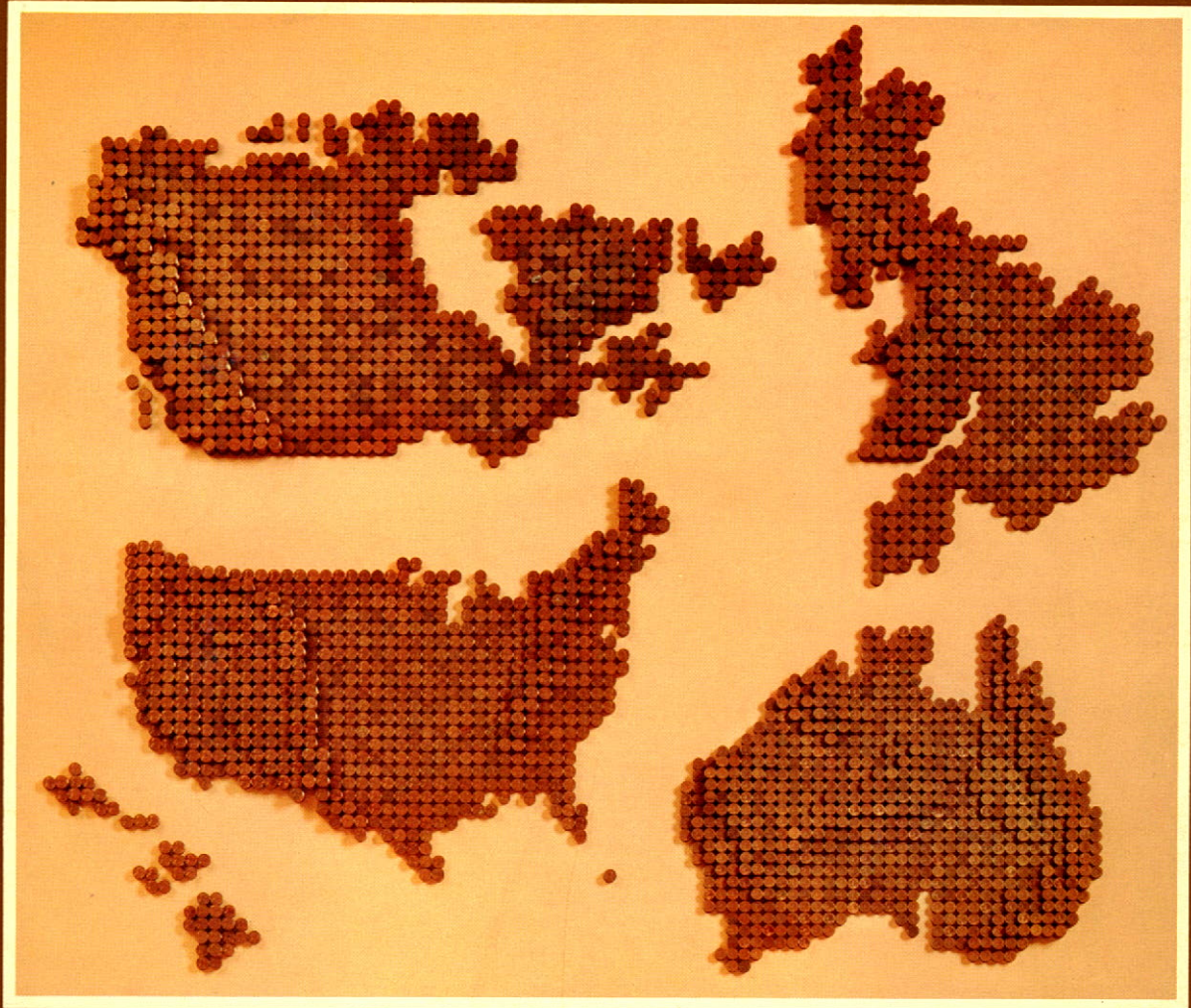


AVCO FINANCIAL SERVICES CANADA LIMITED
AND ITS SUBSIDIARIES



**Financial Report For The Year Ended
November 30, 1975**

HOWARD ROSS LIBRARY
OF MANAGEMENT

MAR 14 1978

MCGILL UNIVERSITY



The Cover: Pennies from Australia, Canada, the United Kingdom and the United States take the shape of the four countries in which Avco Financial Services operates.

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 statement of financial position of Avco Financial Services Canada Limited and its subsidiaries as at November 30, 1975 and the respective statements of earnings, stockholders' equity and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence 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, 1975 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, 1975 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.

February 11, 1976

FINANCIAL POSITION

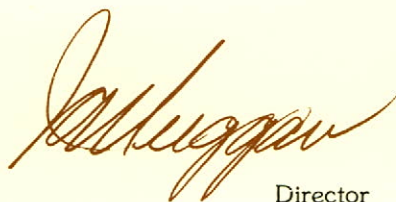
November 30, 1975 and 1974

	<u>Company</u>		<u>Consolidation</u>	
	<u>1975</u>	<u>1974</u>	<u>1975</u>	<u>1974</u>
	(Thousands of dollars)			
ASSETS				
Cash	\$ 472	\$ 2,366	\$ 472	\$ 2,366
Installment Receivables (Note 1)	351,368	370,836	518,407	540,406
Less unearned charges	<u>(2,823)</u>	<u>(3,540)</u>	<u>(2,906)</u>	<u>(4,066)</u>
Net receivables	348,545	367,296	515,501	536,340
Less allowance for losses	<u>(17,468)</u>	<u>(16,279)</u>	<u>(20,377)</u>	<u>(19,266)</u>
	331,077	351,017	495,124	517,074
Prepaid Expenses and Other	1,464	1,090	1,464	1,146
Deferred Income Tax Debit (Note 1)	2,009		2,649	
Demand Notes Receivable from Finance Subsidiaries	94,567	93,303		
Equity in Net Assets of Subsidiaries (Note 2)	71,166	69,024	20,738	19,186
Property and Equipment, at cost	9,712	8,906	12,346	11,878
Less accumulated depreciation and amortization	<u>(5,586)</u>	<u>(4,476)</u>	<u>(7,777)</u>	<u>(6,589)</u>
Net property and equipment	4,126	4,430	4,569	5,289
Intangible Assets recognized in acquisitions, without amortization	<u>805</u>	<u>805</u>	<u>805</u>	<u>805</u>
TOTAL ASSETS	<u><u>\$505,686</u></u>	<u><u>\$522,035</u></u>	<u><u>\$525,821</u></u>	<u><u>\$545,866</u></u>

See accompanying notes.

	<u>Company</u>		<u>Consolidation</u>	
	<u>1975</u>	<u>1974</u>	<u>1975</u>	<u>1974</u>
	(Thousands of dollars)			
LIABILITIES AND STOCKHOLDERS' EQUITY				
Short-Term Debt—Unsecured				
Banks	\$ 7,350	\$ 9,540	\$ 7,350	\$ 14,391
Commercial paper (including amounts payable in U.S. funds—\$17,500,000 in 1975, \$5,000,000 in 1974)	44,834	39,152	44,834	39,337
Due to parent company on current account	<u>17,612</u>	<u>11,156</u>	<u>17,612</u>	<u>11,156</u>
Total short-term debt	69,796	59,848	69,796	64,884
Accounts Payable	908	854	908	854
Deferred Insurance Commissions (Note 1)	616	695	1,045	1,267
Income Taxes	3,879	4,977	5,156	4,683
Accrued Liabilities				
Interest	3,791	3,991	3,791	4,060
Other	<u>2,426</u>	<u>1,729</u>	<u>2,426</u>	<u>1,869</u>
Total accrued liabilities	6,217	5,720	6,217	5,929
Long-Term Debt—Unsecured (Note 3)				
Senior notes payable	110,168	105,365	110,168	105,365
Notes due to parent company				
Senior notes	168,697	204,960	168,697	204,960
Subordinated notes	<u>8,471</u>	<u>8,471</u>	<u>26,900</u>	<u>26,900</u>
Total long-term debt	<u>177,168</u>	<u>213,431</u>	<u>195,597</u>	<u>231,860</u>
Deferred Gain on Foreign Exchange (Note 1)	11,092	19,849	11,092	19,728
STOCKHOLDERS' EQUITY				
Capital stock (Note 4)				
Preference	10,585	10,696	10,585	10,696
Common	16,788	16,788	16,788	16,788
Additional paid-in capital	5,962	5,935	5,962	5,935
Retained earnings	<u>92,507</u>	<u>77,877</u>	<u>92,507</u>	<u>77,877</u>
Total stockholders' equity	<u>125,842</u>	<u>111,296</u>	<u>125,842</u>	<u>111,296</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$505,686</u></u>	<u><u>\$522,035</u></u>	<u><u>\$525,821</u></u>	<u><u>\$545,866</u></u>

On behalf of the Board


Director


Director

EARNINGS

For The Years Ended November 30, 1975 and 1974

	Company		Consolidation	
	1975	1974	1975	1974
	(Thousands of dollars)			
OPERATING INCOME				
Interest and finance charges and other operating income	\$ 78,877	\$ 79,281	\$108,864	\$108,914
Interest income from finance subsidiaries	8,582	9,112		
Total	<u>87,459</u>	<u>88,393</u>	<u>108,864</u>	<u>108,914</u>
EXPENSES				
Interest and debt expense	32,771	34,560	34,573	36,205
Provision for losses on installment receivables (less recoveries)	11,658	9,398	13,621	10,318
Other operating expenses	25,330	22,693	37,140	35,695
Income taxes	9,025	11,179	11,907	13,987
Total	<u>78,784</u>	<u>77,830</u>	<u>97,241</u>	<u>96,205</u>
EARNINGS BEFORE EQUITY IN NET EARNINGS OF SUBSIDIARIES, LOSS ON SALE OF UNITED KINGDOM SUBSIDIARY, AND GAIN ON FOREIGN EXCHANGE	<u>8,675</u>	<u>10,563</u>	<u>11,623</u>	<u>12,709</u>
EQUITY IN NET EARNINGS OF SUBSIDIARIES (Note 2)				
Finance subsidiaries	2,948	2,146		
Insurance subsidiaries (including net realized capital losses: \$322,000 in 1975 and \$231,000 in 1974)	2,453	2,628	2,453	2,628
Total	<u>5,401</u>	<u>4,774</u>	<u>2,453</u>	<u>2,628</u>
LOSS ON SALE OF UNITED KINGDOM SUBSIDIARY	(644)		(644)	
EARNINGS BEFORE GAIN ON FOREIGN EXCHANGE	13,432	15,337	13,432	15,337
GAIN ON FOREIGN EXCHANGE (less income taxes: \$1,448,000 in 1975 and \$120,000 in 1974)	1,335	109	1,335	109
NET EARNINGS	<u>\$ 14,767</u>	<u>\$ 15,446</u>	<u>\$ 14,767</u>	<u>\$ 15,446</u>

STOCKHOLDERS' EQUITY

For The Years Ended November 30, 1975 and 1974

	1975				1974	
	Preference stock (Note 4)	Common stock	Additional paid-in capital (Note 4)	Retained earnings	Total	Total
	(Thousands of dollars)					
Balance at beginning of year	\$10,696	\$16,788	\$5,935	\$77,877	\$111,296	\$ 96,357
Net earnings				14,767	14,767	15,446
Preference stock purchases and redemptions	(111)		27		(84)	(356)
Cash dividends paid on preference shares				(137)	(137)	(151)
Balance at end of year	<u>\$10,585</u>	<u>\$16,788</u>	<u>\$5,962</u>	<u>\$92,507</u>	<u>\$125,842</u>	<u>\$111,296</u>

See accompanying notes.

CHANGES IN FINANCIAL POSITION

For The Years Ended November 30, 1975 and 1974

	<u>Company</u>		<u>Consolidation</u>	
	<u>1975</u>	<u>1974</u>	<u>1975</u>	<u>1974</u>
(Thousands of dollars)				
SOURCES OF FUNDS				
From Operations				
Net earnings	\$ 14,767	\$ 15,446	\$ 14,767	\$ 15,446
Provision for losses on installment receivables	13,819	12,164	16,383	13,401
Depreciation and amortization of property and equipment	1,110	897	1,225	1,106
Cash dividends received from insurance subsidiaries	900	200	900	200
Less equity in net earnings of subsidiaries	(5,401)	(4,774)	(2,453)	(2,628)
Total from operations	<u>25,195</u>	<u>23,933</u>	<u>30,822</u>	<u>27,525</u>
Collections on installment receivables (excluding finance charges included in net earnings)	192,606	201,831	289,835	295,572
Proceeds from issuance of senior notes	25,000	3,670	25,000	3,670
Increase (decrease) in short-term debt	9,948	(7,397)	4,912	(2,361)
Decrease (increase) in cash	1,894	(1,556)	1,894	(1,331)
Increase (decrease) in miscellaneous liabilities	(547)	3,468	815	4,356
Decrease in investment in subsidiaries	1,095	3,623		3,181
TOTAL	<u>\$255,191</u>	<u>\$227,572</u>	<u>\$353,278</u>	<u>\$330,612</u>
USES OF FUNDS				
New funds advanced to customers	\$186,485	\$222,370	\$284,267	\$325,173
Reduction in long-term debt	56,460	6,055	56,460	6,055
Decrease (increase) in deferred gain on foreign exchange	8,757	(2,695)	8,636	(2,689)
Increase in deferred income tax debit	2,009		2,649	
Increase in property and equipment	806	1,169	505	1,344
Increase in prepaid expenses and other	374	52	318	108
Decrease in deferred insurance commissions	79	114	222	114
Cash dividends on preference shares	137	151	137	151
Purchase of preference shares	84	356	84	356
TOTAL	<u>\$255,191</u>	<u>\$227,572</u>	<u>\$353,278</u>	<u>\$330,612</u>

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 1975

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 losses 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) Income taxes—

Commencing with its fiscal year ended November 30, 1975 the Company is required under the Income Tax Act, Canada, to include interest income 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 statements of financial position.

(d) Foreign exchange—

At November 30, 1975, assets of \$242,000 and liabilities of \$282,832,000 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 gain on translation which has occurred as a result of this practice has been deferred and is shown as Deferred Gain on Foreign Exchange in the accompanying statements of financial position at November 30, 1975 and 1974. The U.S. dollar accounts at November 30, 1975 and 1974 have been translated at the closing rate on these dates (\$1 Canadian = \$0.99 U.S. and \$1 Canadian = \$1.01 U.S., respectively). For the years ended November 30, 1975 and 1974, U.S. dollar income and expense accounts were translated at the average rates of \$1 Canadian = \$0.99 U.S. and \$1 Canadian = \$1.02 U.S., respectively.

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.

The Company's equity in the net earnings of its foreign insurance subsidiaries for each year since acquisition has been translated into Canadian dollars at the average rate of exchange for each respective year. The income and expenses of the Company's United Kingdom finance subsidiary have been translated into Canadian dollars at the average rate of exchange during the period from November 30, 1974 to the date of its sale in 1975.

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, 1975 the combined assets and combined liabilities of the insurance subsidiaries amounted to \$45,594,000 and \$24,856,000 respectively (\$39,158,000 and \$19,972,000 respectively for 1974). Included in the assets of the insurance subsidiaries are investments in securities carried at an aggregate cost of \$36,113,000 at November 30, 1975 and \$32,566,000 at November 30, 1974, for which the aggregate market values at those dates were \$32,357,000 and \$26,758,000 respectively. The majority of the excess of 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 \$7,078,000 in 1975 and \$5,987,000 in 1974.

During the year the Company sold its shares in Avco Financial Services Limited (a United Kingdom subsidiary) to an affiliated company for \$2,081,000 resulting in a loss of \$644,000.

3. Long-term debt

Senior notes payable

	<u>1975</u>	<u>1974</u>
	(Thousands of dollars)	
Due in Canadian funds		
6¾ % Series G maturing \$20,000 annually to 1977	\$ 40	\$ 60
6¾ % Series I maturing \$50,000 annually to 1978	150	200
6¼ % Series J maturing \$30,000 annually to 1977	60	90
6½ % Series K maturing \$50,000 annually to 1978	150	200
7 % maturing May, 1975		4,600
9 % maturing November, 1975		5,000
8¾ % maturing December, 1975		700
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 June, 1976 to December, 1979 (prime + 1½ % interest)	20,000	
	<u>25,400</u>	<u>10,850</u>
Due in U.S. funds		
7 % - 7½ % Notes payable maturing December, 1974 (U.S. \$8,000,000)		7,921
Note payable maturing \$600,000 in 1976 and \$1,800,000 in 1977 (U.S. \$2,400,000) (prime + ½ % interest)	2,424	2,970
8¼ % Note payable maturing \$1,000,000 in 1980 and \$4,000,000 in 1981 (U.S. \$5,000,000)	5,051	4,950
7¾ % Notes payable maturing \$2,940,000 U.S. annually and maturing January, 1983 (U.S. \$23,520,000)*	23,758	26,198
8¾ % Notes payable maturing \$3,000,000 U.S. annually from June 1, 1977 to 1991 and maturing June, 1992 (U.S. \$50,000,000)	50,505	49,506
8½ % Note payable maturing \$600,000 in 1978 and 1979 and \$1,800,000 in 1980 (U.S. \$3,000,000)	3,030	2,970
	<u>84,768</u>	<u>94,515</u>
	<u>\$110,168</u>	<u>\$105,365</u>
Notes due to parent company		
Senior notes—Company and consolidation		
9½ % Note payable maturing in 1975 (U.S. \$40,000,000)		\$ 39,604
9 % Note payable maturing in 1991 (U.S. \$167,010,000)	\$168,697	165,356
	<u>\$168,697</u>	<u>\$204,960</u>
Subordinated notes		
7½ % - 7¾ % 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	<u>\$ 8,471</u>	<u>\$ 8,471</u>

*The company may repay the 7¾ % notes in whole or in part in excess of amounts due annually together with a prepayment premium of 3.700% if prepaid before January, 1976, reducing each year thereafter by .525% to maturity. In certain circumstances, a reduced premium of 1.850% may be payable if prepaid before January, 1976, reducing each year thereafter by .2625% to maturity.

4. Capital stock

	<u>1975</u>		<u>1974</u>
	<u>Authorized</u>	<u>Issued</u>	<u>Issued</u>
	(Thousands of dollars)		
Preference shares			
5½ % cumulative voting Class A preference shares of \$100 par value each redeemable at a premium of 1 % to April 30, 1976 reducing ½ % per year thereafter			
Authorized and issued less redeemed			
1975—24,345 shares	\$ 2,435	\$ 2,435	
1974—25,462 shares			\$ 2,546
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			
1975 and 1974—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			
1975 and 1974—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			
1975 and 1974—50,000 shares	5,000	5,000	5,000
	<u>\$10,585</u>	<u>\$10,585</u>	<u>\$10,696</u>
(The Class A, B, and C preference shares rank in priority to the Class D shares)			
Common shares of no par value			
Authorized—2,000,000 shares			
Issued—			
1975 and 1974—1,670,382 ¾ shares		<u>\$16,788</u>	<u>\$16,788</u>

During the year the Company purchased for cancellation 1,117 Class A preference shares for \$84,000 cash. The difference between the par value of the preference shares purchased of \$111,000 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, 1975 and 1974 amounted to \$680,000 and \$639,000 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 \$2,200,000. The total rental obligations as at November 30, 1975 under all leases are approximately \$12,800,000 (\$15,200,00 in 1974).



