

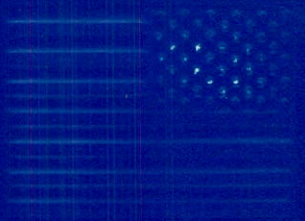
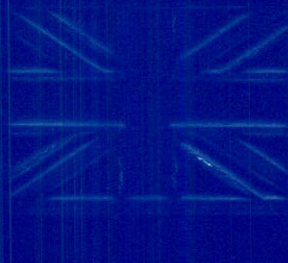
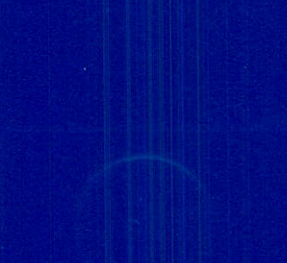
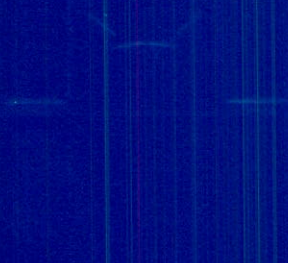
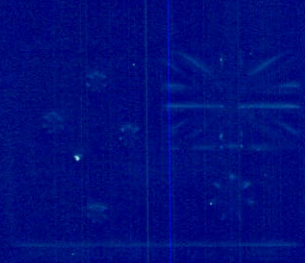
**Financial Report for the Year Ended
November 30, 1977**

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Submitted

submitted



Consolidated Highlights

For the Five Years Ended November 30, 1977

	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>
NET EARNINGS					
			(thousands of dollars)*		
Earnings before following items	\$ 12,737	\$ 12,350	\$ 14,076	\$ 15,337	\$ 14,293
Loss on sale of United Kingdom subsidiary			(644)		
Gain (loss) on foreign exchange	(111)	849	1,335	109	(104)
Net earnings	<u>\$ 12,626</u>	<u>\$ 13,199</u>	<u>\$ 14,767</u>	<u>\$ 15,446</u>	<u>\$ 14,189</u>
VOLUME OF BUSINESS					
Consumer loans	\$ 267,659	\$ 256,235	\$ 240,136	\$ 267,464	\$ 293,971
Retail instalment contracts	72,341	53,447	42,921	56,301	56,655
Total	<u>\$ 340,000</u>	<u>\$ 309,682</u>	<u>\$ 283,057</u>	<u>\$ 323,765</u>	<u>\$ 350,626</u>
RECEIVABLES OUTSTANDING					
Consumer loans	\$ 501,679	\$ 494,189	\$ 494,481	\$ 511,378	\$ 482,812
Retail instalment contracts	34,750	24,093	21,020	24,962	35,689
Total	<u>\$ 536,429</u>	<u>\$ 518,282</u>	<u>\$ 515,501</u>	<u>\$ 536,340</u>	<u>\$ 518,501</u>
NUMBER OF BRANCH OFFICES	<u>416</u>	<u>410</u>	<u>408</u>	<u>425</u>	<u>434</u>
OTHER SIGNIFICANT DATA					
Shareholders' equity	\$ 139,183	\$ 138,748	\$ 125,842	\$ 111,296	\$ 96,357
Total lines of credit	\$ 189,039	\$ 87,392	\$ 105,151	\$ 85,207	\$ 76,500
Commercial paper coverage	157%	205%	184%	165%	134%
Average cost of borrowed funds	8.91%	9.29%	8.88%	9.17%	8.47%
Allowance for losses as a percentage of receivables outstanding	4.50%	4.67%	3.95%	3.59%	3.40%
Net credit losses as a percentage of average net receivables outstanding	2.45%	2.39%	2.33%	1.62%	1.53%
Operating expenses as a percentage of average net receivables outstanding	7.98%	7.43%	7.06%	6.77%	6.93%

*Except for number of branch offices.

Auditors' Report

Arthur Young, Clarkson, Gordon & Co.

The Shareholders,
Avco Financial Services Canada Limited

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

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, 1977 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, 1977 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, 1977 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.

London, Canada.
January 16, 1978

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

AVCO FINANCIAL SERVICES CANADA LIMITED

COMPANY AND CONSOLIDATION
(INCORPORATED UNDER THE LAWS OF ONTARIO)

Financial Position

November 30, 1977 and 1976

	Company		Consolidation	
	1977	1976	1977	1976
	(thousands of dollars)			
ASSETS				
Cash	\$ 1,123	\$ 2,855	\$ 1,123	\$ 2,855
Receivables, less unearned charges (notes 1 and 2)	336,910	329,678	536,429	518,282
Allowance for losses	(21,408)	(21,112)	(24,139)	(24,181)
	315,502	308,566	512,290	494,101
Prepaid expenses, income taxes recoverable and other	4,147	4,776	3,832	4,193
Deferred income taxes (note 1)	1,720	1,689	2,440	2,396
Demand notes receivable from finance subsidiaries	138,990	113,745		
Equity in net assets of subsidiaries (note 3)	67,027	68,640	9,952	15,200
Property and equipment, at cost	11,604	10,745	14,194	13,350
Accumulated depreciation and amortization	(7,483)	(6,523)	(9,847)	(8,809)
Net property and equipment	4,121	4,222	4,347	4,541
Unrealized loss on foreign exchange (note 1)	15,848		15,848	
Intangible assets recognized in acquisitions, without amortization	805	805	805	805
TOTAL ASSETS	\$ 549,283	\$ 505,298	\$ 550,637	\$ 524,091
LIABILITIES AND SHAREHOLDERS' EQUITY				
Short-term debt — unsecured				
Commercial paper	\$ 89,427	\$ 37,648	89,427	\$ 37,648
Due to parent company	5,002	1,362	5,002	1,362
Total short-term debt	94,429	39,010	94,429	39,010
Accounts payable and accrued liabilities	10,545	8,602	10,545	8,602
Deferred insurance commissions (note 1)	491	525	833	889
Income taxes			1,012	
Long-term debt — unsecured (note 4)				
Notes payable	224,320	147,008	224,320	147,008
Notes due to parent company				
Senior notes	80,315	160,309	80,315	160,309
Subordinated notes		8,471		26,900
Total notes due to parent company	80,315	168,780	80,315	187,209
Total long-term debt	304,635	315,788	304,635	334,217
Unrealized gain on foreign exchange (note 1)		2,625		2,625
SHAREHOLDERS' EQUITY				
Share capital (note 5)				
Preference	1,985	10,375	1,985	10,375
Common	16,788	16,788	16,788	16,788
Additional paid-in capital	6,052	6,008	6,052	6,008
Retained earnings (note 7)	114,358	105,577	114,358	105,577
Total shareholders' equity	139,183	138,748	139,183	138,748
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 549,283	\$ 505,298	\$ 550,637	\$ 524,091

See accompanying notes.

On behalf of the Board


Director


Director

Earnings

For the Years Ended November 30, 1977 and 1976

	Company		Consolidation	
	1977	1976	1977	1976
	(thousands of dollars)			
REVENUES				
Interest, finance and service charges	\$ 71,561	\$ 74,402	\$ 106,300	\$ 105,940
Insurance commissions	425	437	547	593
Other revenues	1,473	1,278	1,473	1,278
Interest from finance subsidiaries	11,451	10,197		
Total revenues	<u>84,910</u>	<u>86,314</u>	<u>108,320</u>	<u>107,811</u>
EXPENSES				
Interest and debt expense	33,150	32,417	34,187	33,800
Provision for losses on collection of receivables, less recoveries	11,345	14,617	12,826	16,119
Other operating expenses	28,096	25,633	41,944	38,333
Total expenses	<u>72,591</u>	<u>72,667</u>	<u>88,957</u>	<u>88,252</u>
Earnings before income taxes and other items shown below	12,319	13,647	19,363	19,559
Income taxes	5,969	6,773	9,378	9,670
Earnings before items shown below	<u>6,350</u>	<u>6,874</u>	<u>9,985</u>	<u>9,889</u>
Equity in net earnings of subsidiaries				
Finance subsidiaries	3,635	3,015		
Insurance subsidiaries (note 3)	2,752	2,461	2,752	2,461
Total	<u>6,387</u>	<u>5,476</u>	<u>2,752</u>	<u>2,461</u>
Earnings before realized gain (loss) on foreign exchange	12,737	12,350	12,737	12,350
Realized gain (loss) on foreign exchange (less income taxes (credit) of (\$104,000) in 1977 and \$814,000 in 1976) (note 1)	(111)	849	(111)	849
NET EARNINGS	<u>\$ 12,626</u>	<u>\$ 13,199</u>	<u>\$ 12,626</u>	<u>\$ 13,199</u>

Shareholders' Equity

For the Years Ended November 30, 1977 and 1976

	1977				Total	1976
	Preference shares (note 5)	Common shares	Additional paid-in capital (note 5)	Retained earnings		
	(thousands of dollars)					
Balance at beginning of year	\$ 10,375	\$ 16,788	\$ 6,008	\$ 105,577	\$138,748	\$ 125,842
Net earnings				12,626	12,626	13,199
Preference share purchases and redemptions	(8,390)		44		(8,346)	(164)
Cash dividends paid on common shares ..				(3,725)	(3,725)	
Cash dividends paid on preference shares				(120)	(120)	(129)
Balance at end of year	<u>\$ 1,985</u>	<u>\$ 16,788</u>	<u>\$ 6,052</u>	<u>\$ 114,358</u>	<u>\$139,183</u>	<u>\$ 138,748</u>

See accompanying notes.

Changes in Financial Position

For the Years Ended November 30, 1977 and 1976

	Company		Consolidation	
	1977	1976	1977	1976
	(thousands of dollars)			
SOURCES OF FUNDS				
From operations				
Net earnings	\$ 12,626	\$ 13,199	\$ 12,626	\$ 13,199
Provision for losses on receivables	13,786	16,882	16,056	19,235
Increase (decrease) in miscellaneous liabilities and income taxes	1,943	(2,402)	2,955	(3,679)
Depreciation and amortization of property and equipment	960	937	1,038	1,032
Decrease (increase) in prepaid expenses, income taxes recoverable and other	629	(3,312)	360	(2,729)
Decrease (increase) in deferred income taxes	(31)	320	(44)	253
Decrease in deferred insurance commissions	(34)	(91)	(56)	(156)
Cash dividends received from insurance subsidiaries	8,000	8,000	8,000	8,000
Equity in net earnings of subsidiaries	(6,387)	(5,476)	(2,752)	(2,461)
Total from operations	31,492	28,057	38,183	32,694
Collections on receivables (excluding finance charges included in net earnings)	211,636	199,337	314,620	293,453
Proceeds from issuance of senior notes	81,400	61,391	81,400	61,391
Increase (decrease) in short-term debt	55,419	(30,786)	55,419	(30,786)
Decrease (increase) in cash	1,732	(2,383)	1,732	(2,383)
Total	\$ 381,679	\$ 255,616	\$ 491,354	\$ 354,369

USES OF FUNDS

New funds advanced to customers	\$ 224,029	\$ 191,722	\$ 340,000	\$ 309,682
Bulk purchases of receivables	8,329	1,983	8,864	1,983
Reduction in long-term debt	92,553	32,940	110,982	32,940
Increase in unrealized loss on foreign exchange	15,848		15,848	
Decrease in unrealized gain on foreign exchange	2,625	8,467	2,625	8,467
Increase in property and equipment	859	1,033	844	1,004
Preference share purchases and redemptions	8,346	164	8,346	164
Cash dividends on common shares	3,725		3,725	
Cash dividends on preference shares	120	129	120	129
Increase in demand notes receivable from subsidiaries	25,245	19,178		
Total	\$ 381,679	\$ 255,616	\$ 491,354	\$ 354,369

See accompanying notes.



Notes to Financial Statements

November 30, 1977

1. Basis of financial statements

The consolidated financial statements include the accounts of the Company and all of its subsidiaries other than insurance subsidiaries. The accounts of the insurance subsidiaries are not consolidated because their assets and investments are regulated and are not interchangeable with those of the Company. The net assets of the insurance subsidiaries are included under the heading "Equity in net assets of subsidiaries" in the consolidated statement of financial position. The net earnings of the insurance subsidiaries are included under the heading "Equity in net earnings of subsidiaries" in the consolidated statement of earnings.

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".

The following represent the significant accounting policies not disclosed elsewhere in the financial statements.

(a) 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 accounts for which no payment has been received for eight consecutive months are written off. The Company charges against current income as a provision for losses on receivables such amounts as management believes to be adequate.

(b) Deferred insurance commissions

The Company defers the entire amount of insurance commissions received from carriers. The deferred insurance commissions are credited to earnings over the life of the related insurance contracts on a basis consistent with the premium recognition methods used by the insurance company.

(c) Deferred income taxes

The Company is required under the Income Tax Act, Canada to include interest income on interest bearing loans due but not yet collected in taxable income although such interest income is not included in the earnings of the Company. The resulting deferred income tax debit is shown as an asset in the accompanying statement of financial position.

(d) Foreign exchange

At November 30, 1977 assets of \$292,000 and liabilities of \$218,941,000 were represented by amounts to be settled in U.S. 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 at November 30, 1977 is shown as "Unrealized loss on foreign exchange" in the accompanying statement of financial position. The Company follows the practice of including in earnings the portion of the deferred account which has been realized upon settlement of the applicable transaction.

U.S. dollar amounts at November 30, 1977 and 1976 have been translated at the closing rate on those dates (Can. \$1 = U.S. \$0.9027 and Can. \$1 = U.S. \$0.9700, respectively). For the years ended November 30, 1977 and 1976, U.S. dollar income and expense accounts were translated at the average rate of Can. \$1 = U.S. \$0.9472 and Can. \$1 = U.S. \$1.0100, respectively.

In October 1977, the Company entered into forward exchange contracts to purchase U.S. \$58,533,000 for Can. \$65,000,000 at various dates to July 19, 1978. 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 period in which the foreign exchange rate changes.

2. Receivables

Receivables outstanding at November 30, 1977 and 1976 were as follows:

	Company		Consolidation	
	1977	1976	1977	1976
			(thousands of dollars)	
Consumer loans	\$ 304,832	\$ 306,676	\$ 504,394	\$ 495,339
Retail instalment contracts	38,136	27,103	38,136	27,103
	342,968	333,779	542,530	522,442
Less unearned charges.....	(6,058)	(4,101)	(6,101)	(4,160)
Total.....	<u>\$ 336,910</u>	<u>\$ 329,678</u>	<u>\$ 536,429</u>	<u>\$ 518,282</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 maximum term of 180 months) is 60 months. However, approximately 95 percent of consumer loans and retail instalment contracts are written with terms of 48 months or less.

3. Equity in net assets of insurance subsidiaries

At November 30, 1977 the combined assets and combined liabilities of the insurance subsidiaries amounted to \$31,127,000 and \$21,175,000, respectively (\$37,612,000 and \$22,412,000 respectively at November 30, 1976). Included in the assets of the insurance subsidiaries are investments in securities carried at an aggregate cost of \$22,789,000 at November 30, 1977 and \$32,632,000 at November 30, 1976 for which the aggregate market values at those dates were \$22,150,000 and \$30,088,000, respectively. In management's opinion the excess of cost over market value of these investments is not of a permanent nature. Revenues (including investment income) and net earnings of the insurance subsidiaries were \$10,541,000 and \$2,752,000 in 1977 and \$10,955,000 and \$2,461,000 in 1976, respectively. Included in net earnings are commissions paid to Avco Financial Services Canada Limited amounting to \$224,000 in 1977 and \$207,000 in 1976.

4. Long-term debt

	<u>1977</u>	<u>1976</u>
	(thousands of dollars)	
Long-term debt at November 30, 1977 and 1976 is summarized below:		
Senior notes payable		
Due in Canadian funds		
6 $\frac{1}{8}$ % - 6 $\frac{3}{8}$ % Notes payable maturing in 1978	100	\$ 250
8 $\frac{1}{4}$ % Note payable maturing December 1978	1,400	
Note payable maturing \$2,500,000 semi-annually to December 1979 (prime + 1 $\frac{1}{2}$ % interest)	12,500	17,500
9 $\frac{1}{2}$ % Notes payable maturing August 1982	20,000	
Note payable maturing \$5,000,000 annually to September 1982 (prime + $\frac{3}{4}$ % interest)	25,000	
9 $\frac{1}{2}$ % Note payable \$2,500,000 semi-annually from October 1979 to April 1982, maturing October 1982	20,000	
Note payable maturing \$3,000,000 annually to September 1982 (prime + $\frac{3}{4}$ % interest)	<u>15,000</u>	
Total due in Canadian funds	<u>94,000</u>	<u>17,750</u>
Due in U.S. funds (See also note 1(d))		
Note payable U.S. \$1,800,000 in 1977 (prime + $\frac{1}{2}$ % interest)		1,856
8 $\frac{1}{2}$ % Note payable U.S. \$600,000 in December 1978 and 1979 and U.S. \$1,800,000 in 1980 (U.S. \$3,000,000)	3,323	3,093
Note payable U.S. \$1,000,000 in 1980 and U.S. \$4,000,000 in 1981 (U.S. \$5,000,000) (prime + 1 $\frac{1}{4}$ % to maximum of 8 $\frac{1}{4}$ % interest)	5,539	5,155
7 $\frac{3}{8}$ % Notes payable U.S. \$2,940,000 annually and maturing January 1983 (U.S. \$17,640,000)	19,541	21,216
9 $\frac{1}{4}$ % Notes payable sinking fund payments due U.S. \$1,000,000 in 1978, U.S. \$800,000 in 1979, U.S. \$600,000 in 1980, U.S. \$400,000 in 1981 and maturing September 1983 (U.S. \$20,000,000)	22,156	20,619
9 $\frac{3}{4}$ % Notes payable U.S. \$2,500,000 annually from June 1983 to 1991 and maturing June 1992 (U.S. \$25,000,000)	27,695	25,773
8 $\frac{3}{8}$ % Notes payable U.S. \$3,000,000 annually from 1978 to 1991 and maturing June 1992 (U.S. \$47,000,000)	<u>52,066</u>	<u>51,546</u>
Total due in U.S. funds (U.S. \$117,640,000 in 1977)	<u>130,320</u>	<u>129,258</u>
Total senior notes payable	<u>224,320</u>	<u>147,008</u>
Notes due to parent company		
Senior notes - Company and consolidation		
9% Notes payable maturing in 1991 (U.S. \$72,500,000 in 1977)	80,315	160,309
Subordinated notes		
7 $\frac{1}{2}$ %-7 $\frac{7}{8}$ % Notes payable maturing in 1986 to 1988 (including Company only of \$8,471,000)		26,900
Total notes due to parent company	<u>80,315</u>	<u>187,209</u>
Total long-term debt	<u>\$ 304,635</u>	<u>\$ 334,217</u>

The maturities and sinking fund requirements on long-term debt for the five years subsequent to November 30, 1977 and thereafter are as follows: 1978 - \$20,788,000; 1979 - \$25,031,000; 1980 - \$24,518,000; 1981 - \$26,447,000; 1982 - \$42,080,000; 1983 and thereafter - \$165,771,000.

5. Share Capital

	<u>1977</u>		<u>1976</u>
	<u>Authorized</u>	<u>Issued</u>	<u>Issued</u>
	(thousands of dollars)		
Share capital at November 30, 1977 and 1976 is shown below:			
Preference shares			
5½% cumulative voting Class A preference shares each redeemable at their par value of \$100			
Authorized and issued less redeemed			
1977 - 19,847 shares	\$ 1,985	\$ 1,985	
1976 - 22,245 shares			\$ 2,225
5½% cumulative voting Class B sinking fund preference shares of \$100 par value each redeemable at par			
Authorized and issued less redeemed			
1977 - Nil			
1976 - 11,500 shares			1,150
5% cumulative voting Class C preference shares of \$100 par value each redeemable at par			
Authorized and issued less redeemed			
1977 - Nil			
1976 - 20,000 shares			2,000
5½% cumulative voting Class D sinking fund preference shares of \$100 par value each redeemable at par			
Authorized and issued less redeemed			
1977 - Nil			
1976 - 50,000 shares			5,000
	<u>\$ 1,985</u>	<u>\$ 1,985</u>	<u>\$ 10,375</u>
Common shares of no par value			
Authorized - 2,000,000 shares			
Issued -			
1977 and 1976 - 1,670,382¾ shares		<u>\$ 16,788</u>	<u>\$ 16,788</u>

During the year the Company purchased for cancellation 2,398 Class A preference shares for \$196,100 cash. The difference between the par value of the preference shares purchased of \$239,800 and the cash paid in respect thereof has been credited to additional paid-in capital. During the year all Class B, C and D preference shares were redeemed at par for cash totalling \$8,150,000.

6. Statutory information

The aggregate direct remuneration paid or payable by the Company and its subsidiaries to its directors and officers (as defined under the Business Corporations Act - Ontario) for the years ended November 30, 1977 and 1976 amounted to \$895,000 and \$898,000, respectively.

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, 1977 under all leases are as follows: 1978 — \$3,143,000; 1979 — \$2,524,000; 1980 — \$1,891,000; 1981 — \$1,362,000; 1982 — \$867,000; 1983 and thereafter — \$2,513,000.

7. Anti-Inflation Act

The Company is subject to mandatory compliance with the Anti-Inflation Act of October 1975 (to remain in force until the end of the Company's 1978 fiscal year) which controls prices, profit margins, employee compensation and shareholders' dividends. Dividends to the Company's shareholders during the third compliance period of the program ending October 14, 1978, may not exceed \$3,860,000.

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