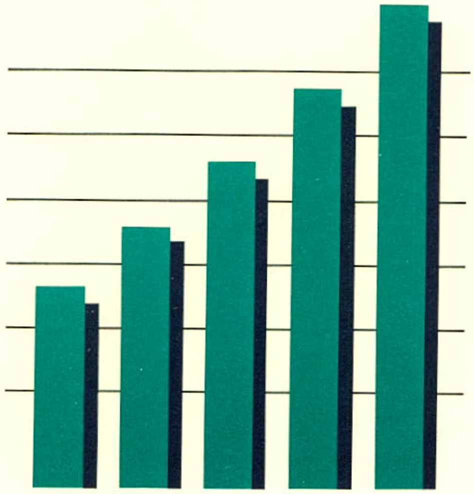
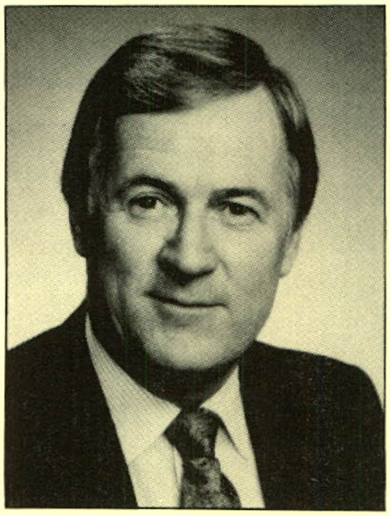
ANNUAL REPORT
1987



Avco

Avco Financial Services Canada Limited

THE PRESIDENT'S MESSAGE



D. A. Morrison
President

1987 was another excellent year for Avco Financial Services Canada Limited.

Our company registered record-high net earnings for the third successive year, reporting profits of $17.5 million.

Revenues were up 10.1%, from $158.1 million in 1986 to $174.1 million in 1987; and, the receivable base grew $72.8 million, an increase of 10.3%.

Our portfolio mix now consists of 48% in Consumer Loans, 33% in Real Estate Loans and 19% in Retail Installment Sales and Revolving Charge.

Since 1983, our premier product, Consumer Loans, has experienced 55 consecutive months of growth, a remarkable performance that has helped us more than double that portfolio.

We are extremely proud of our achievements and attribute our results to the total commitment and effort of our employees. A participative management style and the nurturing of a culture that allows each individual to grow personally and contribute to the maximum level of their abilities is the key to our success.

At the heart of our culture, guiding the actions of each person are our core values:

- Total commitment and effort
- Outstanding customer service
- Respect for each other as employees
- Attractive returns to our shareholders

Practice of these four values creates an employee attitude that ensures corporate goals are achieved in a positive work environment.

In 1987, we also introduced a Service Management Process. We are dedicated to providing our customers with the best service in the industry. The goal of the Service Management Process is to meet the needs and exceed each customer's expectations.

We are excited about the future and look forward to 1988 as a year of expansion, growth and enhanced earnings.

Don Morrison

CONSOLIDATED HIGHLIGHTS
For the Five Years Ended

	December 31			November 30	
Thousands of dollars	1987	1986	1985	1984	1983
NET EARNINGS					
Earnings from operations, after taxes	**$ 19,435**	$ 18,454	$ 15,042	$ 9,254	$ 9,530
Loss on foreign exchange, after taxes	**98**	1,503	1,418	253	1,431
Loss on prepayment of long-term Note debt, after taxes	**1,873**				
Net earnings	**$ 17,464**	$ 16,951	$ 13,624	$ 9,001	$ 8,099
RECEIVABLES OUTSTANDING					
Consumer loans	**$374,493**	$327,928	$281,979	$230,676	$188,704
Real estate	**257,209**	245,464	249,806	341,860	389,280
Sales finance	**144,977**	130,150	88,077	63,260	30,850
Other receivables	**4,516**	4,814	4,426	10,301	12,318
Total	**$781,195**	$708,356	$624,288	$646,097	$621,152
VOLUME OF BUSINESS					
Consumer loans	**$257,740**	$224,116	$187,714	$156,397	$116,872
Real estate	**101,847**	93,981	80,212	107,915	168,419
Sales finance	**273,582**	250,416	184,852	138,098	42,355
Other receivables	**945**	1,882	1,212	10,110	5,566
Total	**$634,114**	$570,395	$453,990	$412,520	$333,212
NUMBER OF BRANCH OFFICES	**242**	231	226	235	237
OTHER SIGNIFICANT DATA					
Shareholders' equity	**$111,375**	$102,508	$140,890	$169,180	$161,173
Total lines of credit	**$195,000**	$146,098	$135,000	$105,000	$115,000
Commercial paper coverage	**106%**	101%	107%	154%	222%
Average cost of borrowed funds	**10.49%**	10.96%	11.43%	11.54%	10.54%
Allowance for losses as a percentage of net receivables outstanding	**3.70%**	3.97%	4.31%	4.38%	4.16%
Net credit losses as a percentage of average net receivables outstanding	**1.25%**	1.19%	1.89%	1.59%	3.24%
Other operating expenses as a percentage of revenues	**34.06%**	34.05%	33.96%	34.71%	34.30%

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, 1987 and the consolidated statements of earnings, shareholders' equity and changes in financial position for the year then ended. Our examination was 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, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Young, Clarkson, Gordon & Co.

Chartered Accountants

London, Canada
February 12, 1988

CONSOLIDATED FINANCIAL POSITION

Thousands of dollars, December 31,	1987	1986
ASSETS		
Cash	$ 3,074	$ 5,586
Receivables (less unearned charges: $6,868 in 1987 and $9,343 in 1986) (note 2)	781,195	708,356
Allowance for losses	(28.904)	(28,154)
	752,291	680,202
Investments (note 3)	41,543	29,645
Prepaid expenses and other receivables	9,009	13,102
Deferred income taxes	8,758	12,200
Income taxes recoverable	3,832	
Property and equipment, at cost (less accumulated depreciation and amortization: $15,984 in 1987 and $15,098 in 1986)	3,303	2,817
Other assets, net of amortization	5,569	3,377
TOTAL ASSETS	$827,379	$746,929
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term Note debt - unsecured - commercial paper	$184,191	$144,604
Accounts payable and accrued liabilities	29,793	28,539
Income taxes payable		3,948
Deferred insurance commissions	1,493	2,116
Insurance provisions and claims		
Unearned premiums	17,551	6,167
Provision for outstanding claims	9,923	4,409
Unrealized gain (loss) on foreign exchange (less accumulated amortization: $6,780 in 1987 and $16,505 in 1986)	1,103	(7,439)
Long-term Note debt - unsecured (notes 4 and 9)	471,950	462,077
Total liabilities	716,004	644,421
SHAREHOLDERS' EQUITY		
Share capital (note 5)		
Preference		563
Common	16,788	16,788
Additional paid-in capital	6,211	6,211
Retained earnings	88,376	78,946
Total shareholders' equity	111,375	102,508
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$827,379	$746,929

See accompanying notes.

Will Barrett Jr. Don Morrison

On behalf of the Board

W.A. Barrett
Director

D.A. Morrison
Director

CONSOLIDATED EARNINGS

Thousands of dollars, year ended December 31,	**1987**	1986
REVENUES		
Interest, discount and service charges	**$163,290**	$147,839
Insurance premiums	**4,846**	4,606
Investment income	**3,820**	3,581
Other revenues	**2,106**	2,095
Total revenues	**174,062**	158,121
EXPENSES		
Interest and debt expense		
Interest on long-term Note debt	**49,213**	44,321
Amortization of long-term Note debt financing costs	**1,133**	874
Interest on short-term Note debt	**12,771**	10,138
Total interest and debt expense	**63,117**	55,333
Provision for losses on collection of receivables, less recoveries	**9,710**	8,902
Insurance losses and adjustment expenses	**3,043**	3,177
Other operating expenses	**59,284**	53,847
Loss on foreign exchange	**199**	3,106
Loss on prepayment of long-term Note debt	**3,824**	
Total expenses	**139,177**	124,365
Earnings before income taxes	**34,885**	33,756
Income taxes	**17,421**	16,805
NET EARNINGS	**$ 17,464**	$ 16,951

See accompanying notes.

Thousands of dollars, year ended December 31,					**1987**	1986
	Preference shares	Common shares	Additional paid-in capital	Retained earnings	**Total**	Total
Balance at beginning of year	$ 563	$ 16,788	$ 6,211	$ 78,946	**$102,508**	$140,890
Net earnings				17,464	**17,464**	16,951
Preference share purchases and redemptions	(563)				**(563)**	(10)
Cash dividends paid on common shares				(8,018)	**(8,018)**	(55,292)
Cash dividends paid on preference shares				(16)	**(16)**	(31)
Balance at end of year	$ 0	$ 16,788	$ 6,211	$ 88,376	**$111,375**	$102,508

See accompanying notes.

CHANGES IN CONSOLIDATED FINANCIAL POSITION

Thousands of dollars, year ended December 31,	1987	1986
OPERATING ACTIVITIES		
Net earnings	$ 17,464	$ 16,951
Items not requiring (providing) cash		
Provision for losses on receivables	13,444	13,240
Increase in provision for outstanding claims	5,514	289
Decrease in deferred income taxes	3,442	2,248
Depreciation and amortization of property and equipment and other assets	2,052	1,709
Amortization of unrealized loss on foreign exchange	299	2,571
Loss on disposal of property and equipment		20
	42,215	37,028
Changes in non-cash operating accounts		
Increase in unearned insurance premiums	11,384	91
Increase (decrease) in accounts payable and accrued liabilities	1,254	(3,878)
Decrease in other assets	736	4,169
Decrease in deferred insurance commissions	(623)	(898)
Decrease in income taxes payable	(7,780)	(7,184)
	47,186	29,328
FINANCING ACTIVITIES		
Proceeds from issuance of long-term Note debt	151,000	112,756
Increase in short-term Note debt	39,587	18,624
Decrease in unrealized loss on foreign exchange	8,243	1,503
Cash dividends on preference shares	(16)	(31)
Redemption of preference shares	(563)	(10)
Cash dividend on common shares	(8,018)	(55,292)
Reduction of long-term Note debt	(141,127)	(12,220)
	49,106	65,330
INVESTING ACTIVITIES		
Additional funds advanced on receivables	(634,114)	(570,395)
Principal collections on receivables	551,015	478,593
Purchases of property and equipment (net)	(1,373)	(948)
Bulk purchases of receivables	(2,434)	(4,265)
Decrease (increase) in investments	(11,898)	4,348
	(98,804)	(92,667)
Net increase (decrease) in cash	(2,512)	1,991
Cash, beginning of year	5,586	3,595
Cash, end of year	$ 3,074	$ 5,586

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1987

NOTE 1: SUMMARY OF ACCOUNTING POLICIES

The following represent the significant accounting policies not disclosed elsewhere in 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, discount and service charges are recognized in revenues on the effective yield method. When charges are not included in the original face amount of the loan, the charges are recognized in revenues as collected. Unearned charges represent the portion of the interest charge or discount included in the original face amount of the related receivables which is determined to be unearned on the balance sheet date. The unearned charges are transferred to revenues on the accrual basis beginning in the month following acquisition.

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 methods used by the insurance carriers.

(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: interest income on interest bearing loans due but not yet collected, the allowance for losses, deferred development costs and unrealized foreign exchange gains or losses. The resulting deferred tax debit is shown separately as an asset in the accompanying statement of consolidated financial position.

(e) Foreign exchange

Assets and liabilities denominated in foreign currency have been translated at the closing rates in effect at each year end. 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 except for the amounts relating to long-term Note debt in which case it is the Company's practice to defer the translation gain or loss and to provide for the amortization of such deferred amount annually on a straight-line basis over the remaining term of each instalment payment of related long-term Note debt outstanding. The resulting unamortized translation gain or loss relating to long-term Note debt which has been deferred as a result of this practice is shown as an ''unrealized gain (loss) on foreign exchange'' in the accompanying statement of consolidated financial position.

At December 31, 1987 and 1986 assets of $3,355,000 and $2,259,000 respectively, and liabilities of $65,282,000 and $167,650,000 respectively, were represented by amounts to be settled in U.S. funds. The rates used at December 31, 1987 and 1986 were Can. $1 = U.S. $0.7695 and Can. $1 = U.S. $0.7241 respectively. For the years ended December 31, 1987 and 1986, U.S. dollar income and expense accounts have been translated at the average rate of Can. $1 = U.S. $0.7546 and Can. $1 = U.S. $0.7208 respectively.

(f) Other Assets

Other assets consist primarily 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 design and development of a branch office computer system which will be amortized on a straight-line basis over 5 years, commencing when the system becomes operational.

(g) 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 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.

(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,	1987	1986
Consumer loans	$374,493	$327,928
Real estate	257,209	245,464
Sales finance	144,977	130,150
Other	4,516	4,814
	$781,195	$708,356

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 installment contracts with average remaining terms of 6 months and Revolving Charge with average remaining terms of 67 months.

NOTE 3: INVESTMENTS AT COST

Thousands of dollars, December 31,	1987	1986
Short-term Notes	$ 10,400	$ 10,655
Bonds (market value: $17,590 in 1987 and $9,332 in 1986)	17,528	8,915
Stocks (market value: $13,417 in 1987 and $11,035 in 1986)	13,529	9,873
Mortgages	86	202
	$ 41,543	$ 29,645

NOTE 4: GUARANTEED LONG-TERM NOTE DEBT

Thousands of dollars, December 31,		1987	1986
Due in Canadian Funds			
9½%	Notes payable maturing March 1993 (a)	$ 908	$ 908
10⅛%	Notes payable (b)		21,000
10¼%	Notes payable maturing July 1992	75,000	
10¾%	Notes payable maturing April 1991	60,000	60,000
10⅞%	Notes payable maturing January 1989	3,000	3,000
11⅒%	Note payable maturing December 1990	1,000	
11⅝%	Notes payable maturing October 1992	75,000	
11¾%	Note payable maturing November 1988	500	500
12%	Note payable maturing January 1989	5,000	5,000
12%	Notes payable maturing May 1990	50,000	50,000
12⅛%	Notes payable		3,000
12¼%	Notes payable maturing February 1989	7,500	7,500
12³⁄₁₀%	Notes payable maturing January 1989	2,000	2,000
12¾%	Note payable maturing April 1990 (c)	1,000	1,000
12¾%	Notes payable maturing May 1990 (c)	15,975	15,975
13%	Notes payable		10,000
13%	Notes payable		5,000
13%	Notes payable maturing February 1988	50,000	50,000
13%	Note payable maturing September 1988	2,090	2,090
13%	Notes payable maturing February 1989	8,000	8,000
13%	Notes payable maturing November 1989	50,000	50,000
Total due in Canadian funds		406,973	294,973
Due in U.S. funds (See note 1 (e))			
Floating Rate Notes maturing December 1991 (U.S. $50,000) (d)		64,977	118,768
8⅜%	Notes payable (b)		27,620
9¾%	Notes payable (b)		20,716
Total due in U.S. funds (U.S. $50,000 and U.S. $121,000, respectively)		64,977	167,104
Total long-term Note debt		$471,950	$462,077

(a) Subject to sinking fund provision.

(b) Prepayment in December 1987 resulted in an unusual after-tax loss from foreign exchange and prepayment penalties of $1,873,000.

(c) Maturity extended from the original due date in 1987.

(d) Held by a subsidiary of Avco Financial Services, Inc. and bearing interest at 1¼% above the latter Company's cost of commercial paper borrowings in the United States. Interest of $226,000 has been accrued and is outstanding.

The maturities and sinking fund obligations on long-term Note debt for the five years subsequent to December 31, 1987 and thereafter are as follows: 1988 – $52,640,000; 1989 – $75,550,000; 1990 – $68,025,000; 1991 – $125,027,000; 1992 – $150,050,000; 1993 and thereafter – $658,000.

NOTE 5: SHARE CAPITAL

Thousands of dollars, December 31,	1987	1986
Preference shares		
5½% cumulative voting Class A preference shares redeemable at $100 per share		
Authorized and issued		
December 31, 1986 - 5,631 shares		$ 563
Common shares		
Authorized - 2,000,000 shares		
Issued -		
December 31, 1987 and 1986 - 1,670,382 ¾ shares	**$ 16,788**	$ 16,788

Effective May 15, 1987, the Company called for redemption the remaining 5,631 Class A preference shares at $100 per share plus accrued dividends.

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 6: 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 $2,717,000. Vehicles are leased over terms generally not in excess of three years at annual rentals of approximately $1,231,000.

The total net rental obligations at December 31, 1987 under all leases are as follows: 1988 - $4,561,000; 1989 - $4,030,000; 1990 - $3,177,000; 1991 - $1,770,000; 1992 and thereafter - $5,192,000. Rent expense charged to earnings for the years ended December 31, 1987 and 1986 amounted to $4,771,000 and $4,436,000 respectively.

NOTE 7: OPERATIONS BY INDUSTRY SEGMENT

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

Thousands of dollars, December 31,	1987	1986
Revenues		
Financial Services	**$165,899**	$150,760
Insurance Services	**8,163**	7,361
Total	**$174,062**	$158,121
Operating profit		
Financial Services	**$ 35,687**	$ 33,863
Insurance Services	**3,221**	2,999
Total	**$ 38,908**	$ 36,862
Identifiable assets		
Financial Services	**$788,518**	$723,912
Insurance Services	**41,720**	25,338
Intercompany eliminations	**(2,859)**	(2,321)
Total	**$827,379**	$746,929

Operating profit by industry segment represents total revenues less operating expenses before losses on foreign exchange ($199,000 in 1987 and $3,106,000 in 1986) and losses on prepayment of long-term Note debt in the financial services section ($3,824,000 in 1987) and income taxes. Capital expenditures and depreciation expenses were not material to the operation of the industry segments.

The insurance subsidiary's assets include investments of $40,518,000 and $23,616,000 at December 31, 1987 and 1986, 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, 1987 and 1986 includes the unremitted accumulated net earnings of the insurance subsidiary of $3,925,000 and $2,748,000, respectively.

NOTE 8: SUPPLEMENTAL INFORMATION

Amounts paid for administrative services (to the parent company) deducted in arriving at net earnings for years ended December 31, 1987 and 1986 amounted to $638,000 and $840,000 respectively. Amounts received for administrative services (from certain affiliates) included in arriving at net earnings for the years ended December 31, 1987 and 1986 amounted to $488,000 and $298,000 respectively.

NOTE 9: SUBSEQUENT EVENT

On January 28, 1988 the Company issued $100,000,000 11% Guaranteed Notes, maturing January 28, 1993. Funds received from issuance of these Notes were used to reduce short-term Note debt.

NOTE 10: COMPARATIVE AMOUNTS

Certain amounts for 1986 have been regrouped to conform with the financial statement presentation adopted for 1987.

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)

L.R. Guest: First Vice President, Secretary and Director

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

W.A. Carswell: Vice President

R.J. Columbus: Vice President

J.G. Comrie: Vice President and Treasurer

W.H.S. Cox: Vice President

J.G.F. Germond: Vice President

J.N. Moore: Vice President

M.G. Muir: 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
Banque Nationale de Paris (Canada) - Toronto, Ontario
The Chase Manhattan Bank of Canada - Toronto, Ontario
Citibank Canada - Toronto, Canada
Credit Lyonnais - Toronto, Ontario

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

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