 to acquire shares in Commercial Union Assurance Company plc held by certain participants of the Commercial Union Savings Related Share Option Scheme;
- (e) an aggregate of 9,610,407 Ordinary Shares were issued pursuant to the exercise of 39,549 warrants attached to the Sfr.200,000,000 4.5 per cent. guaranteed bonds issued in 1986 by Commercial Union Finance BV, a wholly-owned subsidiary of the Company;
- (f) an aggregate of 2,637,776 Ordinary Shares of 25p each in Commercial Union Assurance Company plc were issued in lieu of the 1989 interim dividend paid on 17 November 1989;

- (g) an aggregate of 2,491,151 Ordinary Shares were issued in lieu of dividends as follows:—

<u>Dividend</u>	<u>Price</u>	<u>Shares Issued</u>
Interim 1990, paid 16 November 1990	457.2p	1,643,608
Final 1990, paid 17 May 1991	530.0p	332,900
Interim 1991, paid 15 November 1991	531.4p	154,381
Final 1991, paid 15 May 1992	432.8p	360,262

- (h) pursuant to the Commercial Union Savings Related Share Option Schemes, 521,410 Ordinary Shares were issued at 276.3p per share, 82,221 Ordinary Shares at 294.3p per share, 13,233 Ordinary Shares at 305.7p per share, 7,215 Ordinary Shares at 333.3p per share and 2,085 Ordinary Shares at 383.2p per share and 140 Ordinary Shares at 426.4 pence per share;
- (i) pursuant to the Commercial Union Executive Share Option Scheme, 262,320 Ordinary Shares were issued at 329p per share, 20,600 Ordinary Shares at 339.67p per share, 17,196 Ordinary Shares at 378p per share and 1,364 Ordinary Shares at 468.33p per share;
- (j) on 2 August 1991, pursuant to the Commercial Union Netherlands Executive Share Option Scheme, 14,691 Ordinary Shares were issued at a price of 504.33p per share; and
- (k) on 20 April 1990, 963,009 Ordinary Shares of 25p each in Commercial Union Assurance Company plc were issued at 461.4p per share to the Trustees of the Commercial Union Staff Profit Sharing Scheme.
- (v) On 14 April 1992 a resolution was passed at the Annual General Meeting of the Company:—
- (a) to authorise the Directors, in accordance with Section 80 of the Companies Act 1985, to allot relevant securities (as defined in that Section) up to an aggregate nominal amount of £38,231,828, such authority to expire on 14 July 1993 or the next Annual General Meeting of the Company, whichever is the earlier; and
- (b) to authorise the Directors, pursuant to Section 95 of the Companies Act 1985, to allot equity securities (as defined in Section 94 of that Act) for cash pursuant to the authority referred to in sub-paragraph (a) above as if Section 89(1) of that Act did not apply to the allotment, but such power was limited to the allotment of equity securities in connection with a rights issue and the allotment (otherwise than pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £5,500,909.
- (vi) On 14 April 1992 a resolution was passed at an Extraordinary General Meeting of the Company, *inter alia*:—
- (a) to increase the authorised share capital of the Company from £150,000,000 to £350,000,000 by the creation of the Irredeemable Preference Shares; and
- (b) in addition to and without prejudice to all previous authorities given to the Directors, to authorise the Directors in accordance with Section 80 of the Companies Act 1985 to allot the New Preference Shares, such authority to expire at the conclusion of the Annual General Meeting in 1993 or 14 July 1993 whichever is the earlier.
- (vii) The New Preference Shares are being issued at their par value of £1 each together with a premium of 0.875p per New Preference Share.

3. Rights attaching to the capital of the Company

The following is a summary of certain rights attaching to the Existing Preference Shares and Ordinary Shares (the rights attaching to the New Preference Shares are summarised in Part II of this document):—

(a) *Dividend*

The holders of the Existing Preference Shares are entitled to receive out of the profits of the Company available for dividend a fixed cumulative preferential dividend at a rate of 3.5 per cent. per annum on the capital paid thereon payable half yearly on 1 January and 1 July in every year, but are not entitled to any further participation in profits.

Subject to the rights of the holders of any shares with special rights as to dividends, the holders of the Ordinary Shares are entitled to receive, on a pro rata basis (according to the amounts paid up thereon), such dividend as may be declared or paid by the Directors but no final or interim dividend may be paid otherwise than in accordance with the Statutes.

Dividends remaining unclaimed after a period of twelve years from the date when they become due for payment shall be forfeited and revert to the Company.

(b) *Capital*

On a return of assets on a liquidation or reduction of capital of the Company, the holders of the Existing Preference Shares are entitled, in priority to any payment on any other class of shares, to payment of the greater of (i) £1 per Existing Preference Share and (ii) a sum per Existing Preference Share equal to the average of the means of the daily quotations (as certified by the auditor of the Company) at which the Existing Preference Shares have been quoted on the London Stock Exchange during the six months immediately preceding the relevant date after deducting from each daily mean any arrears or accruals of dividends, together with, in each case, a sum equal to any arrears or deficiency of the fixed dividend to be calculated down to the date of the return of capital, but are not entitled to any further participation in assets.

In the event of a return of capital on a winding up or otherwise, after payment of all liabilities and subject to the rights of the holders of any shares with preferential rights on a return of capital, the remaining assets of the Company will be divided among the holders of the Ordinary Shares according to the number of Ordinary Shares held by them.

(c) *Variation of rights*

Subject to Section 125 of the Companies Act 1985, and unless otherwise expressly provided by the terms on which shares of that class are held, all or any of the rights attaching to any class of shares may, whether or not the Company is being wound up, be varied or abrogated with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of such shares. The provisions of the Articles of Association relating to general meetings apply to any such meeting, except that the necessary quorum is two persons present in person or by proxy holding or representing not less than one-third in nominal value of the issued shares of the relevant class, and at any adjourned meeting of the holders of shares of that class those holders present (irrespective of the number of shares held by them) will constitute a quorum and any holder present in person or by proxy may demand a poll.

(d) *Voting*

Subject to any special terms as to voting upon which any shares may be issued or may, for the time being, be held, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a representative duly authorised under Section 375 of the Companies Act 1985 shall have one vote, and on a poll every member who is present in person or by such a representative or by proxy shall have one vote for every 25p of nominal amount of Existing Preference Shares or 25p Ordinary Shares of which it is the holder provided that none of the holders of the Existing Preference Shares shall have any right as such to receive notice of or to attend or vote at any general meeting of the Company unless at the date of the notice convening the meeting the preferential dividend on the Existing Preference Shares shall be in arrears and unpaid for a period of six months or more or unless a resolution is to be proposed at such meeting for reducing the capital of or winding up the Company or which adversely affects any of the rights or privileges attached to the Existing Preference Shares and so that the said holders shall be entitled to vote only in respect of any such resolution to be so proposed.

(e) *Further Issues*

The creation or issue of further preference shares ("additional shares") ranking in priority to the Existing Preference Shares shall be deemed to be a variation of the special rights and privileges for the time being attached to the Existing Preference Shares. The creation or issue of additional shares ranking either as to dividend or as to capital, *pari passu* with the Existing Preference Shares shall not be deemed to be a variation of the special rights and privileges attached to the Existing Preference Shares provided:—

- (1) that at the date of issue thereof the aggregate amount of the capital which will immediately after the issue be paid up on the Existing Preference Shares (including the additional shares but excluding any Existing Preference Shares to be redeemed out of the proceeds of issue) shall not exceed 50 per cent. of the capital of the Company which will immediately after the issue be paid up on all of the share capital of the Company, including the additional shares but excluding any Existing Preference Shares to be redeemed out of the proceeds of issue; and
- (2) that no additional share issued as a redeemable preference share shall be issued with or subject to a right of redemption prior in point of time to the Existing Preference Shares.

(f) *Transfer*

The Existing Preference Shares and Ordinary Shares are in registered form. Transfers of shares of the Company must be by instrument of transfer in the usual common form or in any other form which the Directors may approve. The Directors may, in their absolute discretion, decline to register any transfer of shares (not being a fully paid share) on which the Company has a lien or in favour of a transferee of whom it does not approve and may also decline to register a transfer unless:—

- (i) the instrument of transfer is lodged at the Transfer Office duly stamped accompanied by the certificate for the shares to which it relates, or such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer or, if executed by some other person on the transferor's behalf, the authority of that person, if not previously deposited with the Company;
- (ii) the instrument of transfer is in respect of only one class of share; and
- (iii) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four.

In addition to the definitions set out on page 3 of this document, words and expressions defined in, or for the purposes of, the Articles of Association of the Company shall bear the same meanings in this paragraph 3 of Part V. In the event of any conflict between the definitions used in the Articles of Association and those set out on page 3 of this document, the latter shall prevail.

4. Memorandum and Articles of Association

- (a) The Memorandum of Association of the Company provides that the Company's principal object is to acquire the whole or part of the issued share capital of Commercial Union Assurance Company plc and to carry on the business of a holding company. The objects of the Company are set out in full in clause 4 of the Memorandum of Association which is available for inspection at the address set out in paragraph 11 below.
- (b) The Articles of Association of the Company contain, *inter alia*, provisions to the following effect:—
 - (i) The Company may by ordinary resolution increase its share capital, consolidate and divide its share capital into shares of a larger amount, sub-divide its share capital into shares of a smaller amount or cancel any unissued shares and diminish the amount of its authorised share capital by the amount of shares so cancelled. The Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium in any way authorised by law. The Company may also, subject to the Statutes (as defined in the Articles of Association), purchase its own shares.
 - (ii) (aa) Subject to sub-paragraph (bb) below, the Directors may exercise all the powers of the Company to borrow money, to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.
 - (bb) The Directors are required to restrict the borrowings (as defined by the Articles of Association) of the Group so that the aggregate amount for the time being outstanding does not exceed, without the prior sanction of an ordinary resolution of the Company twice the aggregate of the Share Capital and Consolidated Reserves (as defined in the Articles of Association).

5. Directors' and other interests

- (a) The beneficial interests of the Directors, including their immediate families, in the Ordinary Shares shown in the register maintained under the provisions of Section 325 of the Companies Act 1985 as at 18 May 1992 (the latest practicable date before the printing of this document), are set out below:—

<u>Name</u>	<u>Ordinary Shares</u>		
	<u>Fully paid</u>	<u>Executive Option</u>	<u>SAYE Option</u>
N.H. Baring	7,449	—	—
A.L. Brend	9,008	206,678	—
J.G.T. Carter	7,985	158,382	4,358
R. Faroux	—	—	—
P.J. Gillam	—	—	—
R.C. Hampel	218	—	—
Sir Martin Jacomb	12,583	—	—
H. Meij	—	—	—
I.C. Strachan	—	—	—
A.B. Wyand	15,511	128,027	3,522
	52,754	493,087	7,880

No director has a beneficial interest directly or indirectly in the Existing Preference Shares.

- (b) Save as disclosed below, the Directors are not aware of any person who is interested directly or indirectly (within the meaning of Part VI of the Companies Act 1985) in 3 per cent. or more of the issued share capital of the Company or who could directly or indirectly, jointly or severally, exercise control over the Company.

	<u>Number of Ordinary Shares</u>	<u>% of issued capital</u>
Barclays Bank PLC (non-beneficial interest)	13,918,147	3.16
Munchener Ruckversicherungs - Gesellschaft	13,913,972	3.16
Robert Fleming Holdings Limited (non-beneficial interest)	13,269,311	3.01
Sun Alliance Group plc	63,631,060	14.44

- (c) Mr. A.L. Brend, Mr. J.G.T. Carter and Mr. A.B. Wyand have service contracts with Commercial Union Employment Services Limited as executive directors which were on display at the Annual General Meeting held on 14 April 1992 and have not subsequently been varied. Save as disclosed, there are no service contracts in existence between the Company and any of its Directors, nor are any such contracts proposed.
- (d) The aggregate of the remuneration and benefits in kind granted to the Directors by any member of the Group for the financial year ended 31 December 1991 was £802,067.
- (e) There have been no transactions between the Directors and the Company or any of its subsidiaries in the current financial year or the financial year ended 31 December 1991 which are or were unusual in their nature or conditions or significant to the business of the Group. There are no transactions between the Directors and any member of the Group in earlier financial periods which are or were unusual in their nature or conditions or significant to the business of any member of the Group and which remain in some respect outstanding or unperformed.

- (f) As at 18 May 1992 (the latest practicable date before the printing of this document), the Company and its subsidiary undertakings had granted the following mortgage and other loans to Directors and persons connected with them:—

<u>Name of director</u>	<u>Method of repayment and final instalment maturity date</u>	<u>Rate of interest and when payable</u>	<u>Amount of Loan Outstanding (£)</u>
J.G.T. Carter	Endowment assurance December 1997	3%-5% p.a. Monthly	30,000
A.B. Wyand	Endowment assurance October 2003 Capital instalments February 2004	3%-5% p.a. Monthly	23,086

The loans are repayable out of the proceeds of endowment life assurance policies or by capital instalments as indicated. They are repayable on the earliest of maturity of the relevant policy or final instalment date, sale of the mortgaged property or death of the borrower. All loans are fully secured. Additionally, a subsidiary undertaking has made a life assurance policy loan to Mr. A.B. Wyand of which £3,971 is outstanding. Interest is charged at the rate of 12 per cent. per annum and is payable half-yearly. The loan is repayable on 30 August 2003, or on the death of the borrower, whichever is earlier. The loan is fully secured.

As at 18 May 1992, seven officers of the Company had staff house purchase, life assurance policy and other loans from a subsidiary undertaking, amounting in aggregate to £333,820.

6. Commercial Union Employee Share Schemes

A. Profit sharing schemes

(i) *Commercial Union Staff Profit Sharing Scheme 1982 (the "1982 Profit Sharing Scheme")*

In consequence of a scheme of arrangement (the "Scheme of Arrangement") which took effect on 1 June 1990, the Company was established as the holding company of the Commercial Union Group and the shareholders in Commercial Union Assurance Company plc ("CUA") received shares in the Company at the rate of one share for each share held in CUA. Prior to the Scheme of Arrangement, in 1982, CUA had established the 1982 Profit Sharing Scheme, the terms of which were substantially similar to those of the Company's current Staff Profit Sharing Scheme (the "1991 Profit Sharing Scheme") described below.

Under the terms of the Scheme of Arrangement, shares held by the Trustees pursuant to the 1982 Profit Sharing Scheme were exchanged for equivalent shares in the Company. However, the terms of the 1982 Profit Sharing Scheme continue to apply to these shares, although in all other respects the 1982 Profit Sharing Scheme has been replaced by the 1991 Profit Sharing Scheme operated by the Company.

(ii) *Commercial Union Staff Profit Sharing Scheme 1990 (the "1990 Profit Sharing Scheme")*

The 1990 Profit Sharing Scheme was adopted in 1990 to be operated once for the year ended 31 December 1990. The 1990 Profit Sharing Scheme was not operated and has been replaced by the 1991 Profit Sharing Scheme described below.

(iii) *Commercial Union Staff Profit Sharing Scheme 1991 (the "1991 Profit Sharing Scheme")*

The 1991 Profit Sharing Scheme was adopted on 16 April 1991 and is to be approved by the Inland Revenue under the provisions of Schedules 9 and 10 of the Income and Corporation Taxes Act 1988. Previously, employees had been invited to participate in the 1982 Profit Sharing Scheme which was replaced, following the Scheme of Arrangement, by the 1990 Profit Sharing Scheme.

Under the 1991 Profit Sharing Scheme, employees of participating companies may have Ordinary Shares appropriated to them free of charge. Following the end of each financial year, the Company considers whether or not to operate the 1991 Profit Sharing Scheme and if it decides to do so, the Company will invite all eligible employees to participate so as to have Ordinary Shares appropriated to them.

Employees of the Company and participating companies will be eligible if they have completed one year's continuous service and are (a) chargeable to UK tax under Schedule E or (b) are employed in the Channel Islands or the Isle of Man or (c) are employed elsewhere and have been specifically nominated to take part in the 1991 Profit Sharing Scheme.

The amount of profit allocated by the Company is such amount as is determined by application of a criteria agreed between the Company and its employees' recognised representative bodies which may not exceed 5 per cent. of the Group's profit (before tax and exceptional items) for that financial year which in the opinion of the Directors is attributable to the UK operations of the Group.

The Trustees of the 1991 Profit Sharing Scheme use the amount allocated to subscribe for or to purchase Ordinary Shares. If subscribed, the price of the shares will be the higher of (i) the average middle market value of the Ordinary Shares as derived from the Official List of the London Stock Exchange over the five dealing days immediately preceding the allocation of funds to the Trustees, and (ii) the nominal value of the Ordinary Shares. If purchased, Ordinary Shares are acquired at the prevailing market price. Once acquired, the Ordinary Shares are then appropriated to participants, although no participant may receive shares of more than £6,000 in value in any single year of assessment. The £6,000 limit may be varied by the Board, but may not exceed the lower of the statutory maximum and £7,500.

Ordinary shares appropriated pursuant to the 1991 Profit Sharing Scheme must normally be held by the Trustees for a minimum of two years after appropriation, during which time they may not be dealt with in any way except in certain limited circumstances including death and cessation of employment by reason of injury, disability or redundancy. If retained for five years the Ordinary Shares will automatically be transferred into the names of the relevant participants.

A participant is the beneficial owner of Ordinary Shares held for him by the Trustees and is entitled to receive dividends and, through the Trustee, to vote and to participate in rights and capitalisation issues, in substantially the same way as other shareholders.

The maximum duration of the Scheme is ten years, ending with any allocation which may be made in respect of the financial year ending 31 December 2000.

B. Share option schemes

(i) *Commercial Union Savings Related Share Option Scheme 1986 (the "1986 SAYE Scheme")*

CUA established the 1986 SAYE Scheme, the terms of which were substantially similar to those of the 1990 SAYE Scheme described below.

Pursuant to the Scheme of Arrangement options granted under the 1986 SAYE Scheme were exchanged for equivalent options over Ordinary Shares. However, the terms of the 1986 SAYE Scheme continue to apply to these options, although in all other respects the 1986 SAYE Scheme has been superseded by the 1990 SAYE Scheme.

(ii) *Commercial Union Executive Share Option Scheme 1987 (the "1987 Executive Scheme")*

CUA established the 1987 Executive Scheme on terms which were substantially similar to the 1990 Executive Scheme described below.

In 1990, options granted under the 1987 Executive Scheme were exchanged for equivalent options over Ordinary Shares, under the terms of the Scheme of Arrangement. However, the terms of the 1987 Executive Scheme continue to apply to these options, although in all other respects the 1987 Executive Scheme has been superseded by the 1990 Executive Scheme.

(iii) *Commercial Union Savings Related Share Option Scheme 1990 (the "1990 SAYE Scheme")*

The 1990 SAYE Scheme is a save-as-you-earn share option scheme, approved by the Inland Revenue under the provisions of Schedule 9 to the Income and Corporation Taxes Act 1988. Invitations to apply for options may be issued by the Directors within 6 weeks of the preliminary announcement of results of the Company for any financial period, provided that no invitation may be made after the seventh anniversary of the adoption of the 1990 SAYE Scheme.

Invitations to apply for options may be made to employees who are contracted to work at least 25 hours per week, who have been continuously so for at least 2 years prior to the date of invitation and who are chargeable to tax under Case 1 of Schedule E. The Directors are also empowered to invite any other full-time employee of any participating company to participate in the 1990 SAYE Scheme. To join the 1990 SAYE Scheme an employee must enter into a savings contract with a savings body approved by the Company, under which monthly contributions from £10 to £250 are agreed to be made for a period of 5 years. At the commencement of the contract, the Company grants to the participant an option to acquire Ordinary Shares after 5 or 7 years with the proceeds of the savings account, at an option price determined as described below. The proceeds of the savings account include a tax free bonus after 5 years and, in the case of a 7 year contract, a further bonus after 7 years. Options are not transferable.

The option price of an Ordinary Share is determined by the Directors and may not be less than the higher of (i) 80 per cent. of the average middle-market value of an Ordinary Share as derived from the Official List of the London Stock Exchange over the 3 dealing days immediately following the date of invitation and (ii) where Ordinary Shares are to be issued, the nominal value of an Ordinary Share. The number of Ordinary Shares over which options may be granted to any participating employee must be limited to the maximum which may be purchased out of the repayment proceeds (including any bonuses) from the savings contract.

Options are normally exercisable for a period of 6 months commencing on the fifth or seventh anniversary of the commencement date of the related savings contract. If an option is not exercised by the end of that period, it will lapse. Options may be exercised earlier in specified circumstances such as death, cessation of employment by reason of injury, disability, redundancy or retirement, or the disposal of the business or company for which the participant works.

In the event of an amalgamation, reconstruction or takeover of the Company, participants may either exercise their options or, with the consent of the acquiring party, exchange their options over shares in the acquiring company or a company associated with it. Options may also be exercised in the event of the voluntary winding-up of the Company.

Ordinary Shares will be allotted or transferred within 30 days of the date of the exercise of an option.

In the event of any capitalisation or rights issue or any consolidation, sub-division, or reduction of the share capital of the Company, the number of Ordinary Shares under option and the option price may be adjusted by the Directors with the approval of the Inland Revenue, subject to the auditor confirming in writing that such adjustment is, in the auditor's opinion, fair and reasonable.

(iv) *Commercial Union Executive Share Option Scheme 1990 (the "1990 Executive Scheme")*

The 1990 Executive Scheme is approved by the Inland Revenue under the provisions of Schedule 9 to the Income and Corporation Taxes Act 1988.

All employees and Directors who are employed by the Company or one of its participating subsidiaries for at least 25 hours per week are eligible to be nominated by the Directors for participation in this scheme.

Options may be granted within 42 days following the preliminary announcement of the Company's results, although options may be granted at other times if the Directors consider circumstances to be exceptional. No option may be granted more than 7 years after the adoption of the 1990 Executive Scheme.

Options are exercisable for a period of ten years and entitle the optionholder to acquire Ordinary Shares at a price determined by the Directors, being not less than the higher of (i) the average middle market value of the Ordinary Shares as derived from the Official List of the London Stock Exchange over the three dealing days immediately preceding the date of grant, and (ii) where Ordinary Shares are to be issued, the nominal value of the Ordinary Shares. Each individual's participation is limited so that the aggregate price payable on the exercise of all options granted to him under the 1990 Executive Scheme, and any other executive share option scheme established by the Company, does not exceed four times his annual remuneration. No consideration is payable upon the grant of an option. Options are not transferable.

Options are normally exercisable after the third anniversary of the date of grant, provided that the optionholder remains a Director or employee. Options may be exercised earlier than this in specified circumstances including death and cessation of employment by reason of injury, disability or redundancy. The Directors may permit an exercise by an optionholder who ceases to be employed in any other circumstances. Options will lapse if not exercised within the relevant exercise period.

In the event of any amalgamation, reconstruction or takeover of the Company, optionholders may either exercise their options or, with the consent of the acquiring party, exchange their options for options over shares in the acquiring company or a company associated with it. Options may also be exercised in the event of the voluntary winding-up of the Company.

Ordinary Shares will be allotted or transferred within 30 days of the date of the exercise of an option.

In the event of any capitalisation or rights issue or any consolidation, sub-division, or reduction of the share capital of the Company, the number of Ordinary Shares under option and the option price may be adjusted by the Directors with the approval of the Inland Revenue, subject to the auditor confirming in writing that such adjustment is, in the auditor's opinion, fair and reasonable.

(v) *Commercial Union Netherlands Executive Share Option Scheme 1990 (the "1990 Netherlands Scheme")*

In 1990, the Company established the 1990 Netherlands Scheme, on substantially similar terms as the 1990 Executive Scheme, for the Directors and employees of the Company's subsidiaries in the Netherlands.

All employees and Directors who are employed by a participating company for at least 25 hours per week are eligible to be invited by the Directors of the Company to participate in the 1990 Netherlands Scheme. However, unless the Directors otherwise determine, no option may be granted to any person less than 2 years before his normal retiring age.

Options may be granted within 42 days following the preliminary announcement of the Company's results, although options may be granted at other times if the Directors

consider circumstances to be exceptional. No option may be granted more than 7 years after the adoption of the 1990 Netherlands Scheme.

Options are granted for a period of five years and entitle the optionholder to acquire Ordinary Shares at a price determined by the Directors, being not less than the higher of (i) the average middle market value of the Ordinary Shares as derived from the Official List of the London Stock Exchange over the three dealing days immediately preceding the date of grant, and (ii) where Ordinary Shares are to be issued, the nominal value of the Ordinary Share. Each individual's participation is limited so that the aggregate price payable on the exercise of all options under the 1990 Netherlands Scheme, and any other executive share option scheme established by the Company, does not exceed four times his annual remuneration. No consideration is payable upon the grant of an option under the 1990 Netherlands Scheme. Options are not transferable.

Under current revenue law and practice in the Netherlands, each participant is liable to a tax charge on the grant of an option under the 1990 Netherlands Scheme. Arrangements exist for each optionholder's employer to lend sufficient funds to the optionholder in order to discharge this tax liability, on terms which provide for the loan to be repaid upon exercise of the relevant option. These arrangements are set out in an ancillary agreement (the "Ancillary Agreement") between each optionholder and his employing company.

Options are exercisable at any time, provided that the optionholder remains a director or employee. Under the Ancillary Agreement each optionholder agrees that, in the event that an option is exercised before the third anniversary of the date of grant, other than upon special circumstances including ceasing employment for specified reasons, the optionholder will place on deposit the value of any difference between the option price and the market value of the Ordinary Shares. If the optionholder leaves his employment for any other reason, before such third anniversary, the deposit will be forfeited to the Company. This deposit may be returned to the optionholder on the earlier of (i) specified reasons including the cessation of his employment by reason of death, retirement, injury, ill-health, disability or redundancy and (ii) the third anniversary of the grant of the option.

Options may be exercised within 6 months of specified circumstances including an optionholder ceasing employment by reason of retirement, injury, disability (including ill-health), redundancy or within 12 months in the event of the death of an optionholder. Options will lapse if not exercised within the exercise period.

In the event of an amalgamation, reconstruction or takeover of the Company, optionholders may either exercise their options or, with the consent of the acquiring company or a company associated with it, exchange their options for options over shares in the acquiring company or a company associated with it. Options may also be exercised in the event of the voluntary winding-up of the Company.

Ordinary Shares will be allotted or transferred within 30 days of the date of the exercise of an option provided that, if a deposit is required to be paid under the Ancillary Agreement, the Directors may refuse to allot the Ordinary Shares until they have received notification that the deposit has been paid.

In the event of any capitalisation or rights issue or any consolidation, sub-division or reduction of the share capital or other variation of share capital by the Company, the number of Ordinary Shares under option and the option price may be adjusted by the Directors subject to the auditor confirming in writing that the adjustment is, in the auditor's opinion, fair and reasonable.

(vi) *Commercial Union Staff Stockholders' Scheme (the "Stockholders' Scheme")*

The Stockholders' Scheme allows, once a year, permanent members of Commercial Union Group staff who have attained the age of 21 years to direct the Trustees of the Stockholders' Scheme to purchase Ordinary Shares on their behalf. The cost of these shares is financed by the Company by way of a loan to the Trustees, which is repayable by participants in twelve monthly instalments. On payment of the final instalment, the Trustees are required to transfer the shares held by them to the employees entitled thereto.

In the event of retirement or leaving employment, the participant, or in the event of death, his personal representative, may accelerate payment of the outstanding instalments or may direct the Trustees to sell all the Ordinary Shares held on his behalf and to remit the net proceeds to the participant.

The continuation of the Stockholders' Scheme is subject to annual review and the Directors have determined that it will not be renewed for 1992 and will be formally terminated following the repayment of the loans currently outstanding from the 1991 offer under the Stockholders' Scheme.

(vii) *Commercial Union Executive Share Scheme 1970 (the "1970 Executive Share Scheme")*

This Scheme was adopted by CUA in 1970 and was discontinued in 1973. Under the terms of the 1970 Executive Share Scheme, ordinary shares of CUA were issued, 5 per cent. paid, to certain executives of the Group, in 1970 and 1971. Further ordinary shares of CUA were issued as a result of a capitalisation issue in 1972 and rights issues in 1974 and 1977.

Pursuant to the Scheme of Arrangement, the ordinary shares outstanding under the 1970 Executive Share Scheme were exchanged for equivalent ordinary shares in the Company. Although no replacement scheme has been adopted by the Company, the Articles of Association contain provisions which retain the benefits and restrictions of the 1970 Executive Scheme in respect of ordinary shares still subject to the Scheme.

Scheme Limits

The schemes are subject to the following overall limits on the number of Ordinary Shares which may be acquired by subscription:—

- (i) in any 10 year period, not more than 10 per cent. of the issued ordinary share capital of the Company from time to time may in aggregate be subscribed under all employee share schemes operated by the Company;
- (ii) in any 10 year period, not more than 5 per cent. of the issued ordinary share capital of the Company from time to time may in aggregate be subscribed under all executive share option schemes operated by the Company. In the 4 year period commencing on 21 May 1990, being the date of adoption of the 1990 Netherlands Scheme, not more than 2.5 per cent. of the issued ordinary share capital of the Company from time to time may in aggregate be subscribed under the 1990 Netherlands Scheme and any other executive share option scheme operated by the Company;
- (iii) in any 5 year period, not more than 5 per cent. of the issued ordinary share capital of the Company from time to time may in aggregate be subscribed under the employee share schemes operated by the Company and not more than 3 per cent. of the issued ordinary share capital of the Company from time to time may be subscribed under any executive share option scheme. In the 4 year period commencing on 15 March 1990, being the date of adoption of the 1990 Executive Scheme, not more than 2.5 per cent. of the issued ordinary share capital of the Company from time to time may in aggregate be subscribed under the 1990 Executive Scheme and any other executive share option scheme operated by the Company; and

- (iv) in any year of assessment, the nominal amount of Ordinary Shares which may be subscribed by the Trustees of the 1991 Profit Sharing Scheme when aggregated with the total amount of any other Ordinary Shares issued by the Company in respect of any other profit sharing scheme operated by it, may not exceed 1 per cent. of its issued share capital from time to time.

The schemes are also subject to the following individual limits, fixed by reference to the issued ordinary share capital of the Company:—

- (i) the nominal amount of Ordinary Shares which may be purchased or subscribed by the Trustees for the purposes of the 1991 Profit Sharing Scheme may not exceed 42,940,088;
- (ii) the total number of Ordinary Shares which may be subscribed under the 1990 SAYE Scheme may not exceed 42,750,679 being 10 per cent. of the issued ordinary share capital of the Company on 5 June 1990;
- (iii) the number of Ordinary Shares which may be subscribed under the 1990 Executive Scheme may not exceed 42,750,679 being 10 per cent. of the issued ordinary share capital of the Company on 5 June 1990; and
- (iv) the number of Ordinary Shares which may be allocated under the 1990 Netherlands Scheme may not exceed 42,750,679 being 10 per cent. of the issued ordinary share capital of the Company on 5 June 1990.

The limits in this sub-paragraph may be adjusted to take account of rights and capitalisation issues and any sub-division, consolidation or reduction of the Company's share capital.

7. Taxation

- (a) Under current UK taxation legislation, no withholding tax will be deducted from dividends paid by the Company. The Company is generally required to make an advance payment of corporation tax ("ACT") when a dividend is paid. The current ACT rate is 25/75ths of the dividends paid. Consequently, the ACT relating to any dividend currently equals 25 per cent. of the total of the cash dividend and the ACT.

A UK resident individual shareholder receives, imputed to any cash dividend received, a tax credit which, at current rates, is equal to 25/75ths of the dividend paid. The tax credit will satisfy in full a UK resident individual shareholder's liability to basic rate income tax on the dividend plus the tax credit, leaving such shareholder liable to higher rate income tax only (if appropriate). If the individual is not liable to income tax or is liable to income tax at a rate lower than the basic rate, the tax credit may be reclaimed, in whole or in part, from the Inland Revenue.

A UK resident corporate shareholder is not liable to UK corporation tax on any dividend received and the dividend and associated tax credit will represent franked investment income in the hands of such a shareholder.

Shareholders in the Company who are not resident in the UK may be entitled to reclaim from the Inland Revenue a proportion of the tax credit relating to their dividends but such entitlement will depend, in general, upon the provisions of any double taxation agreement or convention which exists between the UK and their country of residence. Shareholders who are resident in countries other than the UK but who are either Commonwealth citizens or citizens of the Republic of Ireland or certain other class of person, are entitled to a tax credit which they may set off against their total UK income tax liability or reclaim in cash to the same extent as if they were resident in the UK. Non-UK resident shareholders may be subject to foreign taxation on dividend income in their country of residence. Any person who is not resident in

- the UK should consult his own tax adviser on the question of the double taxation provisions (if any) applying between his country of residence and the UK.
- (b) A disposal of the New Preference Shares may, after taking account of indexation allowance, give rise to a chargeable gain (or allowable loss) for the purposes of UK taxation of capital gains for shareholders who are resident or ordinarily resident in the UK and, in certain cases, non-UK resident shareholders who carry on a trade, profession or vocation in the UK through a branch or agency in connection with which the New Preference Shares are held.
 - (c) No stamp duty or stamp duty reserve tax ("SDRT") will be payable on the issue of the New Preference Shares. Transfers of New Preference Shares once registered will be liable to stamp duty generally at the rate of 50p per £100 (or part of £100) of the price paid. Agreements to transfer the New Preference Shares may be subject to SDRT also generally at the rate of 50p per £100 (or part of £100) if a transfer of the New Preference Shares to which the agreement relates is not executed and duly stamped.
 - (d) The New Preference Shares are assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets or the death of a holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax, even if the holder is neither domiciled or deemed to be domiciled in the UK. A gift of New Preference Shares by an individual ("the donor") to one or more individuals absolutely or to certain trusts and where the donor does not reserve any benefit will, where such gift is made seven years or more before the death of the donor, be exempt from inheritance tax.

The above summary reflects certain aspects of current law and practice in the UK and may not apply to certain classes of person (such as dealers). Holders of New Preference Shares who are in any doubt as to their personal taxation position or who may be subject to tax in any other jurisdiction should consult their professional advisers.

8. Principal subsidiaries and other investments

(a) The Company's principal subsidiaries are:—

<i>Company and Registered/ Head Office</i>	<i>Country of Incorporation</i>	<i>Nature of Business</i>	<i>Issued Capital</i>	<i>Paid up</i>	<i>CU owned</i>
The British & European Reinsurance Company Ltd St. Helen's 1 Undershaft London EC3P 3DQ	UK	Reinsurance	15,000,000 Shares of £1 each	Fully Paid	100%
Commercial Union Assurance Company plc St. Helen's 1 Undershaft London EC3P 3DQ	UK	Insurance	434,534,597 Shares of 25p each	Fully paid	100%
Commercial Union Financial Holdings Ltd. St. Helen's 1 Undershaft London EC3P 3DQ	UK	Holding Company	10,000,002 Shares of £1 each	Fully Paid	100%
Commercial Union Properties Ltd. St. Helen's 1 Undershaft London EC3P 3DQ	UK	Property Investment	12,350,292 Shares of 25p each	Fully Paid	100%
The Northern Assurance Company Ltd. St. Helen's 1 Undershaft London EC3P 3DQ	UK	Assurance	6,151,610 Ordinary Shares of £1 each	Fully Paid	100%
NV Commercial Union Belgium SA Avenue Herrmann Debroux 54 1160 Brussels Belgium	Belgium	Insurance	104,000 Shares -	No Par Value	99.90%
Curepool Ltd Cedar House 41 Cedar Avenue Hamilton Bermuda	Bermuda	Reinsurance	20,000,000 Ordinary Shares of £1 each; 30,000,000 Ordinary Shares of £1 each	Fully Paid 60p Paid	100% 100%
Commercial Union of Canada Holdings Ltd. P.O. Box 441 Toronto-Dominion Centre Toronto Ontario M5K 1L9 Canada	Canada	Insurance Holding Company	810,173 Common Shares	No Par Value	100%
Commercial Union France SA 104 Rue de Richelieu 75002 Paris France	France	Insurance Holding Company	1,455,285 Shares of FF100 each	Fully Paid	99.79%
Delta Lloyd Verzekeringsgroep NV Spaklerweg 4 1096 BA Amsterdam Holland	Holland	Insurance Holding Company	2,500,004 Ordinary Shares of Dfl.20 each	Fully Paid	99.99%
Commercial Union Corporation One Beacon Street Boston Mass. 02108 USA	USA	Insurance Holding Company	7,149 Shares of Common Stock US\$1 each	Fully Paid	100%

- (b) The Group has the following shareholdings held on a long-term basis in the issued share capital of the two undertakings as set out below:—

	Société Générale	Munich Re
(i) <i>Registered Head Office</i>	29, Boulevard Haussmann 75009 Paris, France	Münchener Rückversicherung- Gesellschaft Königstrasse 407 Postfach 401320 D-8000 München 40, Germany
(ii) <i>Country of Incorporation</i>	France	Germany
(iii) <i>Nature of Business</i>	Banking	Reinsurance
(iv) <i>Issued Capital</i>	FFr.2.06bn (£212.8m) at 31 December 1990	DM655m (£229.4m) at 30 June 1991
(v) <i>Paid up</i>	FFr.2.06bn (£212.8m)	DM335m (£117.3m) at 30 June 1991
(vi) <i>% Amount of issued share capital owned by Commercial Union</i>	4.4%	(a) 5.1% of Registered DM100 nominal shares (DM50 paid up) (b) 1.4% of Bearer DM50 nominal shares
(vii) <i>Reserves</i>	FFr.25.86bn (£2.67bn) at 31 December 1990	DM1.754bn (£614.3m) at 30 June 1991
(viii) <i>Dividends received during year ended 31 December 1991</i>	FFr.39.0m (£4.02m)	DM3.2m (£1.1m)
(ix) <i>Profit after tax</i>	FFr.2.93bn (£302.7m) (year ended 31 December 1990)	DM104.9m (£36.7m) (year ended 30 June 1991)
(x) <i>Market value of Commercial Union Shareholding at 31 March 1992</i>	£172.8m	£306.3m

Notes:—

- (a) Where applicable, the figures provided above have been converted into Sterling at the spot rate (£1=FFr.9.680 and £1=DM2.855) prevailing at 31 March 1992, as derived from the *Financial Times* (Exchange Cross Rates) published on 1 April 1992.
- (b) The Dividends from Société Générale were received in the form of ordinary shares of the company.
- (c) The Reserves of Munich Re, as set out above, exclude minority interests of DM208m (£72.9m).

9. Material contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and are, or may be, material:—

- (a) the Placing Agreement referred to in Part IV of this document; and
- (b) a Subscription Agreement dated 12 March 1992 between (i) the Company and Commercial Union Assurance Company plc (the "Guarantor") and (ii) Kleinwort Benson Limited and others (the "Managers") whereby, *inter alia*, the Company agreed to issue, the Guarantor agreed to guarantee the payment of and the Managers agreed jointly and severally to subscribe and pay for £100,000,000 10¾ per cent. Guaranteed Bonds 2002.

10. General

- (a) The registered office of the Company is at St. Helen's, 1 Undershaft, London EC3P 3DQ and the principal place of business is 6 Broadgate, 7th Level, London EC2M 2QS.
- (b) (i) In the years to 31 December 1991, 1990 and 1989, the average number of persons employed by the Group was 21,790, 21,340 and 20,470 respectively.

- (ii) The number of persons employed by the Group as at 31 December 1989 by territorial location was:—

<u>Location</u>	<u>Number of Employees</u>
United Kingdom	8,865
Continental Europe	5,698
North America	5,348
Overseas	971
	<u>20,882</u>

- (c) Save for insurance claims in the ordinary course of business, neither Commercial Union nor any of its subsidiaries is involved in any legal or arbitration proceedings which may have or have had during the 12 months preceding the date of this document a significant effect on the financial position of the Group, nor so far as the Directors are aware, are any such proceedings pending or threatened against any member of the Group.
- (d) Coopers & Lybrand Deloitte have given and have not withdrawn their written consent to the issue of this document with the inclusion herein of their name in the form and context in which it is included.
- (e) There has been no significant change in the trading or financial position of the Group since 31 December 1991, the date to which the latest published audited accounts of the Group were made up.
- (f) The expenses of and incidental to the Placing and listing of the New Preference Shares, including registration and listing fees, printing, advertising and distribution costs, the commission payable to Cazenove and Hoare Govett and legal, accounting and other professional fees, are estimated to amount to £1,215,000 (exclusive of value added tax) and are payable by the Company.
- (g) Cazenove and Hoare Govett are members of The Securities and Futures Authority.
- (h) The financial information in relation to Commercial Union contained in this document does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts of Commercial Union for the three financial years ended 31 December 1989, 1990 and 1991 have been delivered to the Registrar of Companies.
- (i) The auditors of Commercial Union or the former parent company, Commercial Union Assurance Company plc have made a report under Section 235 of the Companies Act 1985 on the Statutory accounts of Commercial Union or the former parent company, Commercial Union Assurance Company plc for each of the 3 years ended 31 December 1991 none of which were qualified within the meaning of Section 262 of the Companies Act 1985 or contained a statement made under either Section 237 (2) or (3) of the Companies Act 1985.

11. Documents for inspection

Copies of the following documents will be available for inspection at the offices of Linklaters & Paines, Barrington House, 59-67 Gresham Street, London EC2V 7JA during normal business hours on any weekday (Saturdays and public holidays excepted) for 14 days from the date of this document:—

- (a) the Memorandum and Articles of Association of the Company;
- (b) the consolidated audited accounts of the Group for the two financial periods ended 31 December 1991 and 31 December 1990;
- (c) the material contracts referred to in paragraph 9 above; and
- (d) the consent letter referred to in paragraph 10(d) above.

Part VI

First Quarter Results of Commercial Union Group

"UNAUDITED RESULTS : 3 MONTHS ENDED 31 MARCH 1992

Total premium income	—	£1,285m	(1991 £1,107m)
Operating loss before taxation	—	£19.2m	(1991 £24.2m)
Loss attributable to shareholders	—	£8.7m	(1991 profit £10.5m)
Operating loss per share	—	5.3p	(1991 4.6p)

- Strong life new business growth of 46 per cent. Life profits amounted to £27.0m (1991 £26.5m).
- Reduced non-life loss of £46.2m (1991 £50.7m).
- General insurance results are beginning to improve in the United Kingdom and United States results continued their steady and encouraging progress.
- Shareholders' funds amounted to £1,185m (31 December 1991 £1,210m).
- Bomb damage in the City of London in the second quarter is expected to cost us approximately £15m. There was minimal disruption to our operations as disaster recovery plans were put into immediate effect and staff made a determined response.

Tony Brend, Chief Executive, commenting on the results said:—

'The pre-tax loss for the first three months of £19.2m was an improvement over the corresponding period in 1991. The better result from general insurance business should gather momentum as benefits flow from management actions including premium rate increases in the United Kingdom.'

'Life operations made good progress with new life business increasing by 46 per cent. Life profits, although held back by new business growth, continued to make a substantial contribution of £27.0m.'

'General insurance trading conditions are improving in the United Kingdom with significant premium rate increases being obtained across most classes of business, although it will take time before these increases are fully reflected in our results. Opportunities are being taken to write selective additional business whilst maintaining strict underwriting standards.'

'United States results continued their steady and encouraging progress and the Netherlands produced a satisfactory performance, despite difficult market conditions in both countries. In other Continental European countries, general insurance markets remained depressed, particularly in France.'

'Bomb damage in the City of London on Friday, 10 April is expected to cost us approximately £15m after reinsurance recoveries. This loss will be charged to the second quarter's results. Considerable damage occurred to our head office and disaster recovery plans were put into immediate effect. Due to a determined response from staff, operations were fully effective within 48 hours without inconvenience to customers and with minimal disruption to our business.'

Features of the results were:—

GROUP	1992 £m	1991 £m	Underlying increase %
Life premium income	454.4	358.1	24
General insurance premium income	830.3	748.9	11
Life profits	27.0	26.5	
Non-life operating result	(46.2)	(50.7)	
Operating loss before taxation	(19.2)	(24.2)	

- Life premiums rose strongly to £454.4m, a 24 per cent. increase after adjusting for changes in rates of exchange. New annual premiums increased by 27 per cent. and single premiums by 50 per cent. There was good new business growth in the Netherlands, United Kingdom and other territories. Life profits were at a similar level to 1991 due to new business growth.
- General insurance premium income increased by 11 per cent. to £830.3m in underlying terms. Strong growth in the United Kingdom from a combination of rate increases and selective new business was partially offset by the reduction of premiums in the Netherlands due to the transfer of medical expenses business to a third party at the end of 1991. The underwriting result improved to a loss of £113.6m (1991 loss £120.6m), reflecting an improved result in the United States and slightly better results in the United Kingdom and the Netherlands.
- Investment income amounted to £64.3m (1991 £69.0m) after charging external loan interest of £10.8m (1991 £11.5m) and the costs of our non-insurance activities of £1.6m (1991 £2.5m). The underlying decrease of 5 per cent. reflected lower interest rates and depressed cash flow which has not yet benefited from increased premium volumes.
- The loss attributable to shareholders was £8.7m (1991 profit £10.5m). This is after a tax charge of £3.8m (1991 credit £5.0m) and realised investment gains of £14.4m (1991 £30.2m).
- Shareholders' funds at 31 March 1992, which do not include the value of a substantial part of our life operations, were slightly lower at £1,185m (31 December 1991 £1,210m).
- Over the last five years to 31 March 1992, pre-tax investment gains have averaged £43m per annum.

UNITED KINGDOM

	1992 £m	1991 £m	Underlying increase %
Life premium income	109.3	92.6	18
General insurance premium income	363.9	287.5	26
Life profits	11.0	10.3	
Non-life operating result	(13.9)	(24.7)	
Operating loss before taxation	(2.9)	(14.4)	

- Life profits increased by 5 per cent. to £11.0m. There was good growth in life premiums with new annual premiums increasing by 15 per cent. reflecting higher sales of mortgage and pension products. New single premiums increased by 67 per cent., principally due to the successful launch of our With-Profits Classic Investment Bond.
- General insurance results are starting to benefit from management actions and increased premium rates and the underwriting loss reduced to £54.1m from £58.4m last year. Weather claims were lower and subsidence claims reduced to £5m

(1991 £9m) but recession-related claims continued at a high level. Theft claims were 37 per cent. higher at £27m and mortgage guarantee underwriting losses were £4.5m (1991 loss £1.7m). London market marine business, which is accounted for on the three year basis, produced an underwriting loss of £13.0m (1991 loss £4.0m).

- General insurance premium rates continue to rise with significant increases being achieved in most classes. We are obtaining growth in selected areas whilst maintaining strict underwriting standards.

CONTINENTAL EUROPE

NETHERLANDS

	1992 £m	1991 £m	Underlying increase %
Life premium income	217.1	162.4	29
General insurance premium income	69.2	97.2	(32)
Life profits	14.2	14.1	
Non-life operating result	1.9	1.3	
Operating profit before taxation	16.1	15.4	

- Delta Lloyd, our subsidiary in the Netherlands, achieved another good result despite a difficult general insurance trading environment.
- There was strong growth in life premiums, in part due to a successful marketing campaign for individual business. Life profits were constrained by new business growth.
- After allowing for the transfer of our medical expenses portfolio to a third party at the end of 1991, there was a 3 per cent. increase in general insurance premium income, reflecting a selective approach to underwriting.
- Investment income was 16 per cent. lower after adjusting for exchange rates at £7.4m (1991 £8.6m) reflecting the portfolio transfer of medical expenses business at the end of last year. The underwriting result benefited from fewer large fire claims.

OTHER EUROPEAN TERRITORIES

	1992 £m	1991 £m	Underlying increase %
Life premium income	77.6	56.3	33
General insurance premium income	91.4	80.9	16
Life profits	0.5	1.0	
Non-life operating result	(13.9)	(9.0)	
Operating loss before taxation	(13.4)	(8.0)	

- There was strong life premium growth from France, Spain and Italy, where we benefited from the successful development of distribution channels. Annual premiums increased by 34 per cent. and single premiums by 37 per cent. in underlying terms.
- Life profits were lower due to new business growth.
- The general insurance result continued to suffer from severe competition and poor claims experience particularly in France and Germany. Significant expense reduction programmes have been introduced along with measures to improve underlying experience including the cancellation of unprofitable business.

NORTH AMERICA

UNITED STATES

	1992 £m	1991 £m	Underlying increase %
Life premium income	33.6	36.2	(7)
General insurance premium income	227.9	204.7	11
Life profits	1.5	0.9	
Non-life operating result	10.3	2.3	
Operating profit before taxation	11.8	3.2	

- The increased profit reflected the continued benefits of management actions and lower catastrophe claims.
- The increase in general insurance premiums reflected growth in targeted market sectors and the acquisition of the marine book of business from Crum & Forster. Rate increases of 7 per cent. were achieved in personal lines although intense competition restricted commercial lines increases to under 1 per cent.
- Involuntary business had a smaller effect on results, as a consequence of our strategy of reducing involuntary auto premiums in Massachusetts. Involuntary business accounted for 7 per cent. (1991 11 per cent.) of premiums and added 2.2 percentage points (1991 3.2pp) to the overall statutory operating ratio.
- Claims arising from the recent riots in Los Angeles are expected to be insignificant as we have a very low exposure to California.
- Life profits increased to £1.5m (1991 £0.9m). Life premiums were lower due to a more cautious market for annuity business.

CANADA

	1992 £m	1991 £m	Underlying increase %
Life premium income	16.6	10.3	65
General insurance premium income	32.3	36.4	(9)
Life profits	(0.2)	0.2	
Non-life operating result	(2.1)	0.2	
Operating (loss)/profit before taxation	(2.3)	0.4	

- There was strong growth in life premiums following increased marketing efforts. Life profits were affected by the resulting new business growth.
- The general insurance result was affected by continuing intense competition, particularly in commercial lines, and a reduction in investment income reflecting lower interest rates and adverse cash flow.
- General insurance premiums were lower due to our cautious position on Ontario motor business and our firm stance on implementing rate increases in other lines.

OVERSEAS

	1992 £m	1991 £m	Underlying increase %
Life premium income	0.2	0.3	—
General insurance premium income	30.8	27.2	10
Life profits	—	—	
Non-life operating result	2.9	1.2	
Operating profit before taxation	2.9	1.2	

- The increased profit was mainly due to a better result from our associated company in Australia, which benefited from measures to improve the quality of the insurance portfolio and lower catastrophe claims.
- There was an improved result from the Near East, which includes the Arabian Gulf and Turkey, although this was partly offset by difficult trading conditions in the Far East.

GROUP REINSURANCE RETENTIONS

- These consist of certain reinsurance covers which are retained by the Group rather than being placed with third parties.
- The operating loss before taxation of £2.3m (1991 loss £2.4m) reflected the difficult trading conditions in general insurance markets.

CENTRAL FINANCING CHARGES

- Central financing charges amounted to £29.1m (1991 £19.6m).
- Central financing includes intra-group loans and external borrowings not specifically allocated to territories.

UNDERWRITING RESULT

- The analysis of the underwriting result by territory was as follows:—

	1992 £m	1991 £m
United Kingdom		
Continental Europe — Netherlands	(54.1)	(58.4)
— Other territories	(5.5)	(7.3)
North America — United States	(19.6)	(14.9)
— Canada	(19.5)	(26.6)
Overseas	(8.0)	(6.4)
Group reinsurance retentions	(1.9)	(2.3)
	(5.0)	(4.7)
	(113.6)	(120.6)

RATES OF EXCHANGE

- Changes in rates of exchange during the last 12 months had a small beneficial effect on the loss before taxation. The pre-tax loss for the three months to 31 March 1991 of £24.2m would have been £23.8m at current rates of exchange.
- Published figures have been converted at the following rates of exchange:—

	31 March 1992	31 March 1991
Netherlands florin	3.22	3.35
United States dollar	1.74	1.74
Canadian dollar	2.07	2.02