

ARTHUR YOUNG, CLARKSON, GORDON & Co.

CHARTERED ACCOUNTANTS

AVCO FINANCIAL SERVICES CANADA LIMITED and its subsidiaries

FINANCIAL STATEMENTS

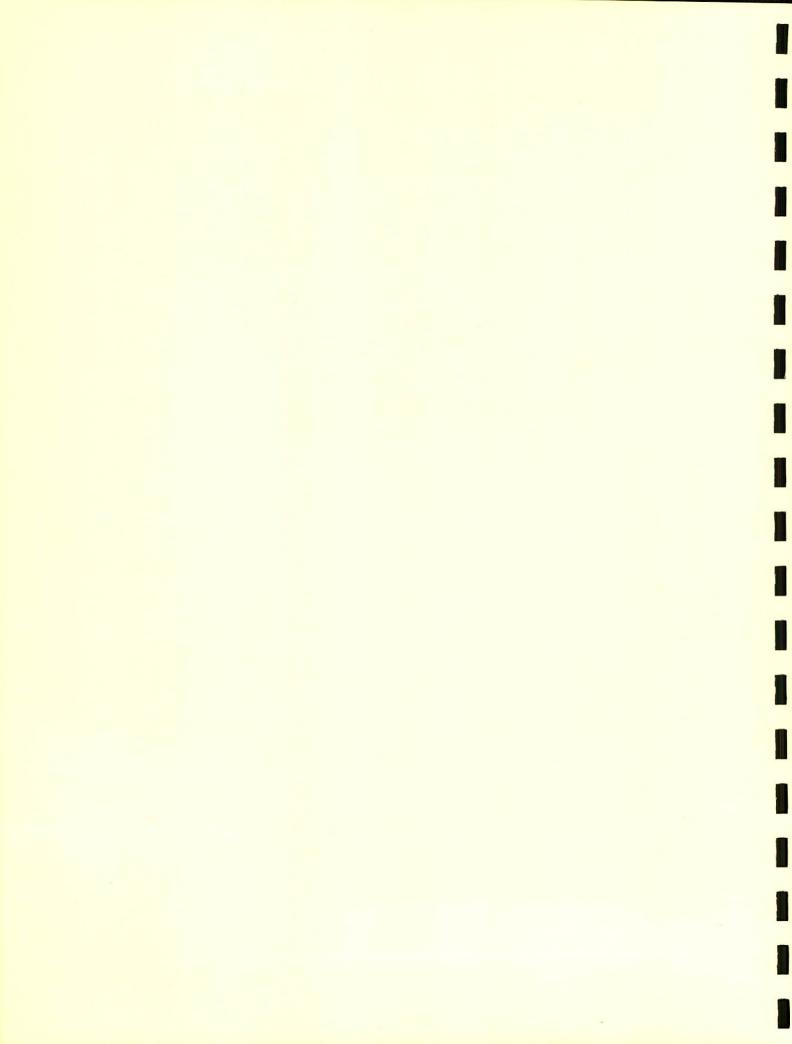
COMPANY AND CONSOLIDATION

NOVEMBER 30, 1973

MANAGEMENT LIBRARY MAY 21 1974

McGILL UNIVERSITY





ARTHUR YOUNG, CLARKSON, GORDON & CO.

CHARTERED ACCOUNTANTS

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LONDON 14, CANADA

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AUDITORS' REPORT

To 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 and its subsidiaries as at
November 30, 1973 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, 1973 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, 1973 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, after giving retroactive affect to the changes in accounting for insurance commissions as referred to in Note 1 and the changes in accounting for commission income and expenses by insurance subsidiaries referred to in Note 2, on a basis consistent with that of the preceding year.

London, Canada. February 7, 1974. Joung, Charleson,



AVCO FINANCIAL SER (Incorporated under and its

FINANCIAL POSITION - C

NOVEMBER 30,

ASSETS	1973	npany 1972 (Thousand	Consol 1973 ls of dollar	lidation 1972
Cash	\$ 810	\$ 2,720	\$ 1,035	
Marketable securities, at cost (approximates market value)		700		700
Installment Receivables less unearned charges (Company: \$6,749,000 in 1973 and \$7,647,000 in 1972; Consolidation: \$8,664,000 in 1973 and \$14,555,000 in 1972) - Note 1	356,741	283,364	518,501	461,290
Less allowance for losses Net receivables	$\frac{(14,099)}{342,642}$	$\frac{(11,117)}{272,247}$	$\frac{(17,627)}{500,874}$	(15,357) 445,933
	342,042		300,074	
Income Taxes Recoverable		8,847		4,600
Prepaid expenses and other	1,038	746	1,038	746
Demand Notes Receivable From Finance Subsidiaries	94,357	110,779		
Equity in Net Assets of Subsidiaries (Note 2)	67,019	55,475	19,939	14,802
Property and Equipment, at cost (less accumulated depreciation and amortization: Company: \$3,579,000 in 1973 and \$2,999,000 in 1972; Consolidation:				
\$5,481,000 in 1973 and \$4,854,000 in 1972)	4,158	3,079	5,051	3,980
Intangible Assets recognized in acquisitions, without amortization	805	805	805	805
TOTAL ASSETS	\$510,829	\$ <u>455,398</u>	\$528,742	\$474,286

On behalf of the Board

Director

Director

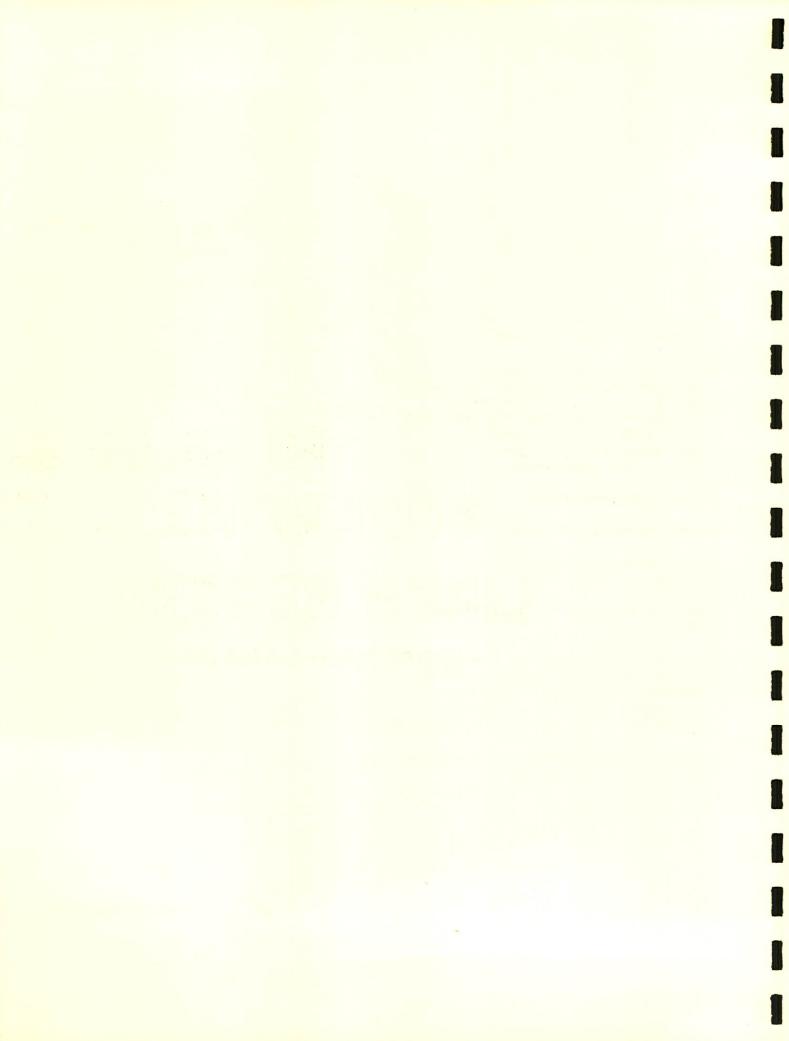
(See accompa

VICES CANADA LIMITED the laws of Ontario) subsidiaries

OMPANY AND CONSOLIDATION

1973 AND 1972

				4.1	
T T D T T T T T T T T T T T T T T T T T		Company		Consolidation	
LIABILITIES AND	1973	1972	1973	1972	
STOCKHOLDERS' EQUITY		(Thousand	ds of dollar	cs)	
Short-Term Debt - Unsecured	A 0 0 6 0	A 7 (5)			
Banks	\$ 3,968	\$ 7,654	\$ 3,968	\$ 7,654	
Commercial paper (including amounts					
payable in U.S. funds - \$4,500,000					
in 1973, \$9,000,000 in 1972)	48,338	29,266	48,338	29,266	
Due to parent company on current account	14,939	6,901	14,939	6,901	
Total short-term debt	67,245	43,821	67,245	43,821	
Accounts Payable	1,153	1,455	1,191	1,452	
Deferred Insurance Commissions (Note 1)	809	934	1,381	1,396	
Income Taxes	1,192		181		
Accrued Liabilities	-,				
Interest	3,241	3,190	3,241	3,190	
Other		2,643	2,497		
Total accrued liabilities	$\frac{2,497}{5,738}$	5,833	5,738	2,643 5,833	
iotal accided Habilities	3,730	5,055	3,730	5,055	
Long-Term Debt - Unsecured (Note 3)					
Senior notes payable	105,700	87,385	105,700	87,385	
	105,700	07,505	105,700	07,505	
Notes due to parent company	207,010	204,960	207,010	204,960	
Senior notes	The state of the s				
Subordinated notes	8,471	8,471	26,900	26,900	
	215,481	213,431	233,910	231,860	
	201 101	200 016	220 610	210 2/5	
Total long-term debt	321,181	300,816	339,610	319,245	
Deferred Gain on Foreign Exchange (Note 1)	17,154	19,999	17,039	19,999	
bological dari on location de (more 1)	,				
Stockholders' Equity					
Capital stock (Note 4)					
Preference	11,124	11,360	11,124	11,360	
Common	16,788	16,788	16,788	16,788	
Additional paid-in capital	5,863	5,828	5,863	5,828	
Retained earnings	62,582	48,564	62,582	48,564	
Total stockholders' equity	96,357	82,540	96,357	82,540	
Total Stockholders equity	70,337	02,540	20,007	02,510	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$510,829	\$455,398	\$528,742	\$474,286	





AVCO FINANCIAL SERV and its su

STATEMENT OF STOCKHOLDERS' EQUI

FOR THE YEARS ENDED NOV

Balance at beginning of year, as previously reported

Adjustment in respect of retroactive accounting changes (Notes 1 and 2)

Balance at beginning of year, as restated

Net earnings

Preference stock purchases and redemptions

Dividends paid on preference shares

Balance at end of year

(See accom

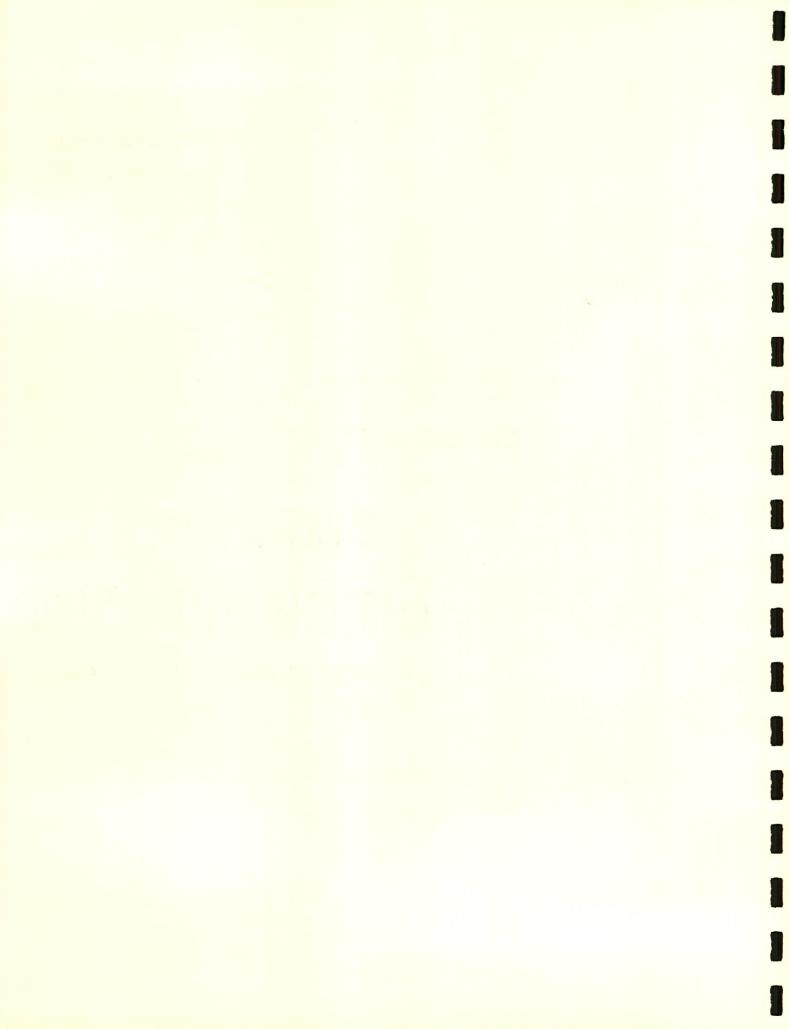
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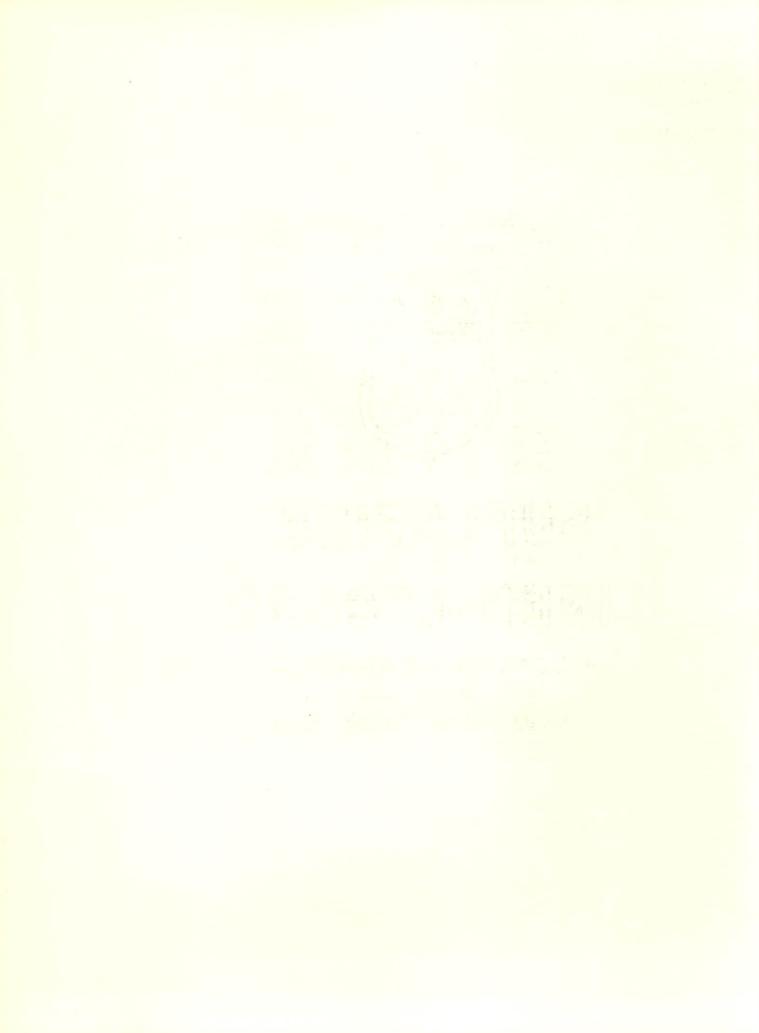
Y - COMPANY AND CONSOLIDATION

MBER 30, 1973 AND 1972

		1973			1972
Preference stock (Note 4)	Common	Additional paid in capital (Note 4) (Thousands of	Retained earnings dollars)	Total	Total
\$11,360	\$16,788	\$5,828	\$48,228	\$82,204	\$67,727
			336	336	(462)
11,360	16,788	5,828	48,564	82,540	67,265
			14,189	14,189	15,665
(236)		35		(201)	(202)
		-	(171)	(171)	(188)
\$ <u>11,124</u>	\$ <u>16,788</u>	\$ <u>5,863</u>	\$62,582	\$96,357	\$82,540

anying notes)





AVCO FINANCIAL SI and its

EARNINGS - COMPA

FOR THE YEARS ENDED I

OPERATING INCOME

Interest and finance charges and other operating income
Interest income from finance subsidiaries
Total

EXPENSES

Interest and debt expense
Provision for losses on installment
receivables (less recoveries)
Other operating expenses
Income taxes
Total

EARNINGS BEFORE EQUITY IN NET EARNINGS OF SUBSIDIARIES AND GAIN (LOSS) ON FOREIGN EXCHANGE

EQUITY IN NET EARNINGS OF SUBSIDIARIES (NOTE 2)
Finance subsidiaries
Insurance subsidiaries (including net realized
capital gains of \$205,000 in 1973 and \$357,300 in 1972)
Total

EARNINGS BEFORE GAIN ON FOREIGN EXCHANGE

GAIN (LOSS) ON FOREIGN EXCHANGE (less income taxes (\$106,000) in 1973 and \$2,750,000 in 1972)

NET EARNINGS

(See accompany

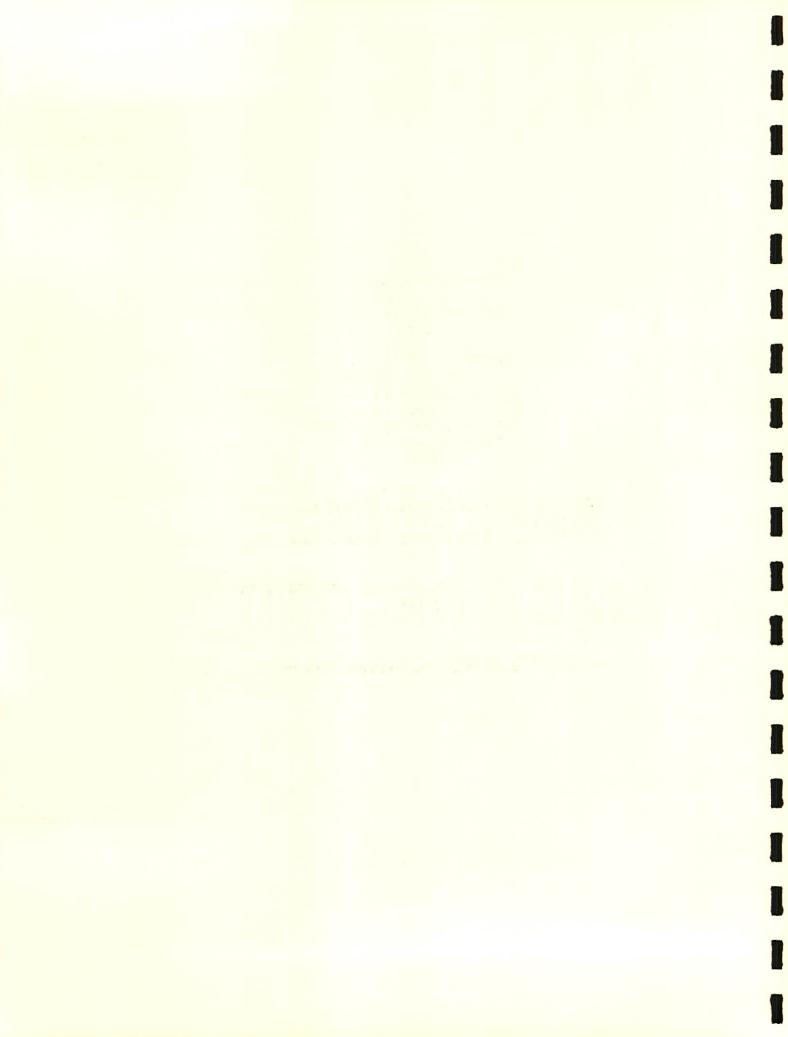
VICES CANADA LIMITED Ibsidiaries

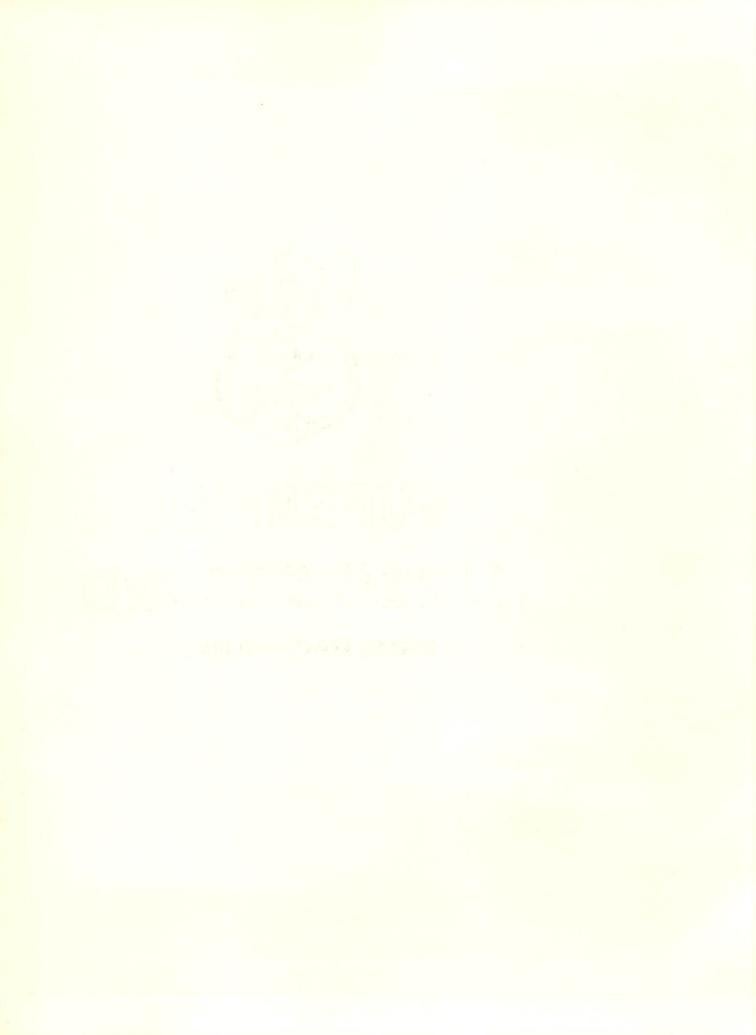
AND CONSOLIDATION

EMBER 30, 1973 AND 1972

Company 1973 1972		Consolidation		
1973	1972	1973	1972	
	(Thousands	of dollar	s)	
\$69,891	\$53,741	\$100,224	\$91,349	
9,303	12,659			
79,194	66,400	100,224	91,349	
30,449	28,622	31 031	30 004	
30,447	20,022	31,831	30,004	
8,788	6,487	9,772	6,497	
23,456	17,903	33,926	30,642	
7,985	6,485	12,236	11,767	
70,678	59,497	87,765	78,910	
8,516	6,903	12,459	12,439	
		22,132	12,400	
3,943	5,536			
1,834	653	1 93/	653	
5,777	6,189	$\frac{1,834}{1,834}$	653	
14,293	13,092	14,293	13,092	
(104)	2,573	(104)	2 573	
(104)	2,575	(104)	2,573	
\$ <u>14,189</u>	\$15,665	\$ 14,189	\$15,665	

notes)





AVCO FINANCIAI

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COMPANY

FOR THE YEARS ENDE

SOURCES OF FUNDS

From Operations

Net Earnings

Depreciation and amortization of property and equipment

Provision for losses on installment receivables

Cash dividends received from subsidiaries

Less equity in net earnings of subsidiaries Total from operations

Collections on installment receivables (excluding

finance charges included in net earnings)

Decrease in cash and marketable securities

Decrease in miscellaneous assets

Decrease in investment in subsidiaries

Increase (decrease) in short-term debt

Increase (decrease) in miscellaneous liabilities

Proceeds from issuance of long-term debt

TOTAL

USES OF FUNDS

New funds advanced to customers

Increase in investment in insurance subsidiaries

Increase in property and equipment

Decrease in deferred insurance commissions

Reduction in long-term debt

Decrease (increase) in deferred gain on foreign exchange

Purchase of preference shares

Cash dividends

TOTAL

(See a

ERVICES CANADA LIMITED subsidiaries

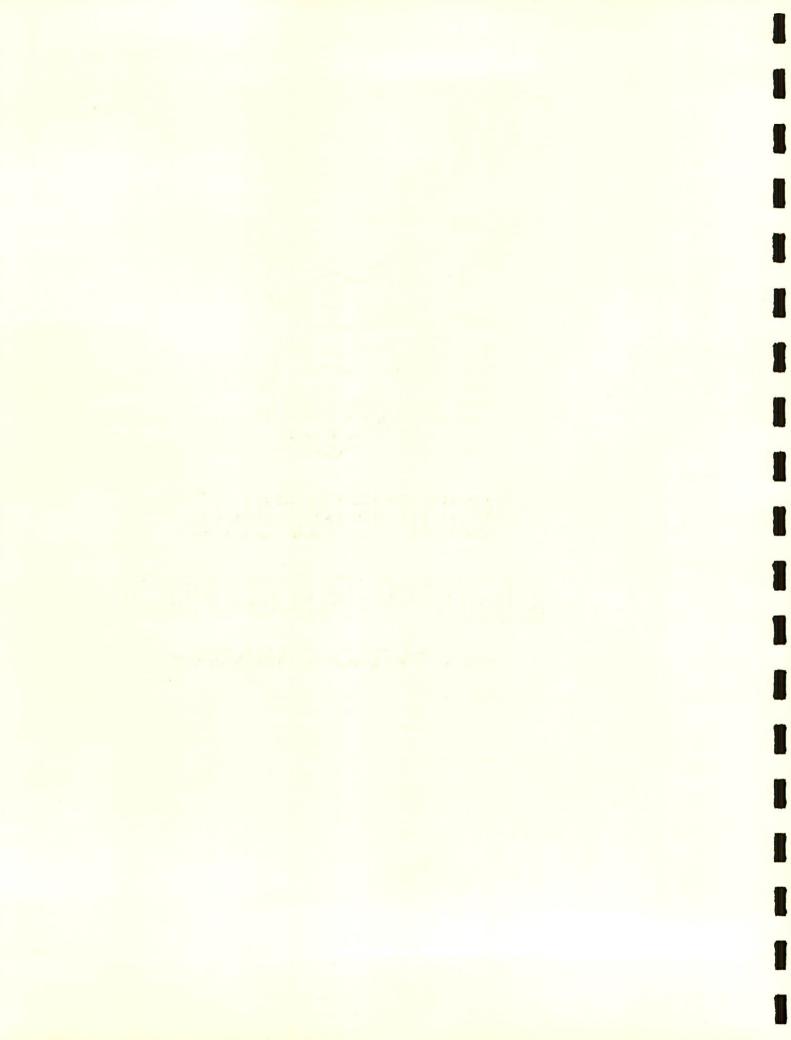
FINANCIAL POSITION

ND CONSOLIDATION

NOVEMBER 30, 1973 AND 1972

Comp		Consoli	idation
1973	1972	1973	1972
	(Thousands	of dollars	
¢ 1/, 100	c 15 665	¢ 1/ 100	0 15 665
\$ 14,189	\$ 15,665	\$ 14,189	\$ 15,665
	403	620	625
10,191	9,352	12,346	9,045
180	1,758	180	1,758
(5,777)	(6,189)	(1,834)	(653)
19,356	20,989	25,501	26,440
172,586	125,011	283,776	253,330
2,610	7,824	2,385	7,824
8,555	9,949	4,308	16,016
10,475	56,743	,,000	20,020
23,424	(19,767)	23,424	(19,767)
795	1,690	(175)	1,687
20,515	56,076		
20,515		20,515	56,076
\$258,316	\$258,515	\$359,734	\$341,606
\$253,172	\$213,768	\$351,063	\$296,802
		3,483	192
1,652	952	1,691	927
125	367	15	257
150	49,689	150	49,689
2,845	(6,651)	2,960	(6,651)
201	202	201	202
171	188	171	188
\$258,316	\$258,515	\$359,734	\$341,606

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AVCO FINANCIAL SERVICES CANADA LIMITED and its subsidiaries

NOTES TO FINANCIAL STATEMENTS - COMPANY AND CONSOLIDATION

NOVEMBER 30, 1973

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 Consolidated 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.

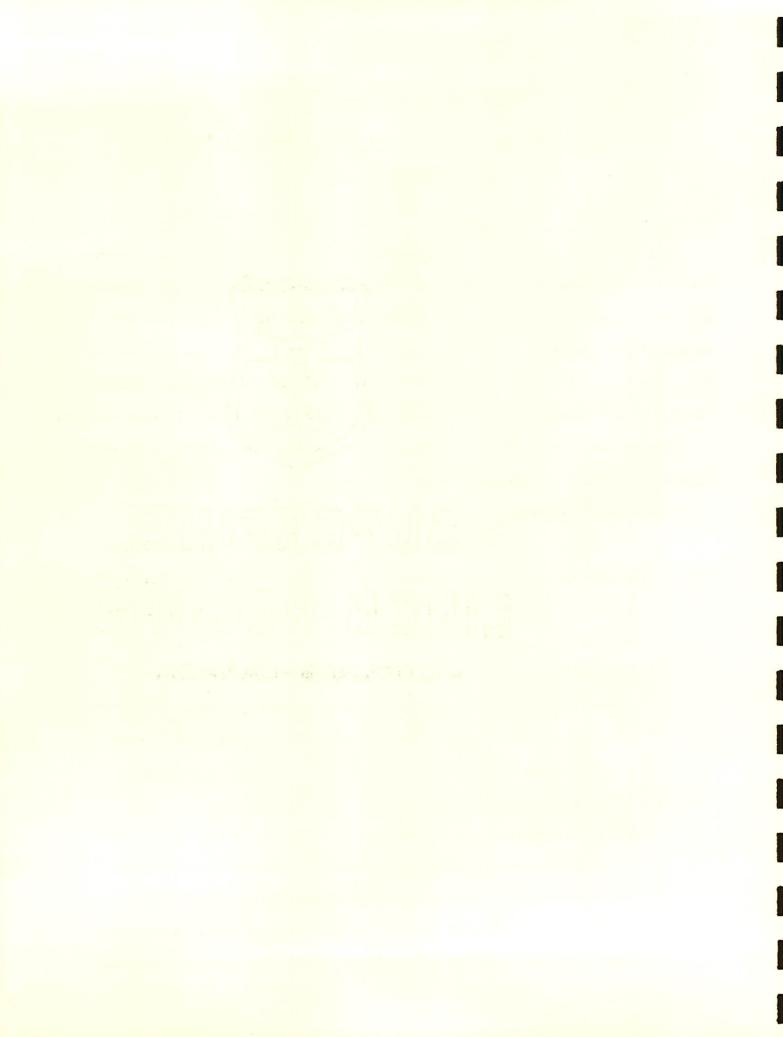
(b) Miscellaneous income -

Under an accounting policy initiated in 1973 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.



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In prior years these commissions were taken into earnings as received. This policy has been applied retroactively and accordingly in the accompanying financial statements and consolidated financial statements, prior years' figures have been adjusted to reflect this change.

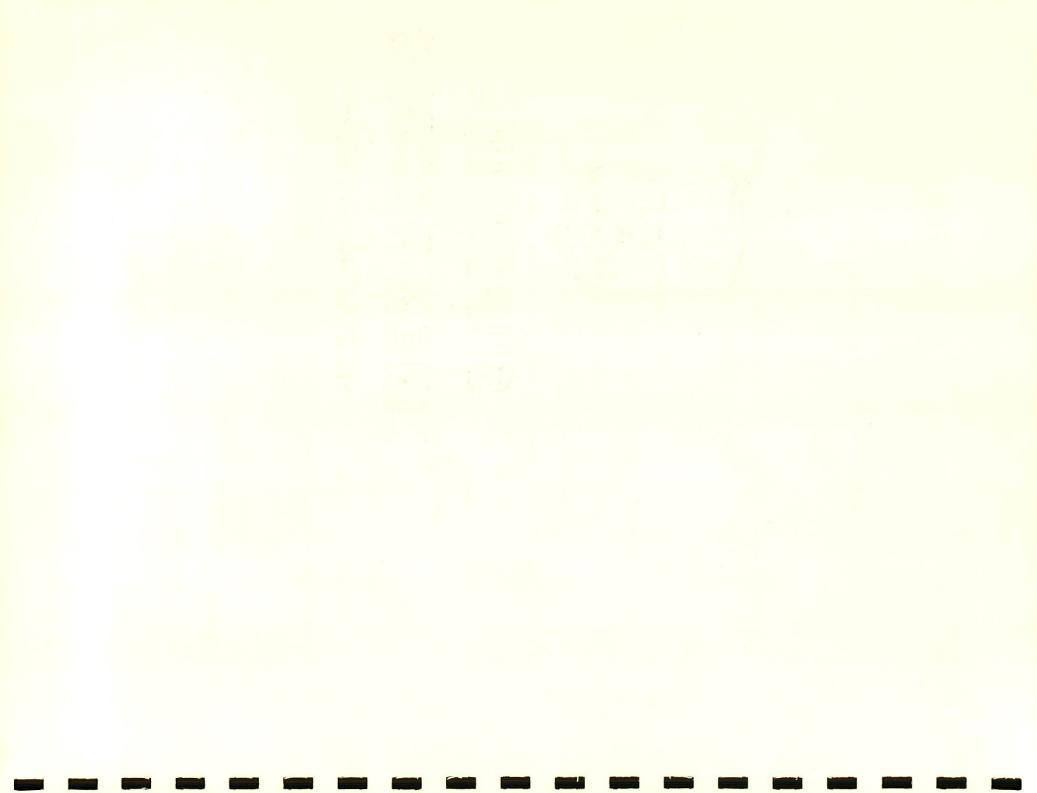
(c) Foreign exchange -

At November 30, 1973, assets of \$305,000 and liabilities of \$306,910,000 were represented by amounts to be settled in U.S. funds. Since 1970 the company has followed 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 in the accompanying statements of financial position and consolidated financial position of the Company at November 30, 1973 and 1972.

U.S. dollar accounts at November 30, 1973 have been translated at the closing rate on that date (\$1 Canadian = \$1.00 U.S. in 1973 and \$1 Canadian = \$1.01 U.S. in 1972). U.S. dollar income and expense amounts have been translated at \$1 Canadian = \$1 U.S. for the year ended November 30, 1973 and at the average rate (\$1 Canadian = \$1.01 U.S.) for the year ended November 30, 1972.

The company follows the practice of including in earnings the portion of the deferred account which has been realized upon repayment of the applicable debt.

The company's equity in the net earnings of its Australian and
United Kingdom insurance subsidiaries for each year since acquisition



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has been translated into Canadian dollars at the average rate of exchange for each respective year.

In the accompanying consolidated financial statements, the accounts of the company's United Kingdom finance subsidiary have been translated into Canadian dollars on the following basis:

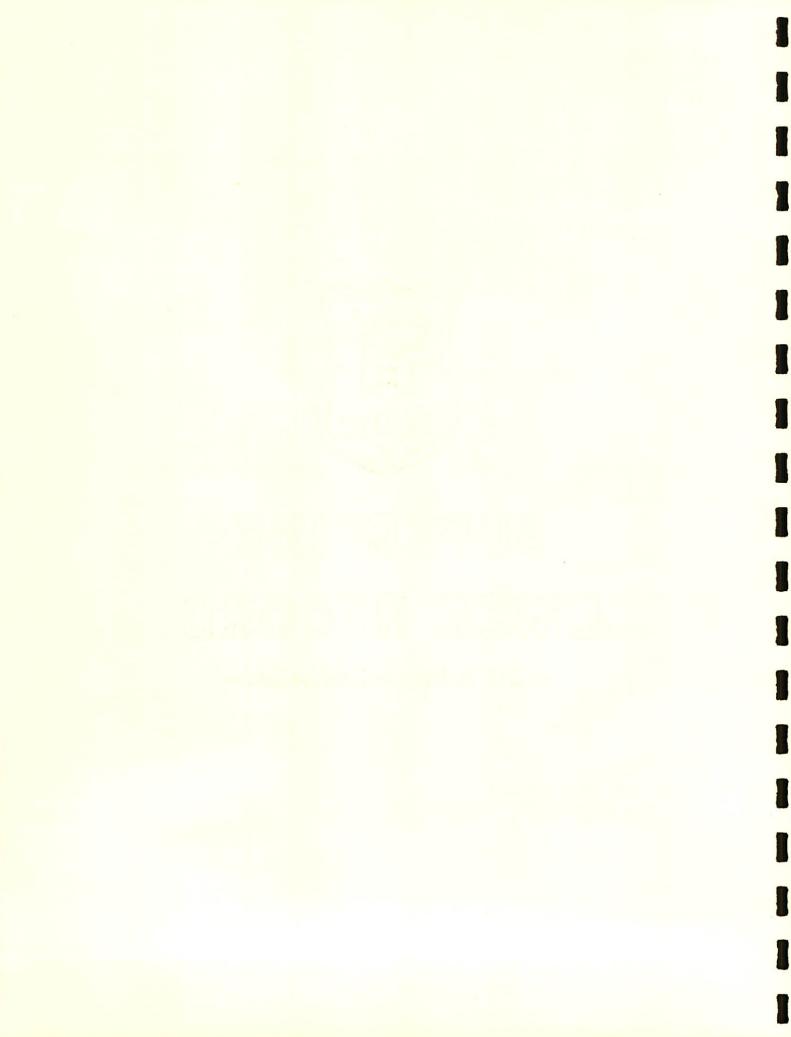
Assets and liabilities - at the rate of exchange in effect at the end of the year

2. Equity in net assets of subsidiaries

The intangibles recognized on the acquisition of subsidiaries are shown separately under the heading "Intangibles recognized in acquisitions, without amortization".

At November 30, 1973 the combined assets and combined liabilities of the insurance subsidiaries amounted to \$48,877,000 and \$28,938,000 respectively (\$31,213,000 and \$16,411,000 respectively for 1972). Included in the assets of the insurance companies are investments in securities carried at an aggregate cost of \$42,505,000 at November 30, 1973 and \$29,820,000 at November 30, 1972, for which the aggregate market values at those dates were \$41,613,000 and \$30,745,000 respectively. Revenues of the insurance subsidiaries were \$6,816,871 in 1973 and \$5,758,000 in 1972.

Under accounting policies initiated during 1973 the insurance subsidiaries defer the entire amount of commissions received on premiums ceded to other carriers and also commission expenses paid (of which substantially all are paid to Avco Financial Services Canada Limited and its finance subsidiaries - see Note 1).



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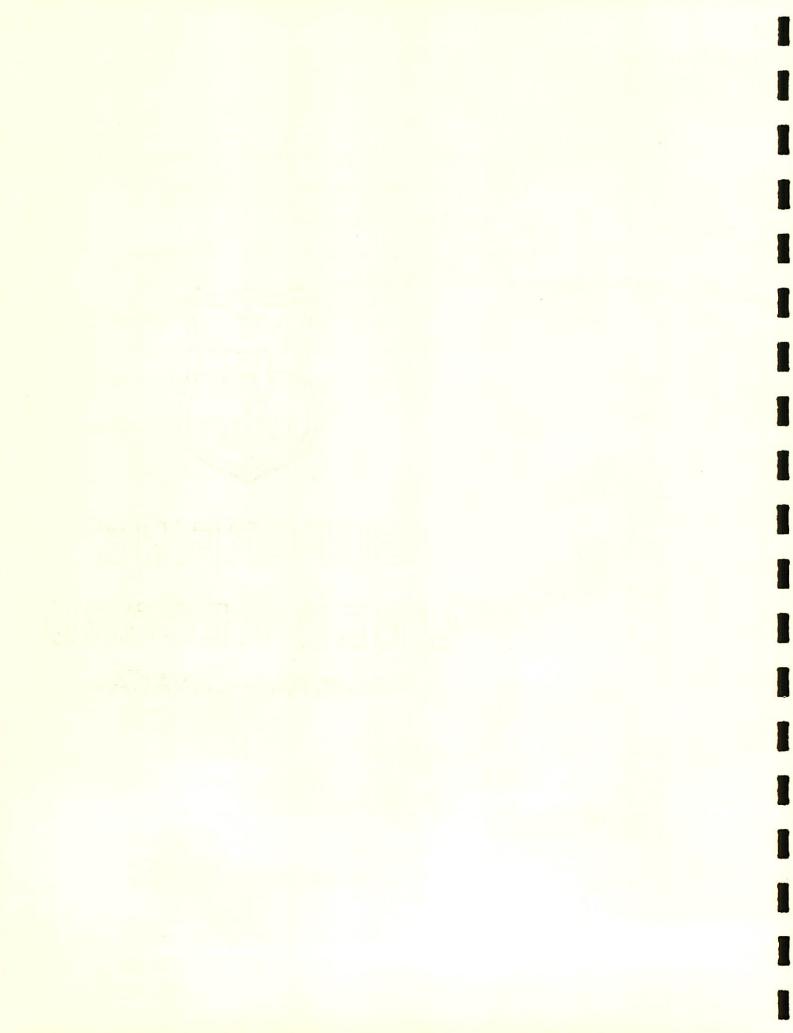
Both the deferred income and expense referred to are credited to earnings over the life of the related insurance contracts on a basis consistent with the premium recognition methods used by the insurance company.

In prior years commissions on premiums ceded were taken into earnings as received and commission expenses were charged to earnings as incurred. These policies have been applied retroactively by the company's insurance subsidiaries and accordingly, in the accompanying financial statements and consolidated financial statements, prior years figures have been adjusted to reflect these changes.

3. Long-term debt

Senior notes payable

Benizer neses payases		1973		1972
	(dollars)
Due in Canadian funds				
63% Series G maturing \$20,000				
annually to 1977	\$	80	\$	100
6 3/8% Series I maturing \$50,000				
annually to 1978		250		300
6½% Series I maturing \$30,000				
annually to 1977		120		150
6 1/8% Series K maturing \$50,000				
annually to 1978		250		300
7% maturing May, 1975		4,600		
9% maturing November, 1975		5,000		
		10,300		850
Due in U.S. funds				
Note payable maturing \$600,000 in 1975				
and 1976 and \$1,800,000 in 1977		-		-
(U.S. \$3,000,000)		3,000		2,970
8½% Note payable maturing \$1,000,000 in				
1980 and \$4,000,000 in 1981 (U.S. \$5,000,000)		5,000	39	4,951
7 3/8% repayable 10% annually commencing				
January 1974 and maturing January, 1983				
(U.S. \$29,400,000)	*	29,400		9,109
8 3/8% maturing June, 1992 (U.S. \$50,000,000)		50,000	4	9,505
7%-7 1/8% maturing December, 1974		0.000		
(U.S. \$8,000,000)	_	8,000	_	C F2F
	-	95,400	_8	6,535
	¢1	05 700	6 0	7 395
	AT.	05,700	٥_٢	7,385



Notes due to parent company

Senior notes - company and consolidated 9½% note payable maturing in 1975 (U.S. \$40,000,000)	\$ 40,000	\$ 39,604
9% note payable maturing in 1991 (U.S. \$167,010,000)	167,010	165,356
	\$ <u>207,010</u>	\$ <u>204,960</u>
Subordinated notes 7½%-7 5/8% notes maturing in 1986 to 1988 - consolidated Amount of subordinated notes included	\$ 26,900	\$ 26,900
above which is due by a subsidiary company	18,429	18,429
Total - company only	\$ 8,471	\$ 8,471

* The company may repay the 7 3/8% notes in whole or in part in excess of amounts due annually together with a prepayment premium of 4.750% if prepaid before January, 1974, reducing each year thereafter by 0.525% to maturity. In certain circumstances, a special additional premium of 2.375% may be payable if prepaid before January, 1974, reducing each year thereafter by 0.2625% to maturity.

4.	Cap	ital	stock

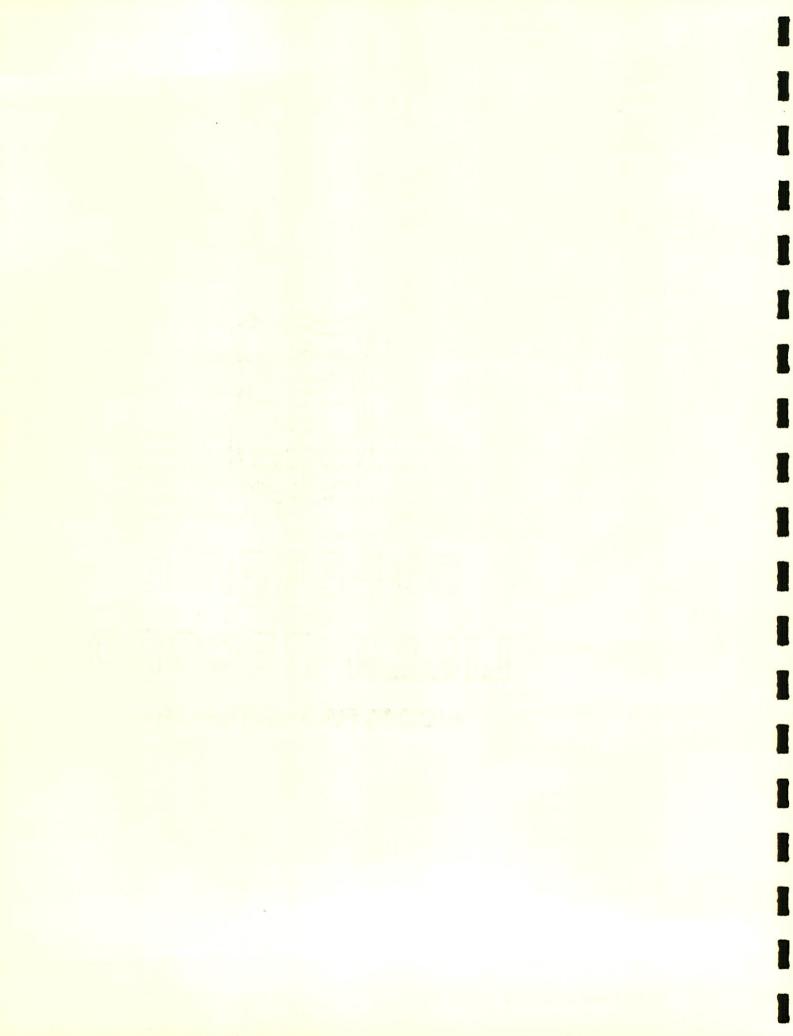
. Capital stock	1973		1972
	Authorized	Issued	Issued
	(Thousand	s of doll	lars)
Preference shares			
5½% cumulative voting Class A preference			
shares of \$100 par value each re-			
deemable at a premium of 2% to April			
30, 1974 reducing ½% per year thereafte	er		
Authorized and issued less redeemed			
1973 - 29,739 shares	\$ 2,974	\$ 2,974	+ 0 010
1972 - 32,103 shares			\$ 3,210
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 shareholder)			
Authorized and issued			
1973 and 1972 - 11,500 shares	1,150	1,150	1,150
5% cumulative voting Class C preference			
shares of \$100 par value each re-			
deemable at par			
Authorized and issued		0.000	0.000

1973 and 1972 - 20,000 shares

2,000

2,000

2,000



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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 shareholder) Authorized and issued 1973 and 1972 - 50,000 shares

5,000 5,000 5,000

\$11,124 \$11,124 \$11,360

(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 -1973 and 1972 - 1,670,382 ½ shares

\$16,788 \$16,788

During the year the company purchased for cancellation 2,364 Class A preference shares for \$201,573 cash. The difference between the par value of the preference shares purchased of \$236,400 and the cash paid in respect thereof of \$201,573 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, 1973 and 1972 amounted to \$598,000 and \$486,000 respectively.

