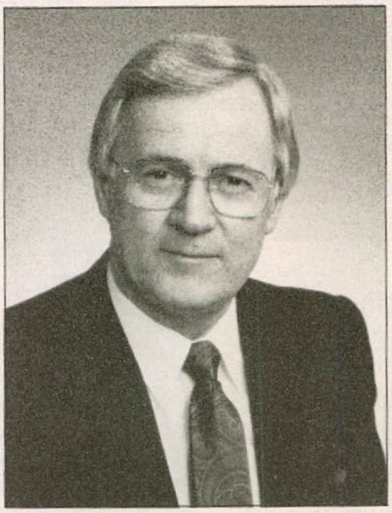
Avco
Financial
Services
Canada
Limited

Avco Financial Services
Subsidiary of Textron Inc.

1989 Annual Report

THE PRESIDENT'S MESSAGE



Don A. Morrison
President

Avco Financial Services Canada Limited continued its strong record of growth and performance in 1989, resulting in its fifth consecutive year of net earnings improvement, despite a less than favourable interest rate environment. Net earnings for 1989 were a record high of $24.8 million. Net earnings from operations, excluding the unusual foreign exchange gain recognized in 1988, were up $3.3 million, an increase of 16.1 percent.

The increase in earnings was due to an increase in the level of receivables outstanding in 1989, offset in part by the increase in our average cost of funds from 11.11% in 1988 to 11.49% in 1989.

We are entering 1990 with confidence in our ability to continue the record of growth and profitability. By investing in the company's future success we have built a strong market position. This investment includes the development and company-wide roll-out during the next two years of a branch computer system, which will allow us to better service our customers and give us the ability to expand.

Our true competitive advantage, however, continues to be our people. They are dedicated, creative and resourceful. Their collective strength, and our unwavering commitment to our Quality culture, will continue to provide the catalyst for exceptional results.

Don Morrison

CONSOLIDATED HIGHLIGHTS
For the Five Years Ended December 31

Thousands of dollars	**1989**	1988	1987	1986	1985
NET EARNINGS	**$ 24,778**	$ 24,655	$ 17,955	$ 17,390	$ 13,481
RECEIVABLES OUTSTANDING					
Consumer loans	**$453,748**	$432,107	$374,493	$327,928	$281,979
Real estate	**301,666**	283,404	257,209	245,464	249,806
Sales finance	**201,017**	184,787	144,977	130,150	88,077
Other receivables	**4,685**	4,672	4,516	4,814	4,426
Total	**$961,116**	$904,970	$781,195	$708,356	$624,288
VOLUME OF BUSINESS					
Consumer loans	**$268,641**	$284,613	$257,740	$224,116	$187,714
Real estate	**112,872**	114,474	101,847	93,981	80,212
Sales finance	**348,449**	316,487	273,582	250,416	184,852
Other receivables	**1,516**	1,832	945	1,882	1,212
Total	**$731,478**	$717,406	$634,114	$570,395	$453,990
NUMBER OF BRANCH OFFICES	**254**	254	242	231	226
OTHER SIGNIFICANT DATA					
Shareholders' equity	**$144,434**	$131,048	$116,666	$107,308	$145,251
Total lines of credit	**$201,323**	$166,300	$195,000	$146,098	$135,000
Commercial paper coverage	**110%**	105%	106%	101%	107%
Average cost of borrowed funds	**11.49%**	11.11%	10.49%	10.96%	11.43%
Allowance for losses as a percentage of net receivables outstanding	**3.50%**	3.50%	3.70%	3.97%	4.31%
Net credit losses as a percentage of average net receivables outstanding	**1.17%**	1.08%	1.16%	0.89%	1.26%
Other operating expenses as a percentage of revenues	**34.76%**	34.23%	34.26%	35.04%	36.62%

AUDITORS' REPORT

The Shareholders,
Avco Financial Services Canada Limited

We have examined the consolidated statement of financial position of Avco Financial Services Canada Limited as at December 31, 1989 and 1988 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1989 and 1988 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Ernst & Young

Chartered Accountants

London, Canada
February 9, 1990

CONSOLIDATED EARNINGS

Thousands of dollars, year ended December 31,	**1989**	1988
REVENUES		
Interest, discount and service charges	**$212,541**	$185,189
Insurance premiums	**6,759**	5,644
Investment income	**4,933**	4,462
Other revenues	**2,238**	2,086
Total revenues	**226,471**	197,381
EXPENSES		
Interest and debt expense		
Interest on long-term note debt	**69,979**	61,012
Amortization of long-term note debt financing costs	**1,752**	1,574
Interest on short-term note debt	**15,273**	10,854
Total interest and debt expense	**87,004**	73,440
Provision for losses on collection of receivables, less recoveries	**12,661**	11,476
Insurance losses and adjustment expenses	**3,352**	3,342
Other operating expenses	**78,718**	67,567
Gain on foreign exchange		(6,427)
Total expenses	**181,735**	149,398
Earnings before income taxes	**44,736**	47,983
Income taxes	**19,958**	23,328
NET EARNINGS	**$ 24,778**	$ 24,655

See accompanying notes.

CONSOLIDATED RETAINED EARNINGS

Thousands of dollars, year ended December 31,	**1989**	1988
Balance at beginning of year	**$108,049**	$ 93,667
Net earnings	**24,778**	24,655
Cash dividend	**(11,392)**	(10,273)
Balance at end of year	**$121,435**	$108,049

See accompanying notes.

CONSOLIDATED FINANCIAL POSITION

Thousands of dollars, December 31,	**1989**	1988
ASSETS		
Receivables (note 2)	**$ 961,116**	$904,970
Allowance for losses	**(33,639)**	(31,674)
	927,477	873,296
Investments (note 5)	**49,772**	47,216
Accrued interest, prepaid expenses and other receivables	**28,759**	20,817
Deferred income tax	**1,058**	1,144
Property and equipment, at cost (less accumulated depreciation and amortization: $3,032 in 1989 and $1,622 in 1988)	**13,728**	6,327
Cash	**478**	867
Other assets, net of amortization	**6,465**	7,499
TOTAL ASSETS	**$1,027,737**	$957,166
LIABILITIES		
Short-term note debt – unsecured – commercial paper (note 4)	**$ 183,645**	$158,070
Long-term note debt – unsecured (note 3)	**624,116**	595,668
	807,761	753,738
Accounts payable and accrued liabilities	**35,144**	35,124
Income taxes payable	**3,690**	3,783
Deferred insurance commissions	**1,238**	1,259
Insurance provisions and claims		
Unearned premiums	**22,565**	20,944
Provision for outstanding claims	**12,905**	11,270
Total liabilities	**883,303**	826,118
SHAREHOLDERS' EQUITY		
Common share capital (note 6)	**16,788**	16,788
Additional paid-in capital	**6,211**	6,211
Retained earnings	**121,435**	108,049
Total shareholders' equity	**144,434**	131,048
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$1,027,737**	$957,166

See accompanying notes.

On behalf of the Board

W.A. Barrett
Director

D.A. Morrison
Director

CHANGES IN CONSOLIDATED FINANCIAL POSITION

Thousands of dollars, year ended December 31,	1989	1988
OPERATING ACTIVITIES		
Net earnings	$ 24,778	$ 24,655
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for losses on receivables	16,651	15,706
Depreciation and amortization of property and equipment and other assets	3,441	2,234
Increase in provision for outstanding claims	1,635	1,347
Decrease in deferred income taxes	86	1,986
Increase (decrease) in accrued interest payable	(1,219)	5,797
Increase in accrued interest receivable	(1,307)	(1,994)
Gain on foreign exchange		(6,427)
	44,065	43,304
Changes in non-cash operating accounts:		
Increase in unearned insurance premiums	1,621	3,393
Increase (decrease) in accounts payable and accrued liabilities	1,239	(466)
Decrease in deferred insurance commissions	(21)	(234)
Increase (decrease) in income taxes payable	(93)	7,615
Increase in other assets, prepaid expenses and other receivables	(7,587)	(2,432)
	39,224	51,180
FINANCING ACTIVITIES		
Proceeds from issuance of long-term note debt	104,000	241,400
Increase (decrease) in short-term note debt	25,575	(26,121)
Cash dividend	(11,392)	(10,273)
Repayment of long-term note debt	(75,552)	(111,941)
Unrealized loss on foreign exchange		(417)
	42,631	92,648
INVESTING ACTIVITIES		
Additional funds advanced on receivables	(731,478)	(717,406)
Principal collections on receivables	663,524	586,510
Increase in investments	(2,556)	(5,673)
Bulk purchases of receivables	(2,878)	(5,815)
Purchases of property and equipment (net)	(8,856)	(3,651)
	(82,244)	(146,035)
Net decrease in cash	(389)	(2,207)
Cash at beginning of year	867	3,074
Cash at end of year	$ 478	$ 867

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1989 and 1988

NOTE 1: SUMMARY OF ACCOUNTING POLICIES

The following represent the significant accounting policies used in the preparation of the consolidated financial statements.

(a) Basis of presentation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries.

(b) Receivables

Interest ceases to be accrued when an account is contractually past due more than 90 days. Thereafter, interest income is recognized on a cash basis only.

It is generally the Company's policy to write off accounts monthly when they are deemed uncollectible, but in any event, except for real estate secured loans, all accounts for which no payment has been received for eight consecutive months are written off. The Company charges against current earnings as a provision for losses on receivables such amounts as management believes to be adequate.

(c) Deferred insurance commissions

The entire amount of insurance commissions received from carriers is deferred and credited to earnings over the life of the related insurance contracts on a basis consistent with the premium recognition method as described in (i) on the following page.

(d) Deferred income taxes

Income taxes are provided on the basis of accounting income which differs from taxable income on which income taxes are currently payable as a result of timing differences principally relating to the allowance for losses and deferred development costs.

(e) Foreign exchange

Assets and liabilities denominated in foreign currency have been translated at the closing rates on the balance sheet date. Income and expense accounts have been translated at the average rates prevailing during the respective years. The resulting gain or loss from translation has been reflected in earnings.

(f) Property and equipment

Property and equipment are stated at cost. The Company calculates depreciation and amortization on a straight-line basis at the following rates, which are estimated to fully depreciate the cost over the estimated useful lives of the following principal assets: business machines – 5 years; computer hardware and software – 5 years; furniture and fixtures – 8 years; leasehold improvements – 8 years and signs – 15 years.

Cost and accumulated depreciation or amortization are removed from the accounts at the time of disposal. Any resulting gain or loss is included in net earnings of the current period.

(g) Other assets

Other assets consist of (1) intangibles recognized in the acquisition of subsidiaries (all prior to 1974) which are being amortized on a straight-line basis over 25 years, (2) debt financing costs which are amortized on a straight-line basis over the terms of the respective debt issues, and (3) deferred development costs relating to the external costs of designing and developing a branch office computer system which are amortized on a straight-line basis over 5 years.

(h) Deferred loan fees and origination costs

Loan fees and origination costs are amortized to earnings over the respective terms of the applicable lending periods. At December 31, 1989 and 1988 the Company had no deferred loan fees or origination costs.

(i) Insurance subsidiary

The following are the significant accounting policies followed by the Company's insurance subsidiary for purposes of these consolidated financial statements:

(i) Unearned premiums

Unearned insurance premiums represent the portion of premiums written which is determined to be unearned on the balance sheet date. These unearned premiums are taken into earnings over the life of the policies in the following manner: (1) for accident and sickness insurance in relationship to anticipated claims and (2) for property and casualty insurance on a straight-line basis.

Certain costs of acquiring new business, principally commissions and premium taxes, are deferred and are charged to expense in the same manner as the related premiums are taken into earnings.

(ii) Provisions for outstanding claims

Provisions are made for losses and adjustment expenses, as claims are reported, based on estimates of the probable ultimate liability, and are adjusted for subsequent developments. Provisions are also made for estimated losses incurred but not reported. The provisions are net of estimated reinsurance recoverable.

NOTE 2: RECEIVABLES

Thousands of dollars, December 31,	**1989**	1988
Consumer loans	**$453,748**	$432,107
Real estate	**301,666**	283,404
Sales finance	**201,017**	184,787
Other	**4,685**	4,672
	$961,116	$904,970

The terms of the Company's receivables generally require repayment in equal monthly instalments. The maximum term over which consumer loan accounts are written is 60 months. However, approximately 96 percent of the dollar amount of consumer loan accounts are written with terms of 48 months or less.

Real estate loans are written for amortization periods of up to 25 years, however, substantially all of these loans have a term of, or are callable by the Company after, not more than 5 years.

Sales finance includes retail instalment contracts with average written terms of 8 months and Revolving Charge accounts.

NOTE 3: LONG-TERM NOTE DEBT

Thousands of dollars, December 31,	1989	1988
Due in Canadian Funds		
9.500% notes due March 1993 (a)	$ 741	$ 793
10.000% notes due February 1993	1,000	1,000
10.000% notes due March 1993	3,600	3,600
10.125% notes due February 1993	5,000	5,000
10.125% notes due March 1993	10,000	10,000
10.200% notes due March 1993	3,000	3,000
10.250% notes due July 1992	75,000	75,000
10.460% notes due June 1991	10,000	10,000
10.500% notes due July 1991	3,000	3,000
10.500% notes due June 1994	5,000	
10.560% notes due November 1991	5,000	5,000
10.625% notes due June 1994	1,000	
10.650% notes due November 1991	5,000	5,000
10.650% notes due June 1994	5,000	
10.750% notes due April 1991	60,000	60,000
10.800% notes due September 1993	5,000	5,000
10.850% notes due November 1991	4,000	4,000
10.850% notes due February 1994	1,000	
10.875% notes		3,000
10.875% notes due May 1994	12,000	
10.875% notes due June 1994	5,000	
10.900% notes due November 1991	6,500	6,500
11.000% notes due January 1993	100,000	100,000
11.000% notes due August 1993	75,000	75,000
11.000% notes due May 1994	75,000	
11.050% notes due September 1993	1,800	1,800
11.050% notes due October 1993	1,500	1,500
11.080% notes due October 1993	1,000	1,000
11.100% notes due December 1990	1,000	1,000
11.380% notes due September 1993	1,000	1,000
11.625% notes due October 1992	75,000	75,000
12.000% notes		5,000
12.000% notes due May 1990	50,000	50,000
12.250% notes		7,500
12.300% notes		2,000
12.750% note due April 1990	1,000	1,000
12.750% notes due May 1990	15,975	15,975
13.000% notes		8,000
13.000% notes		50,000
Total long-term note debt	$624,116	$595,668

(a) Subject to sinking fund provision.

Long-term note debt is Senior debt and is unconditionally guaranteed by Avco Financial Services, Inc.

The maturities and sinking fund obligations on long-term note debt for the five years subsequent to December 31, 1989 and thereafter are as follows: 1990 – $68,025,000; 1991 – $94,550,000; 1992 – $150,050,000; 1993 – $206,950,000; and 1994 – $104,541,000.

NOTE 4: INTEREST RATE AGREEMENTS

The Company has entered into interest rate agreements which, commencing November 1, 1989 and maturing October 31, 1992, effectively fixes the rate at 10.48% on $50,000,000 of variable rate short-term note debt, thereby allowing the Company to issue short-term note debt without being exposed to the effects of varying interest rates. At December 31, 1989 the weighted average of the floating rate exceeded the fixed rate on the agreements by approximately 1.9%.

The Company has also entered into an interest rate agreement for $15,000,000, commencing May 1, 1990, with similar terms.

NOTE 5: INVESTMENTS AT COST

Thousands of dollars, December 31,	**1989**	1988
Short-term notes	**$ 2,312**	$ 12,550
Bonds (market value: $31,280 in 1989 and $21,695 in 1988)	**31,510**	22,150
Stocks (market value: $16,821 in 1989 and $12,820 in 1988)	**15,909**	12,468
Mortgages	**41**	48
	$ 49,772	$ 47,216

NOTE 6: SHARE CAPITAL

Thousands of dollars, December 31,	**1989**	1988
Common shares		
Authorized - 2,000,000 shares		
Issued -		
December 31, 1989 and 1988		
- 1,670,382 3/4 shares	**$16,788**	$16,788

Avco Financial Services, Inc., a United States company, owns in excess of 99.9% of the issued common shares. The ultimate parent company is Textron Inc., a United States company.

NOTE 7: LEASE COMMITMENTS

The Company's executive office is occupied under a long-term lease expiring in 1999 at an annual rental of approximately $613,000. The branch office locations are occupied under leases having terms generally not in excess of five years at annual rentals of approximately $3,094,000. Vehicles are leased over terms generally not in excess of three years at annual rentals of approximately $1,282,000.

The total net rental obligations at December 31, 1989 under all leases are as follows: 1990 - $4,989,000; 1991 - $4,022,000; 1992 - $2,929,000; 1993 - $1,953,000; 1994 - $1,037,000; 1995 and thereafter - $2,834,000. Rent expense charged to earnings for the years ended December 31, 1989 and 1988 amounted to $6,250,000 and $5,555,000, respectively.

NOTE 8: OPERATIONS BY INDUSTRY SEGMENT

The following is a summary of revenues, operating profit and identifiable assets by industry segment.

Thousands of dollars, year ended December 31,	**1989**	1988
Revenues		
Financial Services	**$ 215,194**	$187,631
Insurance Services	**11,277**	9,750
Total	**$ 226,471**	$197,381
Operating profit		
Financial Services	**$ 40,720**	$ 37,597
Insurance Services	**4,016**	3,959
Total	**$ 44,736**	$ 41,556
Identifiable assets		
Financial Services	**$ 978,943**	$912,749
Insurance Services	**52,496**	47,829
Intercompany eliminations	**(3,702)**	(3,412)
Total	**$1,027,737**	$957,166

Operating profit by industry segment represents total revenues less operating expenses before gain on foreign exchange (1988 – $6,427,000) in Financial Services, and income taxes.

Insurance Services include investments of $48,826,000 and $46,171,000 at December 31, 1989 and 1988, respectively. These investments are subject to government regulation which controls the type of investments permitted, and are not interchangeable with other assets of the Company.

Rules prescribed by the Office of the Superintendent of Financial Institutions with respect to capital requirements for the Company's insurance subsidiary and certain provisions of the Canadian and British Insurance Companies Act (Canada) have the effect of restricting the amount of dividends which the subsidiary is permitted to pay in any year. Retained earnings at December 31, 1989 and 1988 includes the accumulated net earnings of the insurance subsidiary of $5,893,000 and $5,050,000, respectively.

NOTE 9: SUPPLEMENTAL INFORMATION

Amounts paid for administrative services (to the parent company) deducted in arriving at net earnings for the years ended December 31, 1989 and 1988 amounted to $2,069,000 and $1,195,000, respectively. Amounts received for administrative services (from certain affiliates) included in arriving at net earnings for the years ended December 31, 1989 and 1988 amounted to $99,000 and $157,000, respectively.

SENIOR OFFICERS AND DIRECTORS

AVCO FINANCIAL SERVICES CANADA LIMITED

\+ W.A. Barrett: Director (Executive Vice President and President International Finance Operations, Avco Financial Services, Inc.)

D.A. Morrison: President and Director

\+ J.F. Robinson, F.C.A.: Director (President, XYLAN Inc.)

\+ Colonel L.F. Stevens, F.C.A.: Director (Financial Consultant)

D.M. Hughes: Senior Vice President and Director

A.J. Smith-Windsor: Senior Vice President, General Manager of London and Midland General Insurance Company and Director

L.R. Guest: Vice President and Secretary

R.J. Columbus: Vice President

J.G. Comrie: Vice President and Treasurer

W.H.S. Cox: Vice President

K.G. Lawrence: Vice President (Insurance)

J.P. Low: Vice President

A.W. Miles: Vice President (Insurance)

J.N. Moore: Vice President

W.B. O'Dell: Vice President

D.J. Sadler: Vice President

H.A. Vanden Heuvel: Vice President and Controller

\+ Member of the Audit Committee

BANKS EXTENDING LINES OF CREDIT

Bank of Montreal – Toronto, Ontario
The Bank of Nova Scotia – Toronto, Ontario
Canadian Imperial Bank of Commerce – London, Ontario
The Royal Bank of Canada – Toronto, Ontario
Toronto-Dominion Bank – London, Ontario
National Westminster Bank of Canada – Toronto, Ontario
Dresdner Bank – Los Angeles, California
Morgan Guaranty Trust Compnay – New York, New York
Swiss Bank Corp. – Los Angeles, California

COMMERCIAL PAPER

Avco Financial Services Canada Limited is a direct issuer of commercial paper. Short-term notes may be purchased on any business day and are available to investors on either a discount or interest bearing basis in minimum denominations of $100,000 for terms of 1 to 365 days. All commercial paper is senior debt of the Company and is unconditionally guaranteed by Avco Financial Services, Inc.

Same day delivery can be made to investors through an issuing agent bank in Montreal, New York, Toronto, London, Winnipeg, Saskatoon, Calgary, Edmonton and Vancouver. For rates and information please contact the Company's Treasury Department office. Toronto area: 1-800-265-7953; Toronto direct line: 364-4773; and London (collect): 519-672-4220.

Credit Agency Ratings:	Commercial Paper	Long-term Debt
Dominion Bond Rating Service	R-1	A
Canadian Bond Rating Service	A-1	A