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1980 Annual Report

AVCO
FINANCIAL SERVICES
CANADA LIMITED

Consolidated Highlights

For the Five Years Ended November 30, 1980

	1980	1979	1978	1977	1976
			(thousands of dollars)		
NET EARNINGS					
Earnings before following items	**$ 8,085**	$ 9,634	$ 11,864	$ 12,737	$ 12,350
Gain (loss) on foreign exchange	**631**	(2,114)	(2,528)	(1,461)	588
Net earnings	**$ 8,716**	$ 7,520	$ 9,336	$ 11,276	$ 12,938
VOLUME OF BUSINESS					
Consumer loans	**$217,774**	$ 246,261	$ 290,770	$ 267,659	$ 256,235
Retail instalment contracts	**117,977**	114,751	96,867	72,341	53,447
Total	**$335,751**	$ 361,012	$ 387,637	$ 340,000	$ 309,682
RECEIVABLES OUTSTANDING					
Consumer loans	**$519,929**	$ 518,286	$ 524,162	$ 501,679	$ 494,189
Retail instalment contracts	**66,943**	62,194	49,183	34,750	24,093
Total	**$586,872**	$ 580,480	$ 573,345	$ 536,429	$ 518,282
NUMBER OF BRANCH OFFICES	**323**	374	411	416	410
OTHER SIGNIFICANT DATA					
Shareholders' equity	**$143,162**	$ 135,736	$ 129,512	$ 139,263	$ 140,178
Total lines of credit	**$134,031**	$ 129,512	$ 160,650	$ 189,039	$ 87,392
Commercial paper coverage	**105%**	123%	120%	157%	205%
Average cost of borrowed funds	**10.71%**	10.16%	9.28%	8.91%	9.29%
Allowance for losses as a percentage of receivables outstanding	**4.78%**	4.50%	4.50%	4.50%	4.67%
Net credit losses as a percentage of average net receivables outstanding	**2.74%**	2.43%	1.95%	2.45%	2.39%
Operating expenses as a percentage of revenues	**36.83%**	37.46%	36.49%	36.17%	33.32%

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 November 30, 1980 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 November 30, 1980 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.

London, Canada
January 15, 1981

Arthur Young, Clarkson, Gordon & Co.
Chartered Accountants.

Consolidated Financial Position

November 30, 1980 and 1979	1980	1979
	(thousands of dollars)	
ASSETS		
Cash	$ 5,166	$ 1,619
Receivables (less unearned charges: $8,162,000 in 1980 and $7,533,000 in 1979) (note 2)	586,872	580,480
Allowance for losses	(28,027)	(26,115)
	558,845	554,365
Investments (note 3)	23,677	23,137
Prepaid expenses, income taxes recoverable and other receivables	9,151	11,180
Deferred income taxes	2,654	2,530
Property and equipment, at cost (less accumulated depreciation and amortization: $11,705,000 in 1980 and $11,407,000 in 1979)	4,048	3,692
Unrealized loss on foreign exchange (less accumulated amortization: $8,427,000 in 1980 and $6,709,000 in 1979)	10,028	11,097
Other assets, net of amortization	4,959	4,502
Intangible assets recognized in acquisitions, without amortization	805	805
TOTAL ASSETS	$ 619,333	$ 612,927
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term note debt — unsecured — commercial paper	$ 121,203	$ 98,681
Accounts payable and accrued liabilities	15,867	17,602
Income taxes payable	207	
Deferred insurance commissions	597	489
Long-term note debt — unsecured (note 4)	326,869	347,430
Insurance provisions and claims		
Unearned premiums	7,720	8,700
Provision for outstanding claims	3,708	4,289
Total liabilities	476,171	477,191
SHAREHOLDERS' EQUITY		
Share capital (note 5)		
Preference	1,271	1,513
Common	16,788	16,788
Additional paid-in capital	6,159	6,123
Retained earnings (note 7)	118,944	111,312
Total shareholders' equity	143,162	135,736
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 619,333	$ 612,927

See accompanying notes.

On behalf of the Board

R.D. Brazeau
Director

L.R. Guest
Director

Consolidated Earnings

For the Years Ended November 30, 1980 and 1979

	1980	1979
	(thousands of dollars)	
REVENUES		
Interest, finance and service charges	$ 121,259	$ 118,406
Insurance premiums	5,792	6,292
Investment income	2,714	2,632
Other revenues	1,509	1,812
Total revenues	131,274	129,142
EXPENSES		
Interest and debt expense		
Interest on long-term note debt	31,779	32,316
Amortization of long-term note debt financing costs	681	637
Interest on short-term note debt	15,471	12,561
Total interest and debt expense	47,931	45,514
Provision for losses on collection of receivables, less recoveries	17,364	14,395
Insurance losses and adjustment expenses	1,921	2,472
Other operating expenses	48,350	48,381
Total expenses	115,566	110,762
Earnings before income taxes and gain (loss) on foreign exchange	15,708	18,380
Income taxes	(7,623)	(8,746)
Earnings before gain (loss) on foreign exchange	8,085	9,634
Gain (loss) on foreign exchange (less income tax (credit): $685,000 in 1980 and ($2,139,000) in 1979)	631	(2,114)
NET EARNINGS	$ 8,716	$ 7,520

Consolidated Shareholders' Equity

For the Years Ended November 30, 1980 and 1979

	1980					1979
	Preference shares	Common shares	Additional paid-in capital	Retained earnings	Total	Total
	(thousands of dollars)					
Balance at beginning of year	$ 1,513	$ 16,788	$ 6,123	$ 111,312	135,736	$ 129,512
Net earnings				8,716	8,716	7,520
Preference share purchases and redemptions	(242)		36		(206)	(200)
Cash dividends paid on common shares				(1,002)	(1,002)	(1,002)
Cash dividends paid on preference shares				(82)	(82)	(94)
Balance at end of year	$ 1,271	$ 16,788	$ 6,159	$ 118,944	$ 143,162	$ 135,736

See accompanying notes.

Changes in Consolidated Financial Position

For the Years Ended November 30, 1980 and 1979

	1980	1979
	(thousands of dollars)	
SOURCES OF FUNDS		
From operations		
Net earnings	**$ 8,716**	$ 7,520
Provision for losses on receivables	**21,874**	18,326
Depreciation and amortization of property and equipment and other assets	**2,373**	2,050
Decrease (increase) in prepaid expenses, income taxes recoverable and other receivables	**2,029**	(5,150)
Amortization of foreign exchange	**1,718**	1,326
Increase in taxes payable	**207**	
Loss on disposal of property and equipment	**129**	105
Increase in deferred insurance commissions	**108**	98
Increase in deferred income taxes	**(124)**	(797)
Decrease in provision for outstanding claims	**(581)**	(2,066)
Decrease in unearned insurance premiums	**(980)**	(2,082)
Increase (decrease) in accounts payable and accrued liabilities	**(1,735)**	3,864
Total from operations	**33,734**	23,194
Collections on receivables (excluding finance charges included in net earnings)	**336,222**	355,883
Increase (decrease) in short-term note debt	**22,522**	(23,656)
Proceeds from issuance of long-term note debt	**4,660**	75,845
Decrease (increase) in cash	**(3,547)**	1,456
Total	**$ 393,591**	$ 432,722
USES OF FUNDS		
New funds advanced to customers	**$ 335,751**	$ 361,012
Bulk purchases of receivables	**26,825**	20,010
Reduction in long-term note debt	**25,221**	52,062
Increase in other assets	**2,060**	2,106
Increase in property and equipment (net)	**1,255**	532
Increase (decrease) in unrealized loss on foreign exchange	**649**	(1,917)
Increase (decrease) in investments	**540**	(2,379)
Preference share purchases and redemptions	**206**	200
Cash dividends on common shares	**1,002**	1,002
Cash dividends on preference shares	**82**	94
Total	**$ 393,591**	$ 432,722

See accompanying notes.

Notes to Consolidated Financial Statements

November 30, 1980

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.

The intangibles recognized in the acquisition of subsidiaries (all prior to 1974) are shown separately under the heading "Intangible assets recognized in acquisitions, without amortization".

(b) Receivables

Interest on loans which do not include finance charges in the original face amount is taken into earnings as collected. When finance charges are included in the face amount of the loan the entire finance charge is credited to unearned charges. No portion is recognized in earnings to offset acquisition costs. The unearned charges are transferred to earnings on the sum-of-the-digits accrual method beginning with 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 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, unrealized foreign exchange gains or losses, debt financing costs and premiums on the bulk purchases of receivables. 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 has been 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 at each year end. The resulting unamortized translation loss relating to long-term note debt which has been deferred as a result of this practice is shown as an "unrealized loss on foreign exchange" in the accompanying statement of consolidated financial position.

At November 30, 1980 and 1979 assets of $8,000 and $15,000, respectively, and liabilities of $111,892,000 and $118,978,000, respectively, were represented by amounts to be settled in U.S. funds. The rates used at November 30, 1980 and 1979 were Can. $1 = U.S. $0.8410 and Can. $1 = U.S. $0.8545, respectively. For the years ended November 30, 1980 and 1979, U.S. dollar income and expense accounts have been translated at the average rate of Can. $1 = U.S. $0.8574 and Can. $1 = U.S. $0.8536, respectively.

At November 30, 1980 the Company had forward exchange contracts to purchase a total of U.S. $145,602,000 for Can. $170,000,000 at various dates to December 9, 1980 (subsequent to that date, the Company entered into forward exchange contracts to purchase a total of U.S. $143,333,000 for Canadian $170,000,000 at various dates to March 10, 1981). These forward exchange contracts are regarded as commitments and are not recorded in the accounts of the Company. Gains or losses arising on such contracts from changes in the foreign exchange rate are included in earnings for the year in which the foreign exchange rate changes.

(f) Other assets

Other assets, which consist of debt financing costs and premiums on the bulk purchases of receivables, are amortized on a straight-line basis over the terms of the respective debt issues and receivables maturities to which they relate.

(g) Insurance subsidiary

The accounts of the Company's insurance subsidiary for the year ended November 30 have been prepared for purposes of consolidation with those of the Company in accordance with generally accepted accounting principles but differ in some respects from those reported at its year-end (December 31) which are based on accounting practices prescribed or permitted by the Department of Insurance of Canada.

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 at year-end. These unearned premiums are taken into earnings over the life of the policies in the following manner:

(1) unearned premiums for accident and sickness insurance in relationship to anticipated claims and

(2) unearned premiums 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.

2. Receivables

Receivables outstanding at November 30, 1980 and 1979 were as follows:

	1980	1979
	(thousands of dollars)	
Consumer loans	**$ 519,929**	$ 518,286
Retail instalment contracts	**66,943**	62,194
	$ 586,872	$ 580,480

The terms of the Company's receivables generally require repayment in equal monthly instalments. The maximum term over which consumer loans and retail instalment contracts are written (excluding loans secured by real estate which have a maximum term of 180 months) is 60 months. However, approximately 90 percent of the dollar amount of consumer loans (excluding loans secured by real estate) and retail instalment contracts are written with terms of 48 months or less.

3. Investments at cost

Investments, all of which are owned by the Company's insurance subsidiary, consist of the following at November 30, 1980 and 1979:

	1980	1979
	(thousands of dollars)	
Short-term notes	**$ 1,650**	$ 300
Bonds (market value: $8,912,000 in 1980 and $11,396,000 in 1979)	**10,240**	12,779
Stocks (market value: $9,343,000 in 1980 and $5,967,000 in 1979)	**7,650**	5,266
Mortgages	**4,137**	4,792
	$ 23,677	$ 23,137

These investments, which constitute the majority of the assets of the insurance subsidiary, are subject to government regulation which controls the type of investments permitted and are not interchangeable with those of the Company. It is management's opinion that the decline in the market value of bonds below their cost is not of a permanent nature.

4. Long-Term Note Debt

	1980	1979
	(thousands of dollars)	
Long-term note debt at November 30, 1980 and 1979 is summarized below:		
Guaranteed notes payable		
Due in Canadian funds		
Note payable (prime + 1½% interest)		$ 2,500
9½% Notes payable maturing August 1982	**$ 20,000**	20,000
9½% Note payable $1,000,000 semi-annually from April 1981 to April 1982, maturing October 1982	**4,000**	5,000

	1980	1979
	(thousands of dollars)	
9½% Note payable $2,500,000 semi-annually from May 1981 to May 1982, maturing November 1982	**12,500**	17,500
9½% Note payable maturing March 1983	**5,000**	5,000
9½% Notes payable maturing March 1993 (a)(b)	**23,442**	23,872
9¾% Note payable maturing June 1983	**5,000**	5,000
9¾% Note payable maturing June 1983	**5,000**	5,000
9¾% Note payable maturing September 1983	**5,000**	5,000
9¾% Notes payable maturing April 1984 (b)	**33,441**	34,500
10% Note payable maturing May 1983	**5,000**	5,000
10⅛% Notes payable $3,000,000 annually from May 1984 to May 1992, maturing May 1993	**30,000**	30,000
10¼% Notes payable maturing April 1984	**6,000**	6,000
10¼% Note payable maturing April 1984	**2,000**	2,000
10¼% Note payable maturing January 1985	**3,000**	
10¼% Note payable maturing May 1986	**25,000**	25,000
10½% Note payable		2,000
10½% Note payable maturing December 1980	**8,000**	8,000
10½% Note payable maturing September 1981	**1,000**	1,000
10½% Note payable maturing April 1984	**10,000**	10,000
10½% Note payable maturing February 1985	**5,000**	5,000
10½% Note payable maturing February 1985	**7,000**	7,000
10⅘% Note payable		3,000
11% Notes payable maturing September 1981	**3,495**	3,495
11¼% Note payable		2,000
Total due in Canadian funds	**218,878**	232,867
Due in U.S. funds (See note 1(e))		
7⅜% Notes payable U.S. $2,940,000 annually and maturing January 1983 (U.S. $8,820,000)	**10,488**	13,762
8⅜% Notes payable U.S. $3,000,000 annually from June 1981 to 1991 and maturing June 1992 (U.S. $38,000,000)	**45,184**	47,981
8½% Note payable maturing December 1980 (U.S. $1,800,000)	**2,140**	2,809
9¼% Notes payable maturing September 1983 (U.S. $17,200,000)	**20,452**	20,754
9¾% Notes payable U.S. $2,500,000 annually from June 1983 to 1991 and maturing June 1992 (U.S. $25,000,000)	**29,727**	29,257
Total due in U.S. funds (U.S. $90,820,000 and U.S. $97,894,000 respectively)	**107,991**	114,563
Total long-term note debt	**$ 326,869**	$ 347,430

(a) Subject to prepayment at the option of each holder on March 1, 1985.
(b) Subject to purchase fund agreements.

The maturities, sinking fund and maximum purchase fund payments on long-term note debt for the five years subsequent to November 30, 1980 and thereafter are as follows: 1981 — $29,081,000; 1982 — $37,763,000; 1983 — $56,688,000; 1984 — $59,890,000; 1985 — $24,790,000; 1986 and thereafter — $118,657,000.

5. Share capital

Share capital consists of: (1) 5½% cumulative voting class A preference shares each redeemable at their par value of $100; authorized and issued less redeemed 12,703 shares (15,125 in 1979) for $1,271,000 ($1,513,000 in 1979) and (2) common shares of no par value; authorized 2,000,000 shares; issued 1,670,382¾ shares for $16,788,000.

During the year the Company purchased for cancellation 2,422 Class A preference shares for $206,000 cash. The difference between the par value of the preference shares purchased of $242,000 and the cash paid in respect thereof has been credited to additional paid-in capital.

Avco Financial Services, Inc., a company incorporated in the United States of America, owns 71.0% of the Class A preference shares and in excess of 99.9% of the issued common shares. The ultimate parent company is Avco Corporation, a company incorporated in the United States of America.

6. Lease commitments

The Company's executive office is occupied under a long-term lease expiring in 1989 at an annual rental of approximately $400,000. The loan office locations are occupied under leases having terms generally not in excess of five years at annual rentals of approximately $2,750,000. Vehicles are leased over terms not in excess of 3 years at an aggregate annual rental of approximately $800,000.

The total net rental obligations at November 30, 1980 under all leases are as follows: 1981 — $3,734,000; 1982 — $2,879,000; 1983 — $2,269,000; 1984 — $1,239,000; 1985 — $642,000; 1986 and thereafter $1,236,000. Rent expense charged to earnings for the years ended November 30, 1980 and 1979 amounted to $4,350,000 and $4,290,000, respectively.

7. Retained earnings

Rules prescribed by the Department of Insurance 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 as at November 30, 1980 and 1979 includes the unremitted accumulated net earnings of the insurance subsidiary of $6,177,000 and $3,318,000, respectively.

8. Operations by industry segment

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

	1980	1979
	(thousands of dollars)	
Revenues		
Consumer finance	**$ 123,333**	$ 120,689
Insurance	**8,206**	8,760
Intercompany elimination	**(265)**	(307)
Total	**$ 131,274**	$ 129,142
Operating profit		
Consumer finance	**$ 10,611**	$ 13,075
Insurance	**5,097**	5,305
Total	**$ 15,708**	$ 18,380
Identifiable assets		
Consumer finance	**$ 595,335**	$ 590,554
Insurance	**24,958**	23,222
Intercompany elimination	**(960)**	(849)
Total	**$ 619,333**	$ 612,927

Operating profit by industry segment represents total revenues less operating expenses before gains and losses on foreign exchange and income taxes. Capital expenditures and depreciation expenses were not material to the operation of the industry segments.

9. Supplemental information

The aggregate direct remuneration paid or payable by the Company and its subsidiaries to its directors and senior officers (as defined under The Business Corporations Act — Ontario) for the years ended November 30, 1980 and 1979 amounted to $570,000 and $497,000, respectively.

Amounts paid for management and administrative services (to the parent company) deducted in arriving at net earnings for the years ended November 30, 1980 and 1979 amounted to $1,447,000 and $1,622,000, respectively. Amounts received for management and administrative services (from certain affiliates) included in arriving at net earnings for the years ended November 30, 1980 and 1979 amounted to $526,000 and $345,000, respectively.

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