



AVCO
FINANCIAL SERVICES
CANADA LIMITED

1979
Annual Report



Consolidated Highlights



For the Five Years Ended November 30, 1979

	1979	1978	1977	1976	1975
	(thousands of dollars)				
NET EARNINGS					
Earnings before following items.....	\$ 9,634	\$ 11,864	\$ 12,737	\$ 12,350	\$ 14,076
Loss on sale of United Kingdom subsidiary...					(644)
Gain (loss) on foreign exchange.....	(2,114)	(2,528)	(1,461)	588	77
Net earnings	<u>\$ 7,520</u>	<u>\$ 9,336</u>	<u>\$ 11,276</u>	<u>\$ 12,938</u>	<u>\$ 13,509</u>
VOLUME OF BUSINESS					
Consumer loans.....	\$ 246,261	\$ 290,770	\$ 267,659	\$ 256,235	\$ 240,136
Retail instalment contracts	114,751	96,867	72,341	53,447	42,921
Total.....	<u>\$ 361,012</u>	<u>\$ 387,637</u>	<u>\$ 340,000</u>	<u>\$ 309,682</u>	<u>\$ 283,057</u>
RECEIVABLES OUTSTANDING					
Consumer loans.....	\$ 518,286	\$ 524,162	\$ 501,679	\$ 494,189	\$ 494,481
Retail instalment contracts	62,194	49,183	34,750	24,093	21,020
Total.....	<u>\$ 580,480</u>	<u>\$ 573,345</u>	<u>\$ 536,429</u>	<u>\$ 518,282</u>	<u>\$ 515,501</u>
NUMBER OF BRANCH OFFICES	<u>374</u>	<u>411</u>	<u>416</u>	<u>410</u>	<u>408</u>
OTHER SIGNIFICANT DATA					
Shareholders' equity.....	\$ 135,736	\$ 129,512	\$ 139,263	\$ 140,178	\$ 127,533
Total lines of credit.....	\$ 129,512	\$ 160,650	\$ 189,039	\$ 87,392	\$ 105,151
Commercial paper coverage	123%	120%	157%	205%	184%
Average cost of borrowed funds.....	10.16%	9.28%	8.91%	9.29%	8.88%
Allowance for losses as a percentage of receivables outstanding.....	4.50%	4.50%	4.50%	4.67%	3.95%
Net credit losses as a percentage of average net receivables outstanding.....	2.43%	1.95%	2.45%	2.39%	2.33%
Operating expenses as a percentage of revenues	37.46%	36.49%	36.17%	33.32%	32.10%

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, 1979 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, 1979 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 23, 1980

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

Consolidated Financial Position

November 30, 1979 and 1978

	1979	1978
	(thousands of dollars)	
ASSETS		
Cash	\$ 1,619	\$ 3,075
Receivables (less unearned charges: \$7,533,000 in 1979 and \$7,047,000 in 1978) (note 2)	580,480	573,345
Allowance for losses	(26,115)	(25,793)
	554,365	547,552
Investments (note 3)	23,137	25,516
Prepaid expenses, income taxes recoverable and other receivables	11,180	6,030
Deferred income taxes	2,530	1,733
Property and equipment, at cost (less accumulated depreciation and amortization: \$11,407,000 in 1979 and \$10,897,000 in 1978)	3,692	4,198
Unrealized loss on foreign exchange (less accumulated amortization: \$6,709,000 in 1979 and \$5,383,000 in 1978)	11,097	14,340
Other assets, net of amortization	4,502	3,513
Intangible assets recognized in acquisitions, without amortization	805	805
TOTAL ASSETS	\$ 612,927	\$ 606,762
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term note debt—unsecured		
Commercial paper	\$ 98,681	\$ 122,337
Banks	1,858	
Due to parent company on current account	365	243
Total short-term note debt	100,904	122,580
Accounts payable and accrued liabilities	15,379	13,495
Deferred insurance commissions	489	391
Long-term note debt—unsecured (note 4)	347,430	323,647
Insurance provisions and claims		
Unearned premiums	8,700	10,782
Provision for outstanding claims	4,289	6,355
Total liabilities	477,191	477,250
SHAREHOLDERS' EQUITY		
Share capital (note 5)		
Preference	1,513	1,749
Common	16,788	16,788
Additional paid-in capital	6,123	6,087
Retained earnings (note 7)	111,312	104,888
Total shareholders' equity	135,736	129,512
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 612,927	\$ 606,762

See accompanying notes.

On behalf of the Board

R.D. Brazeau
Director

L.R. Guest
Director

Consolidated Earnings



For the Years Ended November 30, 1979 and 1978

	1979	1978
	(thousands of dollars)	
REVENUES		
Interest, finance and service charges	\$ 118,406	\$ 111,793
Insurance premiums	6,292	7,446
Investment income	2,632	2,343
Other revenues	1,812	1,987
Total revenues	<u>129,142</u>	<u>123,569</u>
EXPENSES		
Interest and debt expense		
Interest on long-term note debt	32,316	29,793
Amortization of long-term note debt financing costs	637	371
Interest on short-term note debt	12,561	9,030
Total interest and debt expense	<u>45,514</u>	<u>39,194</u>
Provision for losses on collection of receivables, less recoveries	14,395	12,458
Insurance losses and adjustment expenses	2,472	3,854
Other operating expenses	48,381	45,091
Total expenses	<u>110,762</u>	<u>100,597</u>
Earnings before income taxes and losses on foreign exchange	18,380	22,972
Income taxes	(8,746)	(11,108)
Earnings before losses on foreign exchange	9,634	11,864
Losses on foreign exchange (less income tax credit: \$2,139,000 in 1979 and \$2,646,000 in 1978)	(2,114)	(2,528)
NET EARNINGS	<u>\$ 7,520</u>	<u>\$ 9,336</u>

Consolidated Shareholders' Equity

For the Years Ended November 30, 1979 and 1978

	1979				1978	
	Preference shares	Common shares	Additional paid-in capital	Retained earnings	Total	Total
	(thousands of dollars)					
Balance at beginning of year	\$ 1,749	\$ 16,788	\$ 6,087	\$ 104,888	\$ 129,512	\$ 139,263
Net earnings				7,520	7,520	9,336
Preference share purchases and redemptions	(236)		36		(200)	(201)
Cash dividends paid on common shares				(1,002)	(1,002)	(18,783)
Cash dividends paid on preference shares				(94)	(94)	(103)
Balance at end of year	<u>\$ 1,513</u>	<u>\$ 16,788</u>	<u>\$ 6,123</u>	<u>\$ 111,312</u>	<u>\$ 135,736</u>	<u>\$ 129,512</u>

See accompanying notes.

Changes in Consolidated Financial Position

For the Years Ended November 30, 1979 and 1978

	<u>1979</u>	<u>1978</u>
	(thousands of dollars)	
SOURCES OF FUNDS		
From operations		
Net earnings	\$ 7,520	\$ 9,336
Provision for losses on receivables	18,326	16,416
Depreciation and amortization of property and equipment and other assets	2,050	1,508
Increase in accounts payable and accrued liabilities	1,884	1,851
Amortization of foreign exchange	1,326	5,448
Loss on disposal of property and equipment	105	
Increase (decrease) in deferred insurance commissions	98	(394)
Increase in deferred income taxes	(797)	(196)
Decrease in provision for outstanding claims	(2,066)	(2,074)
Decrease in unearned insurance premiums	(2,082)	(97)
Increase in prepaid expenses, income taxes recoverable and other receivables	(5,150)	(2,258)
Total from operations	<u>21,214</u>	<u>29,540</u>
Collections on receivables (excluding finance charges included in net earnings)	355,883	349,883
Proceeds from issuance of long-term note debt	75,845	168,668
Decrease in investments	2,379	3,124
Decrease (increase) in unrealized loss on foreign exchange	1,917	(3,875)
Decrease (increase) in cash	1,456	(1,657)
Total	<u>\$ 458,694</u>	<u>\$ 545,683</u>
USES OF FUNDS		
New funds advanced to customers	\$ 361,012	\$ 387,637
Bulk purchases of receivables	20,010	13,924
Reduction in long-term note debt	52,062	149,656
Decrease (increase) in short-term note debt	21,676	(28,151)
Increase in other assets	2,106	2,629
Increase in property and equipment (net)	532	901
Preference share purchases and redemptions	200	201
Cash dividends on common shares	1,002	18,783
Cash dividends on preference shares	94	103
Total	<u>\$ 458,694</u>	<u>\$ 545,683</u>

See accompanying notes.

Notes to Consolidated Financial Statements

November 30, 1979

1. Summary of accounting policies

The following represent the significant accounting policies not disclosed elsewhere in the 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 the following: (1) interest income on interest bearing loans due but not yet collected and not included in the earnings of the Company and (2) unrealized foreign exchange gains or losses and debt financing costs both of which are amortized over the term of the related debt for accounting purposes but are treated differently for income tax purposes. The resulting income tax debit is shown separately as an asset in the accompanying consolidated statement of 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 transaction 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 consolidated statement of financial position.

At November 30, 1979 and 1978 assets of \$15,000 and \$360,000, respectively, and liabilities of \$118,978,000 and \$133,568,000, respectively, were represented by amounts to be settled in U.S. funds. The rates used at November 30, 1979 and 1978 were Can. \$1 = U.S. \$0.8545 and Can. \$1 = U.S. \$0.8551, respectively. For the years ended November 30, 1979 and 1978, U.S. dollar income and expense accounts have been translated at the average rate of Can. \$1 = U.S. \$0.8536 and Can. \$1 = U.S. \$0.8831, respectively.

During the year the Company's United Kingdom subsidiary (an inactive insurance company) was liquidated. At November 30, 1978 assets of \$1,131,000 and liabilities of \$78,000 were represented by amounts to be settled in United Kingdom funds. The rate used at November 30, 1978 was Can. \$1 = U.K. £0.4398.

At November 30, 1979 and 1978 the Company had forward exchange contracts to purchase U.S. \$93,139,000 for Can. \$110,000,000 and U.S. \$55,462,000 for Can. \$65,000,000, respectively. 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 in 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 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) 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 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) Provision 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, 1979 and 1978 were as follows:

	<u>1979</u>	<u>1978</u>
	(thousands of dollars)	
Consumer loans	\$ 518,286	\$ 524,162
Retail instalment contracts	<u>62,194</u>	<u>49,183</u>
	<u>\$ 580,480</u>	<u>\$ 573,345</u>

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, 1979 and 1978:

	<u>1979</u>	<u>1978</u>
	(thousands of dollars)	
Short-term notes	\$ 300	\$ 6,100
Bonds (market value: \$11,396,000 in 1979 and \$8,858,000 in 1978)	12,779	9,198
Stocks (market value: \$5,967,000 in 1979 and \$5,406,000 in 1978)	5,266	4,573
Mortgages	<u>4,792</u>	<u>5,645</u>
	<u>\$ 23,137</u>	<u>\$ 25,516</u>

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 certain of these investments below their cost is not of a permanent nature.

4. Long-Term Note Debt

	1979	1978
	(thousands of dollars)	
Long-term note debt at November 30, 1979 and 1978 is summarized below:		
Guaranteed notes payable		
Due in Canadian funds		
8¼% Note payable.....		\$ 1,400
Note payable (maximum—prime + ¾% interest).....		5,000
Note payable (maximum—prime + ¾% interest).....		5,000
Note payable (maximum—prime + ¾% interest).....		5,000
Note payable (maximum—prime + ½% interest).....		11,250
Note payable \$2,500,000 semi-annually, maturing December 1979 (prime + ½% interest)	\$ 2,500	7,500
9½% Notes payable maturing August 1982.....	20,000	20,000
9½% Note payable \$2,500,000 semi-annually from May 1980 to May 1982, maturing November 1982.....	17,500	20,000
9½% Note payable \$1,000,000 semi-annually from October 1980 to April 1982, maturing October 1982.....	5,000	5,000
9½% Note payable maturing March 1983.....	5,000	5,000
9½% Notes payable maturing March 1993 ^{(a)(b)}	23,872	24,506
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)	34,500	35,000
9¾% Note payable maturing June 1983.....	5,000	5,000
10% Note payable maturing May 1983.....	5,000	5,000
10⅞% Notes payable \$3,000,000 annually from May 1984 to May 1992, maturing May 1993.....	30,000	30,000
10¼% Note payable maturing April 1984.....	6,000	
10¼% Note payable maturing April 1984.....	2,000	
10¼% Note payable maturing May 1986.....	25,000	
10½% Note payable maturing January 1980.....	2,000	
10½% Note payable maturing December 1980.....	8,000	
10½% Note payable maturing February 1985.....	5,000	
10½% Note payable maturing February 1985.....	7,000	
10½% Note payable maturing September 1981.....	1,000	
10½% Note payable maturing April 1984.....	10,000	
10⅘% Note payable maturing March 1980.....	3,000	
11% Notes payable maturing September 1981.....	3,495	
11¼% Note payable maturing January 1980.....	2,000	
Total due in Canadian funds.....	<u>232,867</u>	<u>194,656</u>
Due in U.S. funds (See note 1(e))		
Note payable (prime + ¼% to maximum of 8¼% interest).....		5,847
7⅜% Notes payable U.S. \$2,940,000 annually and maturing January 1983 (U.S. \$11,760,000).....	13,762	17,191
8⅜% Notes payable U.S. \$3,000,000 annually from June 1980 to 1991 and maturing June 1992 (U.S. \$41,000,000).....	47,981	51,456
8½% Note payable U.S. \$600,000 in December 1979 and U.S. \$1,800,000 in December 1980 (U.S. \$2,400,000).....	2,809	3,509
9¼% Notes payable sinking fund payments due U.S. \$173,000 in 1980, U.S. \$400,000 in 1981 and maturing September 1983 (U.S. \$17,734,000).....	20,754	21,752
9¾% Notes payable U.S. \$2,500,000 annually from June 1983 to 1991 and maturing June 1992 (U.S. \$25,000,000).....	29,257	29,236
Total due in U.S. funds (U.S. \$97,894,000 and U.S. \$110,300,000 respectively).....	<u>114,563</u>	<u>128,991</u>
Total long-term note debt.....	<u>\$ 347,430</u>	<u>\$ 323,647</u>

(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, 1979 and thereafter are as follows: 1980—\$23,982,000; 1981—\$30,221,000; 1982—\$37,651,000; 1983—\$56,206,000; 1984—\$59,787,000; 1985 and thereafter—\$139,583,000.

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 15,125 shares (17,492 in 1978) for \$1,513,000 (\$1,749,000 in 1978) 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 2,367 Class A preference shares for \$200,000 cash. The difference between the par value of the preference shares purchased of \$236,000 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 72.0% of the Class A preference shares and in excess of 99.9% of the issued and outstanding 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 \$2,900,000.

The total rental obligations at November 30, 1979 under all leases are as follows: 1980-\$4,299,000; 1981-\$3,406,000; 1982-\$2,107,000; 1983-\$1,524,000; 1984-\$737,000; 1985 and thereafter \$1,630,000.

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, 1979 and 1978 includes the unremitted accumulated net earnings of the insurance subsidiary of \$3,318,000 and \$1,711,000, respectively.

8. Operations by industry segment

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

	1979	1978
	(thousands of dollars)	
Revenues		
Consumer finance.....	\$ 120,689	\$ 114,005
Insurance	8,760	9,840
Intercompany elimination	(307)	(276)
Total	<u>\$ 129,142</u>	<u>\$ 123,569</u>
Operating profit		
Consumer finance.....	\$ 13,075	\$ 18,223
Insurance	5,305	4,749
Total	<u>\$ 18,380</u>	<u>\$ 22,972</u>
Identifiable assets		
Consumer finance.....	\$ 590,554	\$ 580,623
Insurance	23,222	26,765
Intercompany elimination	(849)	(626)
Total	<u>\$ 612,927</u>	<u>\$ 606,762</u>

Operating profit by industry segment represents total revenues less operating expenses before losses on foreign exchange and income taxes.

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, 1979 and 1978 amounted to \$497,000 and \$500,000, respectively.

Amounts paid for management and administrative services (all paid to the parent company) deducted in arriving at net earnings for the years ended November 30, 1979 and 1978 amounted to \$1,622,000 and \$1,048,000, respectively.



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