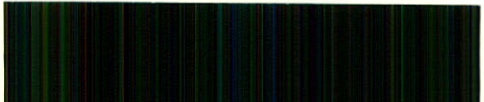
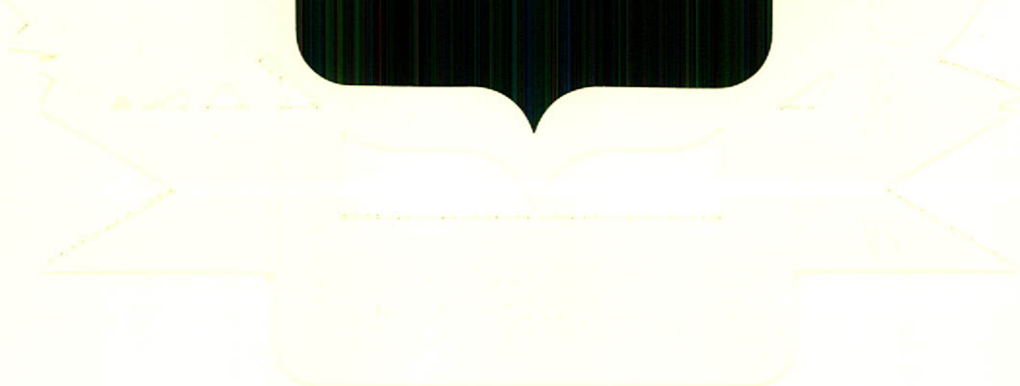
AVCO FINANCIAL SERVICES CANADA LIMITED

AND ITS SUBSIDIARIES

Financial Report For The Year Ended November 30, 1976





The Avco Financial Services Coat of Arms was specially designed to commemorate the Company's 1976 Executive Conference.

The Heraldic design features a Maltese Cross fashioned from the Avco logo, surrounded by representations of the countries in which the Company operates: Australia, Canada, the United Kingdom and the United States.

The legend, "Habes Quod Requiritur," loosely translates into "You've Got What It Takes," the 1976 Executive Conference theme.


HABES QUOD
REQUIRITUR

AUDITORS' REPORT

Arthur Young, Clarkson, Gordon & Co.

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

The Stockholders,
Avco Financial Services Canada Limited

We have examined the statement of financial position of Avco Financial Services Canada Limited and the consolidated statements of financial position of Avco Financial Services Canada Limited and its subsidiaries as at November 30, 1976 and the respective statements of earnings, stockholders' 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, 1976 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 and its subsidiaries as at November 30, 1976 and the results of their operations and the changes in their financial position for the year then ended,

both 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.

January 27, 1977

AVCO FINANCIAL SERVICES CANADA LIMITED
AND ITS SUBSIDIARIES
(Incorporated under the laws of Ontario)

FINANCIAL POSITION

November 30, 1976 and 1975

	Company		Consolidation	
	1976	1975	1976	1975
	(Thousands of dollars)			
ASSETS				
Cash	$ 2,855	$ 472	$ 2,855	$ 472
Installment Receivables (Note 1)	333,779	351,368	522,442	518,407
Unearned charges	(4,101)	(2,823)	(4,160)	(2,906)
Net receivables	329,678	348,545	518,282	515,501
Allowance for losses	(21,112)	(17,468)	(24,181)	(20,377)
	308,566	331,077	494,101	495,124
Prepaid Expenses, Income Taxes and Other	4,776	1,464	4,193	1,464
Deferred Income Taxes (Note 1)	1,689	2,009	2,396	2,649
Demand Notes Receivable from Finance Subsidiaries	113,745	94,567		
Equity in Net Assets of Subsidiaries (Note 2)	68,640	71,166	15,200	20,738
Property and Equipment, at cost	10,745	9,712	13,350	12,346
Accumulated depreciation and amortization	(6,523)	(5,586)	(8,809)	(7,777)
Net property and equipment	4,222	4,126	4,541	4,569
Intangible Assets Recognized in Acquisitions, without amortization	805	805	805	805
TOTAL ASSETS	$505,298	$505,686	$524,091	$525,821

See accompanying notes.

	Company		Consolidation	
	1976	1975	1976	1975
		(Thousands of dollars)		
LIABILITIES AND STOCKHOLDERS' EQUITY				
Short-Term Debt—Unsecured				
Banks		$ 7,350		$ 7,350
Commercial paper (including amounts payable in U.S. funds—$ Nil in 1976, $17,500,000 in 1975)	$ 37,648	44,834	$ 37,648	44,834
Due to parent company on current account	1,362	17,612	1,362	17,612
Total short-term debt	39,010	69,796	39,010	69,796
Accounts Payable and Accrued Liabilities	8,602	7,125	8,602	7,125
Deferred Insurance Commissions (Note 1)	525	616	889	1,045
Income Taxes		3,879		5,156
Long-Term Debt—Unsecured (Note 3)				
Senior notes payable	147,008	110,168	147,008	110,168
Notes due to parent company				
Senior notes	160,309	168,697	160,309	168,697
Subordinated notes	8,471	8,471	26,900	26,900
	168,780	177,168	187,209	195,597
Total long-term debt	315,788	287,336	334,217	305,765
Deferred Gain on Foreign Exchange (Note 1)	2,625	11,092	2,625	11,092
STOCKHOLDERS' EQUITY				
Capital stock (Note 4)				
Preference	10,375	10,585	10,375	10,585
Common	16,788	16,788	16,788	16,788
Additional paid-in capital	6,008	5,962	6,008	5,962
Retained earnings	105,577	92,507	105,577	92,507
Total stockholders' equity	138,748	125,842	138,748	125,842
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$505,298	$505,686	$524,091	$525,821

On behalf of the Board

Director

Director

EARNINGS

For the Years Ended November 30, 1976 and 1975

	Company		Consolidation	
	1976	1975	1976	1975
	(Thousands of dollars)			
REVENUES				
Interest and finance charges and other revenues	$ 76,117	$ 78,877	$107,811	$108,864
Interest from finance subsidiaries	10,197	8,582		
Total revenues	86,314	87,459	107,811	108,864
EXPENSES				
Interest and debt expense	32,417	32,771	33,800	34,573
Provision for losses on installment receivables, less recoveries	14,617	11,658	16,119	13,621
Other operating expenses	25,633	25,330	38,333	37,140
Total expenses	72,667	69,759	88,252	85,334
EARNINGS BEFORE INCOME TAXES	13,647	17,700	19,559	23,530
INCOME TAXES	6,773	9,025	9,670	11,907
EARNINGS BEFORE EQUITY IN NET EARNINGS OF SUBSIDIARIES, LOSS ON SALE OF UNITED KINGDOM SUBSIDIARY AND GAIN ON FOREIGN EXCHANGE	6,874	8,675	9,889	11,623
EQUITY IN NET EARNINGS OF SUBSIDIARIES (Note 2)				
Finance subsidiaries	3,015	2,948		
Insurance subsidiaries (including net realized capital losses: $261,000 in 1976 and $322,000 in 1975)	2,461	2,453		2,453
Total	5,476	5,401	2,461	2,453
LOSS ON SALE OF UNITED KINGDOM SUBSIDIARY		(644)		(644)
EARNINGS BEFORE GAIN ON FOREIGN EXCHANGE	12,350	13,432	12,350	13,432
GAIN ON FOREIGN EXCHANGE (less income taxes: $814,000 in 1976 and $1,448,000 in 1975)	849	1,335	849	1,335
NET EARNINGS	$ 13,199	$ 14,767	$ 13,199	$ 14,767

STOCKHOLDERS' EQUITY

For the Years Ended November 30, 1976 and 1975

	1976					1975
	Preference stock (Note 4)	Common stock	Additional paid-in capital (Note 4)	Retained earnings	Total	Total
			(Thousands of dollars)			
Balance at beginning of year	$10,585	$16,788	$5,962	$92,507	$125,842	$111,296
Net earnings				13,199	13,199	14,767
Preference stock purchases and redemptions	(210)		46		(164)	(84)
Cash dividends paid on preference shares				(129)	(129)	(137)
Balance at end of year	$10,375	$16,788	$6,008	$105,577	$138,748	$125,842

See accompanying notes.

CHANGES IN FINANCIAL POSITION

For the Years Ended November 30, 1976 and 1975

	Company		Consolidation	
	1976	1975	1976	1975
	(Thousands of dollars)			
SOURCES OF FUNDS				
From operations				
Net earnings	$ 13,199	$ 14,767	$ 13,199	$ 14,767
Provision for losses on installment receivables	16,882	13,819	19,235	16,383
Depreciation and amortization of property and equipment	937	1,110	1,032	1,225
Decrease (increase) in deferred income taxes	320	(2,009)	253	(2,649)
Decrease in deferred insurance commissions	(91)	(79)	(156)	(222)
Increase in prepaid expenses, income taxes and other	(3,312)	(374)	(2,729)	(318)
Increase (decrease) in miscellaneous liabilities	(2,402)	(547)	(3,679)	815
Cash dividends received from insurance subsidiaries	8,000	900	8,000	900
Equity in net earnings of subsidiaries	(5,476)	(5,401)	(2,461)	(2,453)
Total from operations	28,057	22,186	32,694	28,448
Collections on installment receivables (excluding finance charges included in net earnings)	199,337	192,606	293,453	289,835
Proceeds from issuance of senior notes	61,391	25,000	61,391	25,000
TOTAL	$288,785	$239,792	$387,538	$343,283

	Company		Consolidation	
	1976	1975	1976	1975
USES OF FUNDS				
New funds advanced to customers	$191,722	$186,249	$309,682	$284,031
Reduction in long-term debt	32,940	56,460	32,940	56,460
Decrease (increase) in short-term debt	30,786	(9,948)	30,786	(4,912)
Decrease in deferred gain on foreign exchange	8,467	8,757	8,467	8,636
Increase (decrease) in cash	2,383	(1,894)	2,383	(1,894)
Bulk purchases of installment receivables	1,983	236	1,983	236
Increase in property and equipment	1,033	806	1,004	505
Purchase of preference shares	164	84	164	84
Cash dividends on preference shares	129	137	129	137
Increase (decrease) in demand notes receivable from subsidiaries	19,178	(1,095)		
TOTAL	$288,785	$239,792	$387,538	$343,283

See accompanying notes.

13:41

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 1976

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 net assets of the insurance subsidiaries are included under the heading "Equity in Net Assets of Subsidiaries" in the statement of consolidated financial position. The net earnings of the insurance subsidiaries are included under the heading "Equity in Net Earnings of Subsidiaries" in the statement of consolidated earnings.

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

(a) **Installment receivables—**

Under the current policy followed by the Company, the entire finance charge is credited to unearned charges. No portion is recognized as an acquisition cost. The unearned charges (all of which relate to loans with original contract terms of less than eighty-four months) are transferred to earnings on the sum-of-the-digits accrual method beginning with the month following acquisition. Interest on loans which do not include interest or finance charges in the original face amount is taken into earnings as collected.

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 loss on installment 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 income tax debit is shown as an asset in the accompanying statement of financial position.

(d) **Foreign exchange—**

At November 30, 1976, assets of $494,000 and liabilities of $293,287,000 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 gain which has occurred as a result of this practice has been deferred and is shown as "Deferred Gain 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 accounts at November 30, 1976, and 1975 have been translated at the closing rate on those dates ($1 Canadian = $0.97 U.S. and $1 Canadian = $0.99 U.S., respectively). For the years ended November 30, 1976 and 1975, U.S. dollar income and expense amounts were translated at the average rate of $1 Canadian = $1.01 U.S. and $1 Canadian = $0.99 U.S., respectively.

2. Equity in net assets of subsidiaries

The intangibles recognized on the acquisition of subsidiaries are shown separately under the heading "Intangible Assets Recognized in Acquisitions, without amortization".

At November 30, 1976 the combined assets and combined liabilities of the insurance subsidiaries amounted to $37,612,000 and $22,412,000, respectively ($45,594,000 and $24,856,000, respectively at November 30, 1975). Included in the assets of the insurance subsidiaries are investments in securities carried at an aggregate cost of $32,632,000 at November 30, 1976 and $36,113,000 at November 30, 1975, for which the aggregate market values at those dates were $30,088,000 and $32,357,000, respectively. The majority of the excess cost over market value in these investments is related to bonds which the Company intends to hold until maturity. It is the Company's opinion that the remaining portion of such excess of cost over market value in these investments is not of a permanent nature. Revenues of the insurance subsidiaries were $8,268,000 in 1976 and $7,078,000 in 1975.

3. Long-term debt

	1976	1975
	(Thousands of dollars)	
Senior notes payable		
Due in Canadian funds		
6¾% Series G maturing $20,000 annually to 1977	$ 20	$ 40
6⅜% Series I maturing $50,000 annually to 1978	100	150
6¼% Series J maturing $30,000 annually to 1977	30	60
6⅛% Series K maturing $50,000 annually to 1978	100	150
Note payable maturing $1,000,000 annually from August, 1978 to August, 1982 (prime + 1½% interest)		5,000
Note payable maturing $2,500,000 semi-annually from December, 1976 to December, 1979 (prime + 1½% interest)	17,500	20,000
	17,750	25,400
Due in U.S. funds		
Note payable U.S. $1,800,000 in 1977 (prime + ½% interest)	1,856	2,424
8½% Note payable U.S. $600,000 in 1978 and 1979 and U.S. $1,800,000 in 1980 (U.S. $3,000,000)	3,093	3,030
Note payable U.S. $1,000,000 in 1980 and U.S. $4,000,000 in 1981 (U.S. $5,000,000) (prime + 1¼% to maximum of 8¼% interest)	5,155	5,051
7⅜% Notes payable U.S. $2,940,000 annually and maturing January, 1983 (U.S. $20,580,000)*	21,216	23,758
9¼% Note payable maturing September, 1983 sinking fund payments due U.S. $1,000,000 in 1978, U.S. $800,000 in 1979, U.S. $600,000 in 1980 and U.S. $400,000 in 1981 (U.S. $20,000,000)	20,619	
9¾% Notes payable U.S. $5,000,000 annually from June, 1983, to 1991 and maturing June 1992** Authorized—U.S. $50,000,000 Issued and outstanding—U.S. $25,000,000	25,773	
8⅜% Notes payable U.S. $3,000,000 annually from June 1, 1977, to 1991 and maturing June, 1992 (U.S. $50,000,000)	51,546	50,505
	129,258	84,768
	$147,008	$110,168
Notes due to parent company		
Senior notes—Company and consolidation		
9% Note payable maturing in 1991 (U.S. $155,500,000)	$160,309	$168,697
Subordinated notes		
7½%-7⅝% Notes maturing in 1986 to 1988—consolidation	$ 26,900	$ 26,900
Amount of subordinated notes included above which is due by a subsidiary company	(18,429)	(18,429)
Total—Company only	$ 8,471	$ 8,471

*The Company may repay the 7⅜% notes in whole or in part in excess of amounts due annually together with a prepayment premium of 3.175% if prepaid before January, 1977, reducing each year thereafter by .525% to maturity. In certain circumstances, a reduced premium of 1.588% may be payable if prepaid before January, 1977, reducing each year thereafter by .2625% to maturity.

**The Company may repay the 9¾% notes in whole or in part in excess of amounts due annually together with a prepayment premium of 9.750% commencing June 30, 1983, and reducing each year thereafter by 1.393% to 1990. In certain circumstances a reduced premium of 6.964% may be payable if prepaid before June 30, 1981, reducing each year thereafter by .696% annually to 1990. The Company may also repay an additional amount not to exceed U.S. $12,500,000 without premium commencing June 1983, to June 1991. The Company intends to issue 9¾% notes payable in the amount of U.S. $25,000,000 by June 30, 1977.

4. Capital stock

	1976 Authorized	1976 Issued	1975 Issued
	(Thousands of dollars)		
Preference shares			
5½% cumulative voting Class A preference shares of $100 par value each redeemable at a premium of ½% to April 30, 1977			
Authorized and issued less redeemed			
1976—22,245 shares	$ 2,225	$ 2,225	
1975—24,345 shares			$ 2,435
5½% cumulative voting Class B sinking fund preference shares of $100 par value each redeemable at par. Annual minimum sinking fund requirement equal to 10% of outstanding shares of class (which requirement has been waived by the stockholder)			
Authorized and issued			
1976 and 1975—11,500 shares	1,150	1,150	1,150
5% cumulative voting Class C preference shares of $100 par value each redeemable at par			
Authorized and issued			
1976 and 1975—20,000 shares	2,000	2,000	2,000
5½% cumulative voting Class D sinking fund preference shares of $100 par value each redeemable at par. Annual minimum sinking fund requirement equal to 10% of outstanding shares of class (which requirement has been waived by the stockholder)			
Authorized and issued			
1976 and 1975—50,000 shares	5,000	5,000	5,000
	$10,375	$10,375	$10,585
(The Class A, B, and C preference shares rank in priority to the Class D shares. Cumulative dividends to November 30, 1976 for Class B, C and D preference shares have been waived by the stockholder.)			
Common shares of no par value			
Authorized—2,000,000 shares			
Issued—			
1976 and 1975—1,670,382¾ shares		$16,788	$16,788

During the year the Company purchased for cancellation 2,100 Class A preference shares for $163,800 cash. The difference between the par value of the preference shares purchased of $210,000 and the cash paid in respect thereof has been credited to additional paid-in capital.

5. 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, 1976 and 1975 amounted to $898,000 and $680,000 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 $2,400,000. The total rental obligations as at November 30, 1976 under all leases are approximately $11,500,000 ($12,800,000 in 1975).

6. Anti-Inflation Act

The Company is subject to mandatory compliance with the Anti-Inflation Act of October 1975 (presently scheduled to be in force until December 31, 1978) which controls prices, profit margins, employee compensation and stockholders' dividends. Dividends to the Company's stockholders during the second compliance period of the program ending October 14, 1977, may not exceed $3,860,000.

Printed in U.S.A.