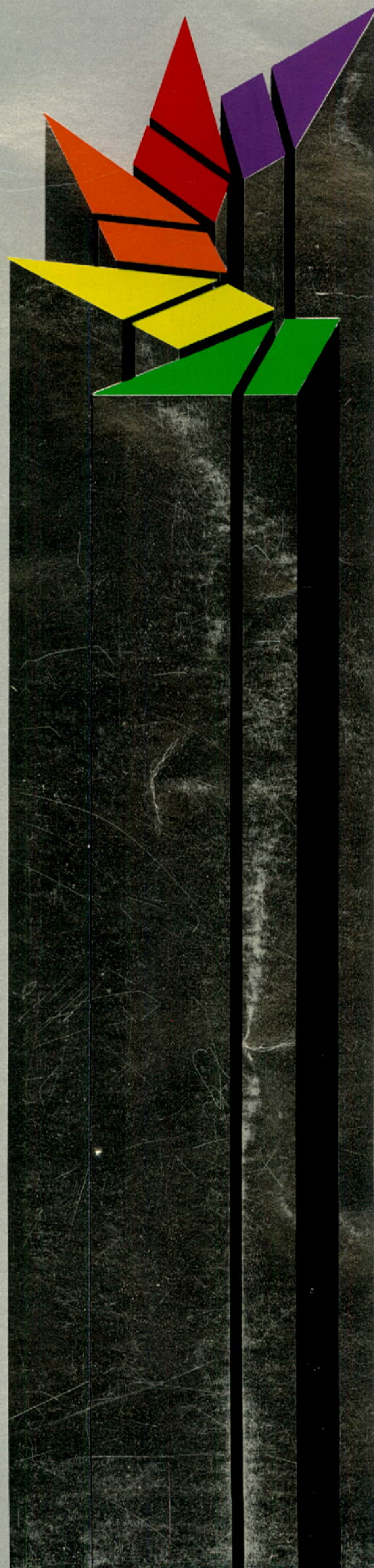

AVCO FINANCIAL SERVICES CANADA LIMITED

Operating, Financial And Statistical Data For The Year Ended November 30, 1978

Consolidated Highlights

For the Five Years Ended November 30, 1978	1978	1977	1976	1975	1974
	(thousands of dollars)				
NET EARNINGS*					
Earnings before following items	$ 11,864	$ 12,737	$ 12,350	$ 14,076	$ 15,337
Loss on sale of United Kingdom subsidiary				(644)	
Gain (loss) on foreign exchange	(2,528)	(1,461)	588	77	866
Net earnings	$ 9,336	$ 11,276	$ 12,938	$ 13,509	$ 16,203
VOLUME OF BUSINESS					
Consumer loans	$ 290,770	$ 267,659	$ 256,235	$ 240,136	$ 267,464
Retail instalment contracts	96,867	72,341	53,447	42,921	56,301
Total	$ 387,637	$ 340,000	$ 309,682	$ 283,057	$ 323,765
RECEIVABLES OUTSTANDING					
Consumer loans	$ 524,162	$ 501,679	$ 494,189	$ 494,481	$ 511,378
Retail instalment contracts	49,183	34,750	24,093	21,020	24,962
Total	$ 573,345	$ 536,429	$ 518,282	$ 515,501	$ 536,340
NUMBER OF BRANCH OFFICES	411	416	410	408	425
OTHER SIGNIFICANT DATA					
Shareholders' equity	$ 129,512	$ 139,263	$ 140,178	$ 127,533	$ 114,245
Total lines of credit	$ 160,650	$ 189,039	$ 87,392	$ 105,151	$ 85,207
Commercial paper coverage	120%	157%	205%	184%	165%
Average cost of borrowed funds	9.28%	8.91%	9.29%	8.88%	9.17%
Allowance for losses as a percentage of receivables outstanding	4.50%	4.50%	4.67%	3.95%	3.59%
Net credit losses as a percentage of average net receivables outstanding	1.95%	2.45%	2.39%	2.33%	1.62%
Operating expenses as a percentage of revenues	36.49%	36.17%	33.32%	32.10%	30.54%

*As set out in note 1 to the accompanying financial statements, years prior to 1978 have been restated to reflect the change in consolidation policy with respect to insurance subsidiaries and the change in accounting policy for unrealized foreign exchange gains or losses.

Auditors' Report

Arthur Young, Clarkson, Gordon & Co.

NORTHERN LIFE TOWER
CITY CENTRE
380 WELLINGTON STREET
LONDON, CANADA N6A 5B5

The Shareholders,
Avco Financial Services Canada Limited

We have examined the statement of financial position of Avco Financial Services Canada Limited and the consolidated statement of financial position of Avco Financial Services Canada Limited as at November 30, 1978 and the respective 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 financial statements present fairly:

(a) the financial position of the Company as at November 30, 1978 and the results of its operations and the changes in its financial position for the year then ended, and

(b) the consolidated financial position of the Company as at November 30, 1978 and the results of its operations and the changes in its financial position on a consolidated basis for the year then ended,

both in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to both the change in consolidation policy with respect to insurance subsidiaries and the change in the accounting policy for unrealized foreign exchange gains or losses on long-term debt as described in note 1, with which we concur.

London, Canada
January 15, 1979

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

Financial Position

November 30, 1978 and 1977

	Company 1978	Company 1977	Consolidation 1978	Consolidation 1977
	(thousands of dollars)			
ASSETS				
Cash	$ 2,957	$ 1,123	$ 3,075	$ 1,418
Receivables, less unearned charges (note 2)	368,140	336,910	573,345	536,429
Allowance for losses	(20,411)	(21,408)	(25,793)	(24,139)
	347,729	315,502	547,552	512,290
Investments (note 3)			25,516	28,640
Prepaid expenses, income taxes recoverable and other receivables	4,459	3,729	6,030	3,772
Deferred income taxes	1,732	1,386	1,733	1,537
Demand notes receivable from finance subsidiaries	141,349	138,990		
Equity in net assets of subsidiaries	68,371	67,027		
Property and equipment, at cost	12,516	11,604	15,095	14,194
Accumulated depreciation and amortization	(8,475)	(7,483)	(10,897)	(9,847)
Net property and equipment	4,041	4,121	4,198	4,347
Unrealized loss on foreign exchange – net of accumulated amortization of $5,383,000 in 1978 and ($65,000) in 1977	14,340	15,913	14,340	15,913
Other assets, net of amortization	3,513	1,342	3,513	1,342
Intangible assets recognized in acquisitions, without amortization	805	805	805	805
TOTAL ASSETS	$ 589,296	$ 549,938	$ 606,762	$ 570,064
LIABILITIES AND SHAREHOLDERS' EQUITY				
Short-term note debt – unsecured				
Commercial paper	$ 122,337	$ 89,427	$ 122,337	$ 89,427
Due to parent company on current account	243	5,002	243	5,002
Total short-term note debt	122,580	94,429	122,580	94,429
Accounts payable and accrued liabilities	13,061	11,120	13,495	11,644
Deferred insurance commissions	496	491	391	785
Long-term debt – unsecured (note 4)				
Notes payable	323,647	224,320	323,647	224,320
Notes due to parent company		80,315		80,315
Total long-term debt	323,647	304,635	323,647	304,635
Insurance provisions and claims				
Unearned premiums			10,782	10,879
Provision for outstanding claims			6,355	8,429
SHAREHOLDERS' EQUITY				
Share capital (note 5)				
Preference	1,749	1,985	1,749	1,985
Common	16,788	16,788	16,788	16,788
Additional paid-in capital	6,087	6,052	6,087	6,052
Retained earnings (note 6)	104,888	114,438	104,888	114,438
Total shareholders' equity	129,512	139,263	129,512	139,263
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 589,296	$ 549,938	$ 606,762	$ 570,064

See accompanying notes.

On behalf of the Board

Director

Director

Earnings

For the Years Ended November 30, 1978 and 1977	Company 1978	Company 1977	Consolidation 1978	Consolidation 1977
	(thousands of dollars)			
REVENUES				
Interest, finance and service charges	$ 75,616	$ 71,561	$ 111,793	$ 106,300
Insurance premiums			7,446	7,964
Investment income			2,343	2,578
Other revenues	2,173	1,898	1,987	1,796
Interest from finance subsidiaries	13,631	11,451		
Total revenues	91,420	84,910	123,569	118,638
EXPENSES				
Interest and debt expense				
Interest on long-term debt	29,793	27,444	29,793	28,282
Amortization of long-term debt expense	371	195	371	195
Interest on short-term note debt	9,030	5,511	9,030	5,710
Total interest and debt expense	39,194	33,150	39,194	34,187
Provision for losses on collection of receivables, less recoveries	7,793	11,345	12,458	12,826
Insurance losses and adjustment expenses			3,854	4,422
Other operating expenses	30,610	28,096	45,091	42,913
Total expenses	77,597	72,591	100,597	94,348
Earnings before income taxes and other items shown below	13,823	12,319	22,972	24,290
Income taxes	6,759	5,969	11,108	11,553
Earnings before items shown below	7,064	6,350	11,864	12,737
Equity in net earnings of subsidiaries				
Finance subsidiaries	2,279	3,635		
Insurance subsidiaries	2,765	2,752		
Total	5,044	6,387		
Earnings before losses on foreign exchange	12,108	12,737	11,864	12,737
Losses on foreign exchange (less income tax credit of $2,646,000 in 1978 and $1,461,000 in 1977)	(2,772)	(1,461)	(2,528)	(1,461)
NET EARNINGS	$ 9,336	$ 11,276	$ 9,336	$ 11,276

Shareholders' Equity

For the Years Ended November 30, 1978 and 1977

	1978 Preference shares	1978 Common shares	1978 Additional paid-in capital	1978 Retained earnings	1978 Total	1977 Total
	(thousands of dollars)					
Balance at beginning of year, as restated for retained earnings (note 1 (e))	$ 1,985	$ 16,788	$ 6,052	$ 114,438	$ 139,263	$ 140,178
Net earnings				9,336	9,336	11,276
Preference share purchases and redemptions	(236)		35		(201)	(8,346)
Cash dividends paid on common shares				(18,783)	(18,783)	(3,725)
Cash dividends paid on preference shares				(103)	(103)	(120)
Balance at end of year (note 6)	$ 1,749	$ 16,788	$ 6,087	$ 104,888	$ 129,512	$ 139,263

See accompanying notes.

Changes in Financial Position

For the Years Ended November 30, 1978 and 1977

	Company		Consolidation	
	1978	1977	1978	1977
	(thousands of dollars)			
SOURCES OF FUNDS				
From operations				
Net earnings	$ 9,336	$ 11,276	$ 9,336	$ 11,276
Provision for losses on receivables	10,983	13,786	16,416	16,056
Amortization of foreign exchange	5,448	2,707	5,448	2,707
Increase in accounts payable and accrued liabilities	1,941	2,348	1,851	2,354
Depreciation and amortization of property and equipment and other assets	1,450	1,155	1,508	1,232
Decrease in unearned insurance premiums			(97)	(1,777)
Increase in deferred income taxes	(346)	(1,046)	(196)	(863)
Increase (decrease) in deferred insurance commissions	5	(34)	(394)	39
Increase (decrease) in provision for outstanding claims			(2,074)	671
Decrease (increase) in prepaid expenses, income taxes recoverable and other receivables	(730)	457	(2,258)	904
Cash dividend received from insurance subsidiary	3,700	8,000		
Equity in net earnings of subsidiaries	(5,044)	(6,387)		
Total from operations	26,743	32,262	29,540	32,599
Collections on receivables (excluding finance charges included in net earnings)	241,473	211,636	349,883	314,620
Proceeds from issuance of senior notes	168,668	81,400	168,668	81,400
Increase in short-term note debt	28,151	55,419	28,151	55,419
Decrease in investments			3,124	6,692
Decrease (increase) in cash	(1,834)	1,732	(1,657)	1,394
Total	$ 463,201	$ 382,449	$ 577,709	$ 492,124
USES OF FUNDS				
New funds advanced to customers	$ 270,759	$ 224,029	$ 387,637	$ 340,000
Bulk purchases of receivables	13,924	8,329	13,924	8,864
Reduction in long-term debt	149,656	92,553	149,656	110,982
Increase in unrealized loss on foreign exchange	3,875	18,473	3,875	18,473
Increase in other assets	2,629	770	2,629	770
Increase in property and equipment	912	859	901	844
Preference share purchases and redemptions	201	8,346	201	8,346
Cash dividends on common shares	18,783	3,725	18,783	3,725
Cash dividends on preference shares	103	120	103	120
Increase in demand notes receivable from subsidiaries	2,359	25,245		
Total	$ 463,201	$ 382,449	$ 577,709	$ 492,124

See accompanying notes.

Notes to Financial Statements

November 30, 1978

1. Basis of financial statements

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, including insurance subsidiaries which previously were included in the consolidated financial statements as investments accounted for by the equity method. The prior years' consolidated financial statements have been restated to give retroactive effect to this change in consolidation policy.

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."

In the financial statements of the Company, the investments in subsidiary companies, including insurance companies, are accounted for by the equity method whereby the investment account is increased by the net income of subsidiaries and decreased by dividends received.

(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 as an acquisition cost. 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 acounts 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 related 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 statement of financial position.

(e) Foreign exchange

At November 30, 1978 and 1977 assets of \$360,000 and \$292,000, respectively, and liabilities of \$133,568,000 and \$218,941,000, respectively (both company and consolidation), were represented by amounts to be settled in U.S. funds and assets of \$1,131,000 and \$938,000, respectively, and liabilities of \$78,000 and \$51,000, respectively (consolidation only), were represented by amounts to be settled in United Kingdom funds. The Company follows the practice of translating such amounts at the closing rate in effect at each year end. The resulting translation loss relating to long-term debt which has occurred as a result of this practice has been deferred and is shown as an "unrealized loss on foreign exchange."

In June 1978 the Accounting Research Committee of The Canadian Institute of Chartered Accountants approved an Accounting Recommendation relating to the translation of foreign currency transactions and foreign currency financial statements. The Company's accounting policies have previously conformed with the content of this Accounting Recommendation except with respect to the treatment of unrealized foreign exchange gains or losses on long-term debt which amounts have been shown in the statements of financial position on the basis described above but without amortization as required by the Accounting Recommendation. In 1978 the Company's accounting policies have been changed to provide for the amortization of the unrealized foreign exchange gain or loss computed annually on a straight-line basis over the remaining term of each instalment repayment of related long-term debt outstanding at each year-end. Prior years' financial statements have been restated to give retroactive effect to this change including an increase in retained earnings at beginning of year as shown in the statement of shareholders' equity of \$80,000 in 1978 and \$1,430,000 in 1977.

U.S. dollar amounts at November 30, 1978 and 1977 have been translated at the closing rate on those dates (Can. $1 = U.S. $0.8551 and Can. $1 = U.S. $0.9027, respectively). For the years ended November 30, 1978 and 1977 U.S. dollar income and expense accounts have been translated at the average rate of Can. $1 = U.S. $0.8831 and Can. $1 = U.S. $0.9472, respectively.

The accounts of the Company's United Kingdom subsidiary (an inactive insurance company) at November 30, 1978 and 1977 have been translated at the closing rate on those dates (Can. $1 = U.K. £ 0.4398 and Can. $1 = U.K. £ 0.4968, respectively). Translation gains or losses are included in income in the year in which they occur.

At November 30, 1978 and 1977 the Company had forward exchange contracts to purchase U.S. $55,462,000 for Can. $65,000,000 and U.S. $58,533,000 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 Canadian insurance subsidiary for its 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 fiscal 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 Canadian insurance subsidiary for purposes of these consolidated financial statements:

(i) Unearned premiums

Unearned premiums represent the portion of premiums written which are 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) 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.

(h) The 1977 comparative amounts for prepaid expenses and other receivables, deferred income taxes, other assets, and income taxes have been reclassified to conform with financial statement presentation adopted in 1978.

2. Receivables

Receivables outstanding at November 30, 1978 and 1977 were as follows:

	Company		Consolidation	
	1978	1977	**1978**	1977
	(thousands of dollars)			
Consumer loans	**$ 321,817**	$ 304,832	**$ 527,060**	$ 504,394
Retail instalment contracts	**53,332**	38,136	**53,332**	38,136
	375,149	342,968	**580,392**	542,530
Less unearned charges	**(7,009)**	(6,058)	**(7,047)**	(6,101)
Total	**$ 368,140**	$ 336,910	**$ 573,345**	$ 536,429

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 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

Investments, all of which are owned by the Company's Canadian insurance subsidiary, consist of the following at November 30, 1978 and 1977:

	1978	1977
	(thousands of dollars)	
Short-term notes	$ 6,100	$ 5,850
Bonds (market value: $8,858,000 in 1978 and $11,667,000 in 1977)	9,198	11,754
Stocks (market value: $5,406,000 in 1978 and $4,365,000 in 1977)	4,573	4,918
Mortgages	5,645	6,118
	$ 25,516	$ 28,640

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.

4. Long-Term Debt

Long-term debt at November 30, 1978 and 1977 is summarized below:

	1978	1977
	(thousands of dollars)	
Guaranteed notes payable		
Due in Canadian funds		
6⅛%–6⅜% Notes	$	$ 100
8¼% Note payable maturing December 1978	1,400	1,400
Note payable maturing $2,500,000 semi-annually to December 1979 (prime + 1½% interest)	7,500	12,500
9½% Notes payable maturing August 1982	20,000	20,000
Note payable (prime + ¾% interest)		25,000
9½% Note payable $2,500,000 semi-annually from October 1979 to April 1982, maturing October 1982	20,000	20,000
Note payable (prime + ¾% interest)		15,000
9½% Note payable $1,000,000 semi-annually from October 1980 to April 1982, maturing October 1982	5,000	
9½% Note payable maturing March 1983	5,000	
9½% Notes payable maturing March 1993[a][b]	24,506	
Note payable maturing March 1983 (maximum–prime + ¾% interest)	5,000	
Note payable maturing March 1983 (maximum–prime + ¾% interest)	5,000	
Note payable maturing April 1983 (maximum–prime + ¾% interest)	5,000	
10⅛% Notes payable maturing $3,000,000 annually from May 1984 to May 1993	30,000	
9¾% Note payable maturing June 1983	5,000	
Note payable maturing $1,875,000 semi-annually from December 1981 to June 1984 (maximum–prime + ½% interest)	11,250	
9¾% Note payable maturing September 1983	5,000	
9¾% Notes payable maturing April 1984[b]	35,000	
10% Note payable maturing May 1983	5,000	
9¾% Note payable maturing June 1983	5,000	
Total due in Canadian funds	194,656	94,000
Due in U.S. funds (See note 1(e))		
8½% Note payable U.S. $600,000 in December 1978 and 1979 and U.S. $1,800,000 in December 1980 (U.S. $3,000,000)	3,509	3,323
Note payable U.S. $1,000,000 in July 1980 and U.S. $4,000,000 in 1981 (U.S. $5,000,000) (prime + 1¼% to maximum of 8¼% interest)	5,847	5,539
7⅜% Notes payable U.S. $2,940,000 annually and maturing January 1983 (U.S. $14,700,000)	17,191	19,541
9¼% Notes payable sinking fund payments due U.S. $400,000 in 1979, U.S. $600,000 in 1980, U.S. $400,000 in 1981 and maturing September 1983 (U.S. $18,600,000)	21,752	22,156
9¾% Notes payable U.S. $2,500,000 annually from June 1983 to 1991 and maturing June 1992 (U.S. $25,000,000)	29,236	27,695
8⅜% Notes payable U.S. $3,000,000 annually from June 1979 to 1991 and maturing June 1992 (U.S. $44,000,000)	51,456	52,066
Total due in U.S. funds (U.S. $110,300,000 and U.S. $117,640,000 respectively)	128,991	130,320
Total guaranteed notes payable	323,647	224,320

	1978	1977
	(thousands of dollars)	
Notes due to parent company		
9% Notes payable (U.S. $72,500,000)		80,315
Total long-term debt	$ 323,647	$ 304,635

(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 debt for the five years subsequent to November 30, 1978 and thereafter are as follows: 1979–$17,622,000; 1980–$19,219,000; 1981–$22,397,000; 1982–$41,397,000; 1983–$74,935,000; 1984 and thereafter–$148,077,000.

5. Share capital

	1978		1977
	Authorized	Issued	Issued
Share capital at November 30, 1978 and 1977 is summarized below:	(thousands of dollars)		
Preference shares			
5½% cumulative voting Class A preference shares each redeemable at their par value of $100			
Authorized and issued less redeemed			
1978–17,492 shares	$ 1,749	$ 1,749	
1977–19,847 shares			$ 1,985
Common shares of no par value			
Authorized–2,000,000 shares			
Issued–			
1978 and 1977–1,670,382¾ shares		$ 16,788	$ 16,788

During the year the Company purchased for cancellation 2,355 Class A preference shares for $200,165 cash. The difference between the par value of the preference shares purchased of $235,500 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 72.2% 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. Retained earnings

Rules prescribed by the Department of Insurance with respect to capital requirements for the Company's Canadian insurance subsidiary and certain provisions of the Canadian and British Insurance Companies Act 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, 1978 and 1977 includes the unremitted accumulated net income (deficit) of the Canadian insurance subsidiary of $1,711,000 and ($759,000), respectively.

7. 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 $2,700,000. The total rental obligations at November 30, 1978 under all leases are as follows: 1979–$4,119,000; 1980–$3,524,000; 1981–$2,242,000; 1982–$1,313,000; 1983–$799,000; 1984 and thereafter–$1,970,000.

8. 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, 1978 and 1977 amounted to $500,000 and $447,000, 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, 1978 and 1977 amounted to $1,048,000 and $866,000, respectively.

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