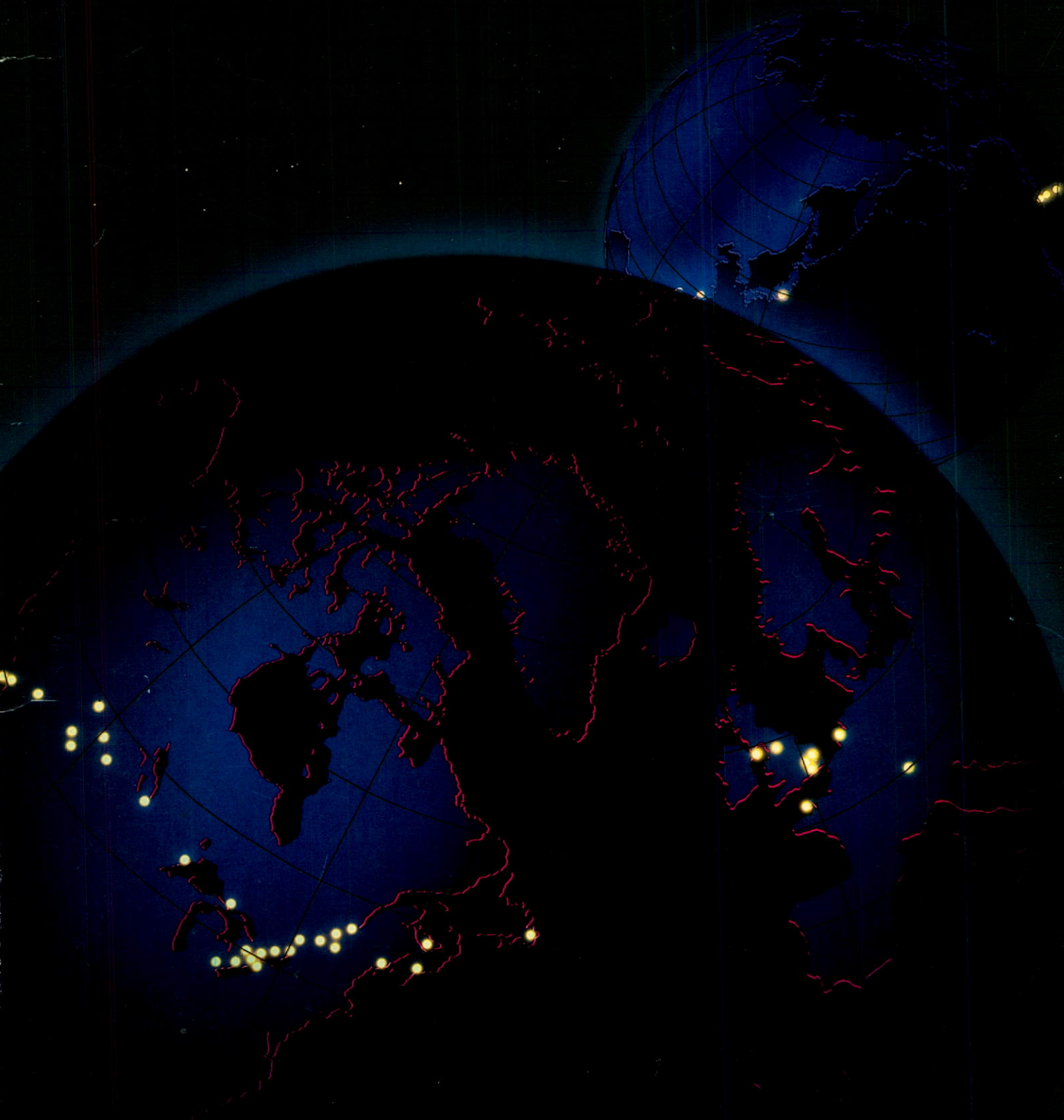


Royal
Trust
Ltd.

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1986 Annual Report



Royal Trustco Limited is Canada's largest trust company in terms of assets under administration, which exceed \$71 billion. The Company operates 120 branches throughout the country and 14 offices overseas. It is the only Canadian trust company that has an established and rapidly expanding presence internationally, with operations in the key financial centres of Europe and the Pacific Rim.

Royal Trust's mission is simply stated as making each of its customers wealthier every day. To that end, it offers a full range of personal and corporate financial services in Canada and abroad. These include chequing and savings accounts, personal, corporate and mortgage loans, mutual funds and other investment products including advice and administration, estate administration, corporate and pension trust services, corporate lending, private and merchant banking, financial trust services and international asset management.

In Canada, services are provided through two major operating subsidiaries, Royal Trust Corporation of Canada, headquartered in Toronto, and The Royal Trust Company, based in Montreal. Internationally, activities are conducted through subsidiaries operating in the United Kingdom, Jersey, Isle of Man, Switzerland, Hong Kong, Singapore, The Netherlands, the Cayman Islands, Bahamas, and a representative office in Tokyo. Founded in Canada in 1899, the Company opened its first overseas office in London in 1929.

Royal Trust's Property Investment Services acquires and manages Canadian commercial properties for domestic and foreign institutional clients. Royal Trust Energy Corporation acquires and manages energy-related investments,

primarily for Canadian pension funds. Corporate Investment Associates (RT) Inc. is one of the largest discretionary managers of Canadian pension funds, with assets under administration of more than \$5 billion.

Royal Trust has a 50.1% interest in Royal LePage Limited, Canada's largest diversified real estate services company. Royal LePage has approximately 350 residential and commercial offices in Canada and the United States. Computer services are provided to Royal Trust through its 49% interest in the Canada Systems Group of Companies, the largest supplier of computer-based information systems in Canada.

With its subsidiaries, Royal Trust employs almost 15,000 people in Canada and internationally. The Company's shares are listed on the Toronto, Montreal, Alberta and Vancouver Stock Exchanges, and its Class A common shares are also listed on the Tokyo Stock Exchange. The most conservatively capitalized financial institution in North America, Royal Trust's long term debt is rated AA, the same category as Canada's major chartered banks.

Royal Trust is affiliated with Trilon Financial Corporation, headquartered in Toronto.

COVER:

Royal Trust's world of service to its customers is expanding both in Canada and internationally.

The Annual and Special Meeting of Shareholders will be held:

Thursday, March 5, 1987
10:30 a.m.

Roy Thomson Hall
60 Simcoe Street
Toronto, Ontario

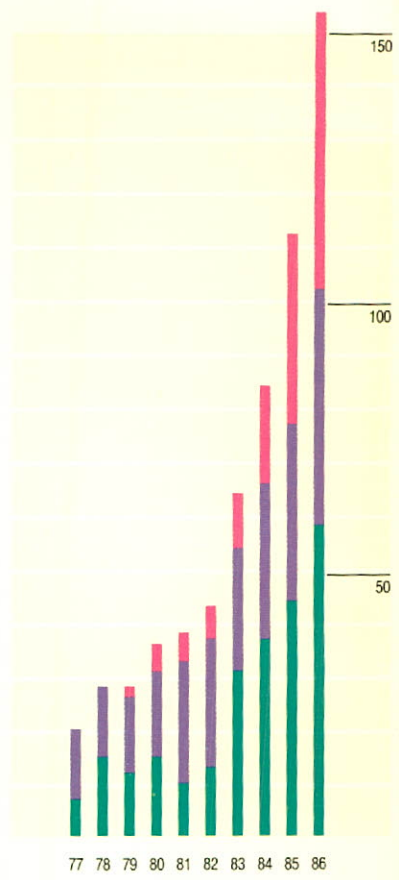
Financial Highlights

At December 31	1986	1985	% Change
Operating summary (\$ millions)			
Total revenue	2,372	1,942	22
Net income	154	113	36
Financial position at year end (\$ millions)			
Assets	19,543	13,453	45
Estimated market value of estates, trusts and agency accounts under administration	52,306	43,859	19
Total assets under administration	71,849	57,312	25
Per share data			
Net income per share – basic	\$2.20	\$1.89	16
– fully diluted	\$2.16	\$1.86	16
Ratios			
Return on common equity – fully diluted	18.4%	19.1%	(4)
Return on assets	0.94%	0.93%	1
Other			
Number of offices	481	431	12
Number of employees	14,835	14,170	5

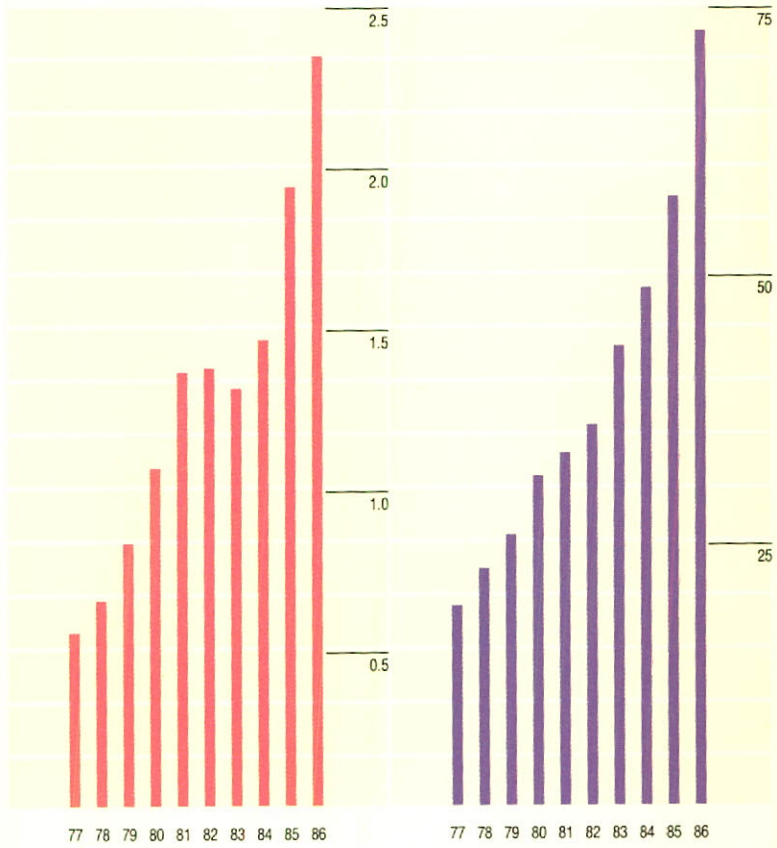
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- Preferred dividends
- Common dividends
- Retained income

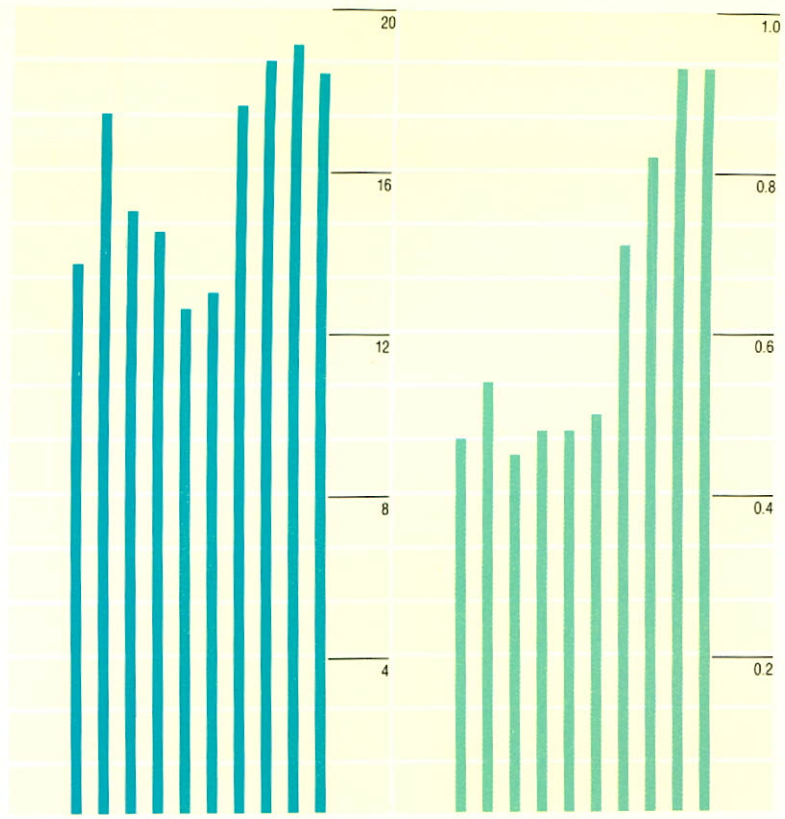


Net Income
(\$ millions)



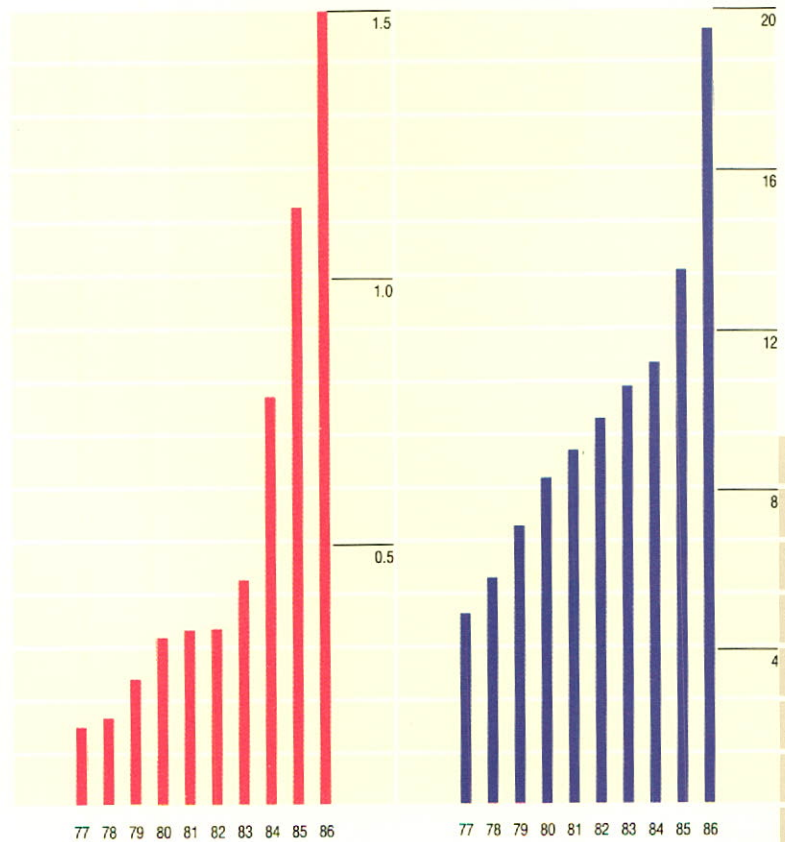
Total Revenue
(\$ billions)

Assets Under Administration
(\$ billions)



Return on Equity (%)

Return on Assets (%)



Shareholders' Equity (\$ billions)

Balance Sheet Assets (\$ billions)

HOWARD S. KES LIBRARY
OF MANAGEMENT
FEB 17 1987
MCGILL UNIVERSITY

Dear Shareholder:

It is with great pleasure that I can report another year of achievement for Royal Trust. Not only have we grown financially, we have also grown physically, enlarging our international network and our visibility worldwide.

1986 has been an exciting year on many fronts. The Company has developed a tangible commitment and dedication to serving the customer, in new

branch development, in product innovations, in technology and in the introduction of an extended international network.

In all product and service areas, our people set goals and then set out to surpass them – and frequently did – as the operations sections of this report will attest. Management worked hard to support business development through its personal involvement with new and existing customers.

New links have been forged in Japan with the successful establishment of Royal Trust's representative office in Tokyo earlier in the year and with the listing of our common shares on the Tokyo Stock Exchange just prior to the year-end.

Acquisition

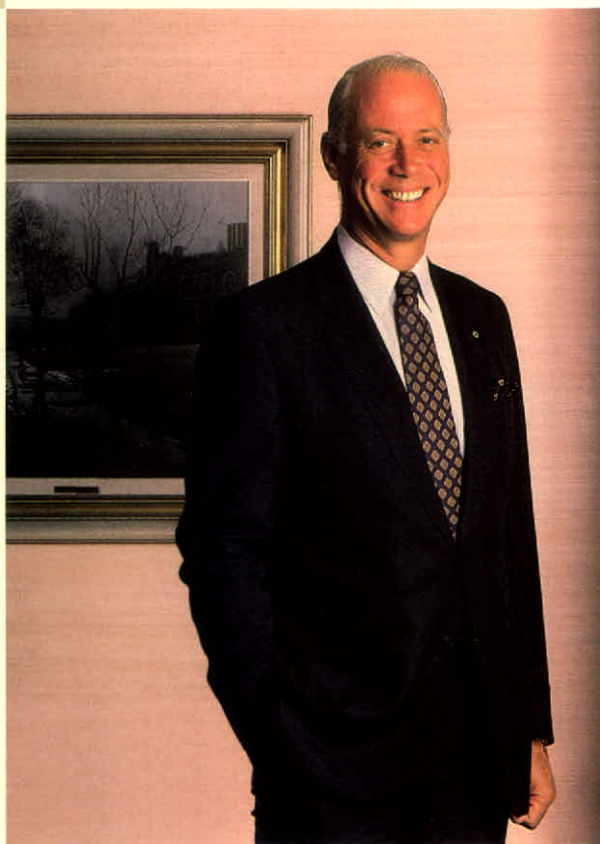
The most significant event in 1986 was the acquisition of the assets of Dow Financial Services Corporation, the financial services subsidiary of the Dow Chemical Company. It was a tribute to our Board of Directors' confidence in management that the Company was able to capitalize quickly on the opportunity to make the most significant investment in its history.

Key businesses were added in asset management and merchant and private banking services in Switzerland, the United Kingdom, Hong Kong and Singapore. They complement Royal Trust's original areas of expertise and have created greater client service opportunities for the Company in the world market.

Shareholder Values

The area of regulation of the financial services industry in Canada has seen the beginning of much needed change. Royal Trust played a very active role in presenting thoughtful and practical recommendations to enhance competitiveness, both within Canada and internationally, while maintaining the highest possible shareholder values.

We are pleased that the federal government has taken all points of view into consideration in its measured and practical white paper, "New Directions for the Financial Sector", released in December.



Hartland M. MacDougall, C.M.
Chairman of the Board

A number of its recommendations parallel Royal Trust's existing business practices. We particularly support the Government's recognition of the need for protection of underlying shareholder values and strongly endorse this policy direction.

While Trilon Financial Corporation owns approximately 50% of the Company's shares, there are close to 7,000 other registered shareholders to whom management is equally accountable. Public shareholders' interests are diligently protected through cumulative voting. We have also developed effective self-governance tools to further safeguard the interests of all shareholders. For example, more than two-thirds of Royal Trust's Board of Directors are totally independent of the major shareholder, and Royal Trust is the only trust company with both business conduct review and independent investment committees, as now proposed by the federal white paper.

Community commitment

One of the privileges we value at Royal Trust is the ability to use our resources to assist and enhance the quality of life in the communities we serve. We have a responsibility to contribute in a variety of ways to support the charitable and cultural organizations which further the physical, mental and cultural health of the communities in which we work.

Many of our employees give their time and energy to community, charitable and cultural activities which we encourage and support. In addition, in 1986 the Company donated close to \$1 million to regional and national causes.

Our program has three key areas of emphasis:

- support of a broad cross-section of charitable organizations;
- increased regional autonomy in local charitable support decisions;
- extensive support of the United Way.

We are pleased that the Company's commitment to the United Way is matched by outstanding dedication on the part of our employees. Many employees devoted substantial energy and creative resources to the 1986 United Way campaign, making it the most successful ever, with a 50% overall increase in their contributions. Senior officers of Royal Trust continue to serve in various capacities with the United Way, notably E. Courtney Pratt, Senior Vice-President, Human Resources, who was elected Chairman of the Board of the United Way of Greater Toronto in 1986.

Directors and Advisory Boards

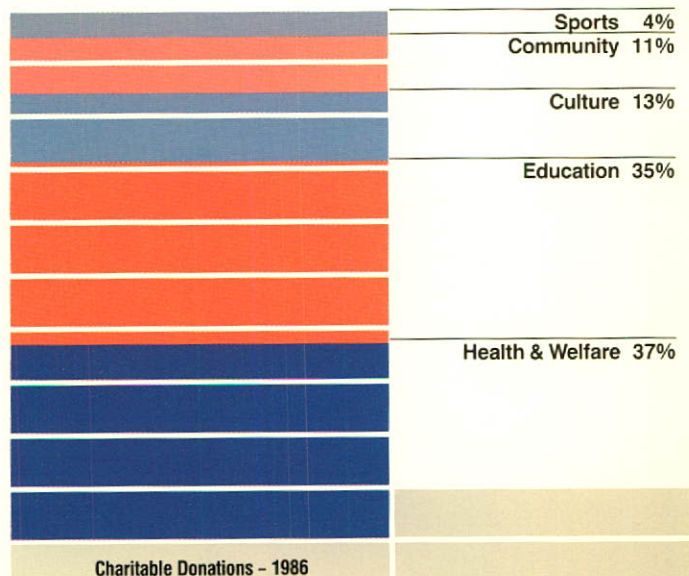
During 1986 Roger Phillips, President and Chief Executive Officer of IPSCO Inc. of Regina, Saskatchewan, was elected to the Board. Allan Waters resigned due to other business commitments and James M. Cameron has advised he will not be a candidate for re-election. We thank them both for many years of valued

contribution. Charles J. Clark, Q.C. was appointed to the Executive and Business Conduct Review Committees.

We extend our congratulations to a former Chairman and long-time Director of Royal Trust, Conrad F. Harrington, who has been appointed a Member of The Order of Canada.

We were saddened by the deaths of T.W. Eadie who had served for many years both as a Director and latterly as an Honorary Director and of George H. Sellers, a member of our Winnipeg Advisory Board for a quarter of a century. Both will be greatly missed.

I would like to thank the Chairmen of our various Board Committees, especially two of our independent Directors, Donald N. Byers, Q.C. and William G. Wilson, who had the demanding tasks of chairing our Business Conduct Review and Audit Committees respectively.





Roger Phillips
New Director

Our Advisory Boards had an active year and were of great assistance to management at the local, regional and national levels. During 1986, we were pleased to welcome a number of new faces to these boards: Ruth Armstrong of Thunder Bay, Rendina Hamilton, Q.C. of Kelowna, the Honourable Pearl McGonigal and D. Donald Ross of Winnipeg, John C. Nash of London, Ontario, Hugh K. Smith, Q.C. and Michael S. Zatzman of Halifax, Logan Tait of Lethbridge and Charles W. White, Q.C., of St. John's. As well, we welcome the members of the newly-formed Montreal Advisory Board: Jean A. Béliveau, O.C., Peter M. Blaikie, Q.C., Pierre Brunet, Jean Coutu, Pierre A.H. Franche, J. Robert Ouimet, Guy Saint-Pierre and Guylaine Saucier.

We are grateful for the many and varied contributions made by Advisory Board Members who have retired during 1986 including Emerson E. Clow of Thunder Bay, A.E. (Bud) Downing of Toronto, Stuart R. Goudie of Kitchener, Thad O. Ives, Q.C. of Lethbridge, the Honourable William W. Marshall, Q.C. of St. John's, Herbert S. Matthews of Sarnia, William S. McGregor of Edmonton, Gordon W. Staseson of Regina, Winston A. Steeves of Saint John, Trumbull Warren, O.B.E. of Hamilton and Joseph Zatzman of Halifax. We thank them for their much valued participation over the years.

Overseas we were delighted to have another experienced banker, Maurice H. Davenport, join the Board of Royal Trust Bank, London and to have our long-time Director David L. Donne accept the Chairmanship of the Bank's Audit Committee.

We are also pleased to welcome as part of our group the Board of Royal Trust Bank (Switzerland), formerly Dow Banking Corporation, especially the two newest members, Dr. Louis Johannot, Vice-Chairman of Banque Vaudoise de Credit, and Dr. Anton E. Schrafl, Vice-Chairman of the Board of Holder Bank Financière. In the restructuring of our London operations, the asset management business was brought together under a new entity, Royal Trust Asset Management Limited. We thank our London Director Stanley H. Wright for accepting the additional responsibilities of being its Chairman.

Future

The future promises greater competition with increased opportunities for Royal Trust. The environment envisioned by the Honourable Thomas Hockin, Minister of State for Finance, and made public in December, will provide impetus for greater innovation and more consumer choice. Royal Trust has centred its mission and its success to date around customer service, and will continue to thrive in a marketplace which encourages more of what we do best. 1987 will be a challenging year, but one which we enter with confidence based on the strength of our management team, a well-crafted and practical strategic plan and the judgement and experience of our Board of Directors.

A handwritten signature in dark ink, appearing to read "Hartland M. MacDougall". The signature is fluid and cursive.

Hartland M. MacDougall, C.M.
Chairman
January 28, 1987



Royal Trust's community involvement is expressed in part through funding for research organizations and medical facilities such as The Hospital for Sick Children in Toronto.

Introduction

1986 was a year of substantial change for Royal Trust as the scope of our operations expanded globally. At the same time, we achieved our business objectives for the third year running, both in terms of profits and the important milestones needed to reach our long term goals.

The acquisition of the assets of Dow Financial Services in June of this year more than doubled our international oper-

ations. The opening of our Tokyo representative office in March and the listing of our common shares on the Tokyo Stock Exchange also clearly established our presence in this important market.

The drive towards a high quality sales and service culture has begun to have an impact on results. Net income for the year ended December 31, 1986 increased 36% to \$154 million over earnings of \$113 million in 1985, as the result of increased market shares in most product areas.

Earnings per common share increased by 16% to \$2.16 from \$1.86 in 1985, in excess of our 15% growth objective for the fourth year running. Dividends per share were increased by 16% to 25 cents from 21 1/2 cents at mid-year.

Return on equity was 18.4%, and return on assets was 94 cents per \$100. Both ratios are higher than those of any major bank or trust company in Canada and, bar one, in the United States. Our financial strength was reconfirmed by a recent AA Standard & Poor's rating of our long term debt, the same level as Canada's major chartered banks.

1987 – 1991 Objectives

The current five-year plan has four major objectives for the period to 1991:

- to substantially increase deposits;
- to double mortgage lending activities;
- to increase fee income from personal and corporate financial services to 50% of net income;
- to achieve 15% growth in earnings per common share while maintaining conservative capital ratios consistent with high credit ratings.

Strategies

To achieve these objectives we have committed to:

- a significant investment in technology to create cost-efficient deposit, lending and trust systems;
- new and improved branch locations, domestically and overseas;



Michael A. Cornelissen
President and
Chief Executive Officer

- unyielding persistence in improving standards of quality and client service at all staff levels, supported by more effective administration;
- development of superior sales skills;
- further networking successes within the Trilon group of companies.

Achievements Against Objectives

The operations sections of this report will detail the specific achievements of 1986. Key milestones in those overviews are:

- retail demand deposits increased by 22%;
- mortgages increased by 31%;
- fee income from both personal and corporate financial services increased in the year by 29%;
- Royal Trust continues to have the most conservative capital ratio of any financial institution in North America;
- the Company has minimal exposure to lesser developed country, energy-related and foreign currency risks.

Technology

Now that Royal Trust is stronger internationally, the need for technology to effectively process information and maintain a single standard of excellence worldwide has become of greater importance.

Royal Trust is competing for customer services with financial institutions many times its size. However, there are signs in many industries that economies of scale through sheer size are no longer a prerequisite to success. Our five-year objectives recognize that efficient, customer responsive, high-quality technology can offset the economies of scale enjoyed by the giants of the industry.

To that end, computer service availability and direct use by both customers and employees is being expanded. More than 2,000 terminals are now installed throughout the Company, approximately one for every two employees. A home computer program, introduced in 1986 to improve internal standards of computer

literacy, has achieved 40% participation amongst eligible employees.

Linking our proprietary automated banking machines with other major networks now gives our customers access to more than 13,000 banking terminals across North America. At the same time, we have reduced unit computing costs by 33% with greater savings planned for 1987.

We continue to invest in major systems applications development to yield more productive and responsive customer service. To facilitate information flow internally the Professional Office System (PROFS), instituted in 1986, will be expanded in 1987 to 700 users.

International Growth

Royal Trust's business plan identified the need for expansion in Europe and the Pacific Rim to address an increasingly global business environment and to broaden existing international services for our customers. To fulfill these needs, we were fortunate to acquire the assets of Dow Financial Services for \$239 million in 1986. This acquisition accomplished in one year, without significant risk or excessive senior management time, a plan which would have taken ten years to achieve internally.

The net cost of the acquisition has been reduced by the subsequent sale of two units. Negotiations are underway for the sale of a third unit, Savory Milln Limited. The objective of a 15% after tax return on this investment in under three years will be met in 1987.

The rationalization of the acquired companies is now complete with the integration of the following new operations:

- Royal Trust International Limited
- Royal Trust Bank (Switzerland)

Royal Trust Asset Management Limited
Royal Trust Merchant Bank Ltd.,
Singapore

Dow MBf Limited, Hong Kong

With the completion of the reorganization of the international operations, we will focus on growing the remaining businesses with emphasis on those market niches where Royal Trust has proven expertise and which best complement Company strengths elsewhere. By acquiring companies which have complementary services and a good cultural fit, Royal Trust's international position has advanced significantly. The acquisition has already had a positive effect on 1986 earnings and an even greater contribution is planned for 1987.

Leslie G. Merszei, who joined us from Dow Financial Services and agreed to act as President and Chief Executive Officer of Royal Trust International through its reorganization phase, resigned effective January 31, 1987. He will continue to assist with international development and will remain on the Board of Royal Trust Bank (Switzerland). We are grateful for his contribution and wish him well in his new endeavours.

Branches

1986 marked the introduction of completely new branch configurations strategically designed and located for customer convenience, comfort and efficiency. Nine branches were opened across Canada bringing the total number of financial service branches in Canada to 120, with a further 350 real estate brokerage offices of Royal LePage in North America.

Customer service focus

Personalized customer service remains an important point of competitive differentiation in an industry where automation reduces many of the opportunities for personal contact and where efficiency is at a premium. Superior client service skills result from a combination of relevant products, training and incentive programs and a strongly developing corpo-

rate culture. These have resulted in marked improvements in business volumes.

Our expanded worldwide presence, which has already resulted in a broader range of corporate and personal products and services, will be a catalyst for further product innovations in 1987.



International Management – Europe

Pictured left to right:

John R. Lovesey,
Managing Director of
Royal Trust Bank,
London, England;

Arthur P. Bolliger,
President and Chief
Executive of Royal Trust
Bank (Switzerland),
Zurich;

Ivor E.R. Mills, Managing
Director of Royal Trust
Bank (Jersey) Limited;

Adrian J.R. Collins,
Chief Executive of Royal
Trust Asset Management
Limited, London, England.

rate culture. These have resulted in marked improvements in business volumes.

Our expanded worldwide presence, which has already resulted in a broader range of corporate and personal products and services, will be a catalyst for further product innovations in 1987.

Trilon Synergy

We continue to face the challenge of providing better services and better products at competitive prices. We will do so through the synergies of the Trilon group of companies, coupled with highly sophisticated computer systems architecture which guides all new systems development. This will enable Royal Trust to increase the number of product choices available at lower costs per transaction to ultimately benefit customers.

Human Resources

We recognize that it is of critical importance to continue to hire the best people to manage and implement our business now and for the future.

The success of our new business programs has resulted in substantially increased business volumes. This in turn



Management

In anticipation of increased demands on management skills in future years, significant funds have been invested in new management development programs in 1986.

The Management Incentive Option and Pay For Performance plans introduced in 1985 have been instrumental in supporting our participative management style and in rewarding management and staff on the achievement of their agreed objectives.

To ensure closeness to our customers at all levels, senior officers and managers allotted and spent 20% of their time in direct contact with clients and will continue to do so in 1987. In addition, each senior manager will spend one week working in a non-managerial capacity in branches across the country.

Future direction

In 1986, the financial services industry enjoyed a benign business environment with relatively stable interest rates and stock markets. We expect this to continue in 1987 but with severely increased competition.

The federal government's white paper, "New Directions for the Financial Sector", released in December 1986 will further enhance competition in the financial services industry. More than ever, banks will be competing against trust companies, which we believe will greatly benefit customers in the long term. The issues of ownership, competitiveness and standards of practice have been largely resolved to our satisfaction in the white paper. We will continue to monitor the issues and participate to the extent necessary.

Since the major trust companies have been the catalyst for much of the recent competition and innovation within the Canadian financial services industry, we will enter the broadened arena well armed. However, we cannot lose sight of the fact that we are no longer competing only nationally. With the dawning of a 24-hour global market, Canadian businesses and individuals are taking an increasingly international view of their operations. Global investment portfolios have enjoyed very high returns over the last five years and will continue to do so.

Royal Trust's international growth in 1986 has positioned the Company to address those needs effectively. While we will continue to increase the Company's international capabilities, it is not our intention to compete head-on in all markets with the giant financial institutions. Instead we will focus on the market niches where we have proven strengths.

1987 will see a concentration on customer service, on excellence in administrative systems, on value-added services

and in augmenting recurring fee income while maintaining the current focus on traditional spread income and high quality loans.

We will increase the proportion of international income against income from domestic operations as part of our long term development. We will continue to be the most conservatively capitalized financial institution in Canada, maintaining a strong aversion to risk and continuing to minimize currency and interest rate exposures. We will forego a major portion of upside opportunities in favour of substantial protection against downside risks.

The planned 15% annual earnings growth and 15 to 20% return on equity means business growth will have to come, in part, from new and different sources in the years to come. We now have access to new resources in Canada, Europe and the Pacific Rim and can draw additional financial strength from our strongly financed major shareholder and the \$1 billion facility established through Great Lakes Group Inc. to ensure the success of our five-year equity financing program.

Royal Trust's fourth year of record performance is the result of the hard work and dedication of many people: our Directors who provided most valuable counsel and support, our employees, both long term and new, our customers and our shareholders. We would like to thank them all for their confidence, encouragement and commitment during the year.



Michael A. Cornelissen
President and
Chief Executive Officer
January 28, 1987



International Management – Asia

**Laura Hwang, Managing
Director of Royal Trust
Merchant Bank Ltd.,
Singapore;**

**Thomas F. Greer,
Managing Director of
Dow MBf Limited, Hong
Kong.**

**Not shown:
G. Roger Otley, Senior
Vice-President and
Chief Representative,
Tokyo.**

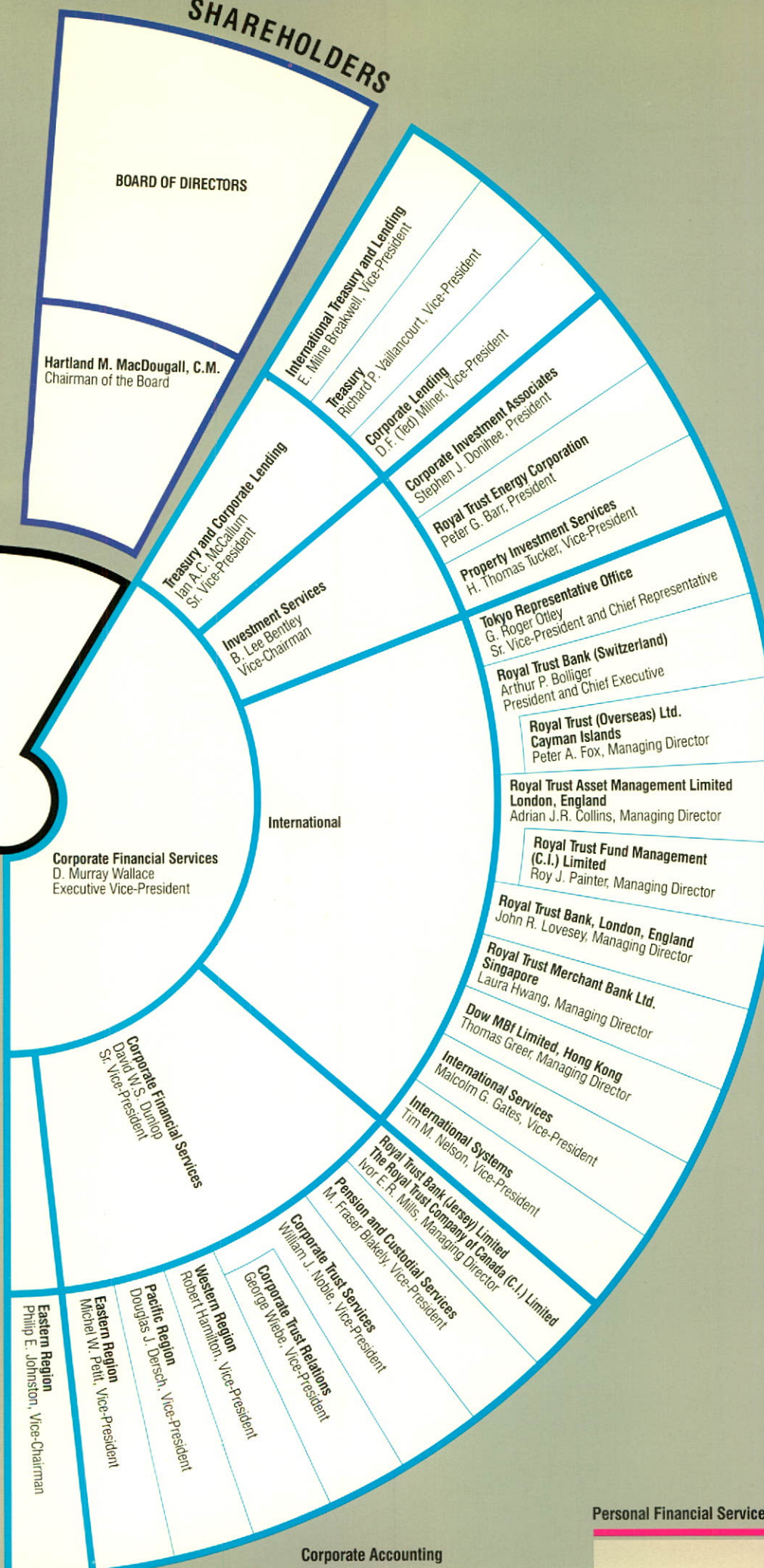


CUSTOMERS



Legal and Corporate Affairs

Corporate Finance



CUSTOMERS

We believe that traditional organizational structures will experience increasing difficulty in responding to the rapidly changing environment of international financial services.

They compartmentalize people and emphasize management hierarchies. This dissipates energy within the organization instead of directing it outwards to serve customer needs.

A circular structure more closely represents the organizational values we consider important and which drive Royal Trust. Those values are:

- a flexible organization with few reporting levels, focussed outwards on our markets;
- informal information networks and workgroups of people who share a sense of urgency and similar values of accountability to customers and shareholders;
- an individual's importance and rewards are assessed on his or her record of accomplishments rather than title or position within the hierarchy;
- assured mutual interest with shareholders through senior management compensation which combines significant share ownership with modest fixed salaries and through encouragement of share ownership by all employees.

Corporate Financial Services

Personal Financial Services

Corporate Accounting

Human Resources



William J. Inwood
*Senior Vice-President,
General Counsel and
Secretary*

On December 4, 1986, the Province of Ontario announced sweeping new ownership rules for securities firms operating in Ontario. Two weeks later the Government of Canada announced major proposals which will permit the integration of federally chartered financial institutions in terms of ownership, function and services.

These announcements mark both the culmination of unprecedented study of the Canadian financial system and the beginnings of unparalleled change.

Royal Trust has worked to help shape the development of policy for regulating financial institutions, premising its efforts on the reality of a global marketplace.

We believe that the federal and provincial governments' policies have grasped the importance of the balance necessary between domestic protection and the need to equip Canadian institutions for global competition. Consumers will be the beneficiaries of this expanding marketplace.

The proposals are directed at four principal areas and their effect on Royal Trust in all of these areas will be generally favourable:

• **Ownership**

The ownership proposals are pragmatic, giving tacit recognition to the strength that major shareholders have brought to the non-bank sector while emphasizing protection of minority shareholders. The proposals limit the further growth of commercial/financial links, but do not affect Royal Trust's existing ownership structure. The proposals are in harmony with Royal Trust's stated business principles which invite substantial public investment, combined with equity participation by senior management and a high level of accountability to a major shareholder.

• **Corporate Governance**

The proposals call for a new regime of corporate governance. Royal Trust has been a leading advocate of accountability in financial institutions. We believe that accountability rests not solely on adherence to external standards of regulation, but on established methods of internal governance.

The proposals call for a minimum of one-third of a financial institution's board to comprise independent directors. At Royal Trust this number is currently two-thirds. The proposals also call for independent Directors to serve on corporate review committees. Royal Trust was first to establish such a committee, its Business Conduct Review Committee, in 1985.

• **Institutional Powers**

The proposals remove the barriers to common ownership of regulated financial institutions. They afford full networking (save for the retailing of insurance) amongst financial institutions – a capability which Royal Trust has actively sought. The proposals will enable Royal Trust to build on the strengths of its association with the Trilon group of companies.

The proposals also provide important new powers which Royal Trust has sought in the fields of commercial and consumer lending, investment advice and portfolio management.

• **Regulatory Structure**

The proposals outline a regulatory structure that combines better regulation based on pre-emptive regulatory powers, enhanced supervision and inspection with internal governance mechanisms. Royal Trust welcomes these proposals which, when implemented, will result in greater protection of shareholders and depositors from the shocks that further failures in the financial system could produce.

The Future

Royal Trust has led the development of a workable set of rules for the trust industry. We will continue to provide industry leadership to ensure that policy proposals are distilled into workable legislation.

**Report
of the
Business
Conduct
Review
Committee**



Committee members:
(standing left to right)
Thomas R. Bell; Pierre
Taschereau, Q.C.;
Charles J. Clark, Q.C.;
(seated left to right)
Donald N. Byers, Q.C.
(Chairman); the Hon.
Maurice Riel, P.C., Q.C.;
(not shown):
the Hon. R. James
Balfour, Q.C.; Conrad F.
Harrington, C.M., C.D.

Inherent in Royal Trust's business principles is the belief that the most effective system for dealing with conflicts of interest is a combination of a strict but workable regulatory framework and appropriate corporate self-governance mechanisms.

Royal Trust has supported its commitment to corporate governance by adhering to certain fundamental principles which include:

- a major commitment to the quality, timeliness and accuracy of board and committee reporting;
- a significant level of independent directors on the board with the result that 23 of our 33 Directors are unaffiliated with a major shareholder;
- cumulative voting rules to facilitate minority shareholder representation;
- a policy which invites substantial public investment, reflected in a public shareholding of nearly 50% in Royal Trustco Limited; and
- substantial equity participation by senior management and a high level of accountability to a major shareholder.

The Business Conduct Review Committee was constituted by a by-law approved by the shareholders on March 7, 1985. The Committee has two specific functions.

First, the Committee monitors a Code of Business Conduct which was prepared under its direction and approved by the Board of Directors. This Code of Conduct must be affirmed by all Royal Trust employees. In addition, Royal Trust has established the office of Corporate Ombudsman as a forum for all employees to privately present matters of concern to them. The Business Conduct Review Committee is similarly available to employees and the Corporate Ombudsman to review any matter which may be of concern.

Secondly, the Committee reviews the business ethics of Royal Trust and conflicts of interest involving employees, directors and shareholders. To discharge this responsibility, all proposed significant investments, loans or other significant business activities of Royal Trustco Limited or any of its subsidiaries without a substantial minority interest are considered by the Committee where a possible material conflict of interest exists. The Committee has established a set of guidelines for determining whether any particular transaction is significant and whether

the conflict of interest is material. To assist the Committee in this process, it is provided with full access to senior management, auditors and independent legal counsel.

The Committee is composed entirely of Directors unaffiliated in any way with a major shareholder. The test of independence is clearly set out in the by-law establishing the Committee and is based on a Director having no relationship with any shareholder which directly or indirectly owns more than 10% of the voting shares of Royal Trustco.

During 1986, the Committee met five times. The Committee has received regular reports of loan and investment exposures to corporations or individuals which may have some degree of relatedness to Royal Trustco. In such cases, the Committee ensures that all transactions are legally permissible and then proceeds to test the arm's length nature of the transaction. Most of the matters considered by the Committee during the year have been normal course loan and investment decisions already considered by the Investment Committee. Typical were proposals for the purchase or sale of goods and services with related companies, joint product offerings and loans to corporations whose officers or directors were also Directors of Royal Trustco.

The Committee also monitors group company exposure and has established guidelines to supervise normal course money market and investment activity.

Of importance during the year was the activity of the Committee in ensuring that it was receiving accurate and candid reports of the Company's operations. In this regard, the Committee was at all times provided with access and assistance from senior management.

The Committee is satisfied that its principles are being honoured and that full compliance with both the spirit and the substance of its mandate are being achieved.

Donald N. Byers, Q.C.
Chairman
Business Conduct Review Committee



E. Courtney Pratt
Senior Vice-President,
Human Resources

Royal Trust's corporate objective is to provide a world of service to its customers, both in Canada and internationally. Inherent in this statement is the recognition that our employees hold the key to attaining such a level of operating success. Substantial time, effort and money are therefore committed to ensure our employees are the best trained and compensated in the industry, as well as the most highly motivated. These measures are being achieved by developing an entrepreneurial corporate culture that rewards achievement and is driven by the needs of our clients.

During 1986, more than \$6 million was spent on employee training. New initiatives included the introduction of the Vision 1990 Manager Program, an intensive five-day training session aimed at strengthening the management skills of our people. Productivity workshops were widespread throughout the Company, and an innovative home computer program was also launched. Client service, sales and sales management remained key priorities for training.

Royal Trust is working hard to focus attention on goal setting and to create a feeling of ownership in the Company. Major progress has been made in this regard through enthusiastic employee response to our various share ownership plans. These include the Management Share Purchase Plan, the Management Share Option Plan and the Employee Share Thrift Plan. Through these programs, more than 2,000 employees now own Royal Trust shares, representing over half of those eligible for such plans. These are in addition to the other Pay For Performance programs in place for all of our staff.

Royal Trust is a recognized leader in the area of employee relations and communications programs. It is one of the few Canadian companies that issues an annual report to employees and holds employee annual meetings. Last year, approximately 75% of our people attended such meetings held in eight cities across the country. An extensive attitude survey was also conducted internally, with detailed reports of the results distributed to all employees. Close to 95% of our people participated, indicating both their interest in the Company and their desire to make it an even better place to work. We are particularly pleased that through these surveys our employees have endorsed the Company's Vision 1990 goals and strategies.

Several important employee benefit initiatives were undertaken in 1986 to round out Royal Trust's comprehensive range of flexible and cost-effective benefit packages. These included a new Medident Program, which provides expanded health and dental coverage to those employees who want it, and an innovative employee assistance plan, "Only A Call Away." Through this program, employees can obtain confidential counselling and guidance services to help them cope with personal problems outside of the workplace. This new service is a complement to our existing Ombudsman, employee suggestion and fitness programs. In addition, a pilot childcare program was launched in the Toronto area in October.



1986 was a year of increased complexity and volume of work at Royal Trust. The skills and capabilities of our employees, both in Canada and internationally, were put to the test. Our 1986 results are a tribute to their ability to meet this challenge.

In looking to the future, our priority will remain focused on human resources initiatives that provide the framework for a leading edge working environment which will ensure our customers are served by the best people in the industry. This will be achieved through our ongoing emphasis on goal setting, performance management and training and development. We will continue to ensure equity of compensation and employment opportunities throughout our operations. We will also retain our people by creating a work environment and an entrepreneurial reward system without peer in our industry.

Customer service is the primary focus of Royal Trust's employee development programs. In 1986, more than \$6 million was devoted to employee training throughout the Company.



D. Murray Wallace
Executive Vice-President,
Corporate Financial
Services

Overview

1986 was a year in which a number of key elements of domestic strategy delivered significant results:

- market share gains were recorded in all major products, as the sales culture begun in 1985 took firm hold;
- the performance turnaround in Corporate Trust and our pension management group, Corporate Investment Associates, provided a firm foundation for the future;
- significant progress was made in Property Investment Services and our Corporate Lending group to provide value-added advisory services, earning substantial merchant banking-style fees at limited risk;
- the Pension and Custody division continued to dominate the market, winning three out of four new business leads;
- the combination of our new offices with our existing overseas network resulted in significant international business gains in Corporate and private investment and financing.

These developments underpin the way of the future for Corporate Financial Services.

The results have been impressive – sales doubled over 1985 while fee and interest income increased by 13%.

Corporate Investment Associates

Corporate Investment Services was reorganized into a separate operating subsidiary, Corporate Investment Associates (RT) Inc., in late 1985. Corporate Investment Associates has since become an aggressive, market-driven operation. It manages more than \$5 billion on behalf

of Canadian pension plans, charitable endowment organizations, insurance companies and pooled funds. The reorganization has created the environment, the structure, the team, the products and the performance to fully address the needs of our clients in today's market.

In the first year of this reorganization, the goal of attracting and retaining top people has been achieved by linking compensation to performance. This has sharpened the division's focus and has built an entrepreneurial, responsive team.

Specialist subgroups provide expertise on four key fronts:

- Canadian equities
- Fixed income instruments
- U.S. equities
- Offshore equities.

Performance in all areas has more than met client expectations. Canadian equity results outperformed The Toronto Stock Exchange 300 Index. Our offshore equity performance ranked number one in Canada according to a recent independent fund performance survey. Fixed income performance continues to rank in the high second quartile over the full market cycle. Finally, the U.S. funds exhibited exceptional returns in 1986, ranking close to the first quartile.

During the year, the division introduced Canada's first and only Bond Index Fund, a Pooled Money Market Fund and a Pooled Balanced Fund.



Corporate Investment Associates (RT) Inc., a specialized money management counselling operation staffed by leading investment professionals, was established late in 1985. This group manages more than \$5 billion on behalf of Canadian pension plans, charitable endowment organizations and insurance companies, through segregated and pooled funds.

● Mutual Fund
Valuation/Reporting

● Group RSPs

● Stock Transfer/Share Registrar

● Employee Benefits

Record Keeping (PERKS)

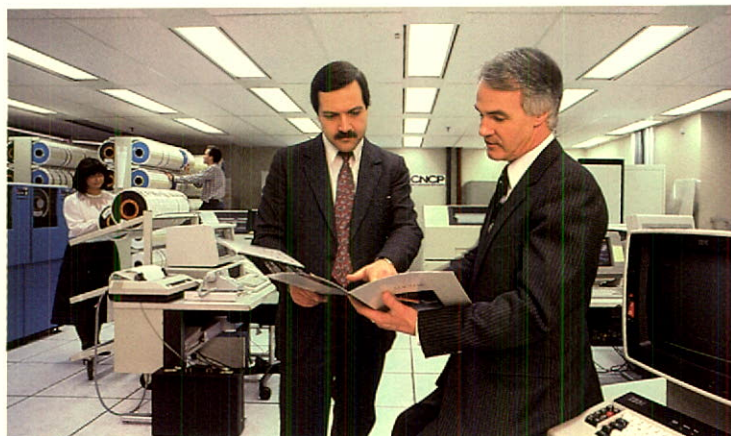
● Term Lending

● Custody of Assets

Property Investment Services

1986 was a year of great strategic importance for Property Investment Services, a specialist group which undertakes asset management and acquires Canadian commercial and industrial real estate for domestic and foreign clients.

The highlight of the year was the syndication of a 50% interest in a major downtown Toronto property, the Richmond-



Increased systems capability and a strongly client-oriented culture moved Royal Trust's Master Trust Operations ahead of the industry in 1986. Andrew M. Bucknall, Manager of Pensions and Benefits for CNCP Telecommunications (pictured right), discusses pension plans with Jim Brace, Director of Royal Trust's Master Trust Operations.

Adelaide Centre complex. The \$151.4 million syndication attracted many of our domestic clients together with the first Japanese financial institution to make a major real estate investment in Canada. The interest generated by this syndication indicates that this type of activity will play an increasing role in Property Investment Services' future operation.

Builders Capital Limited, a wholly-owned subsidiary of Royal Trust, continued to grow in 1986 in spite of a highly competitive market. Its portfolio increased by 50%, while maintaining excellent quality. Like Property Investment Services, Builders Capital completed some innovative transactions involving profit participation in 1986.

Royal Trust Energy Corporation

Royal Trust Energy Corporation, a wholly-owned subsidiary, acquires and manages energy-related investments, primarily for Canadian pension funds.

1986 was one of the most volatile years for the energy industry in more than two decades. The highly uncertain market created an extremely challenging operating environment for Royal Trust Energy. In spite of the difficulty of structuring investments, Royal Trust Energy arranged acquisitions valued at \$33 million and is negotiating a further \$35 million. In addition, we have developed an operating capability to safeguard our clients' positions in their investments. We are optimistic about the opportunities afforded by the energy sector. We will offer these to the European market and the domestic retail markets in the first half of 1987.

Treasury

Volatile financial markets and unfavourable short term interest rate conditions at the beginning of 1986 required careful management of our positions. This was complicated by very strong mortgage demand throughout the year which posed both funding and risk-rate management challenges. The Treasury group met these requirements, managing its unmatched asset and liability positions profitably.

Corporate Lending

The Corporate Lending and Corporate Mortgage teams in Toronto and Vancouver more than doubled the 1985 volume of new transactions, putting more than \$700 million of new business on the books.

A competitive lending environment narrowed spreads on new business. The

group concentrated on business where higher margins or fees could be earned by innovative structuring or consultancy services. These will be developed further in 1987, as will the syndication and resale of new loan assets. We continue to be cautious about asset growth without underlying security values.

The portfolio of loans and investments continues to perform well. Exposures to the oil and gas sector are the exception to this rule. However, our direct risk exposure to the energy sector is small. Sufficient provisions have been established to fully cover projected loan loss exposure at year-end.

Corporate Trust

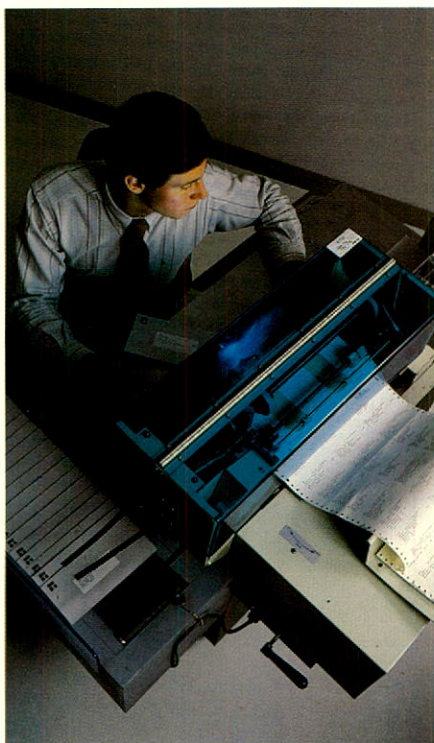
The competitive environment was intense in 1986. In spite of this, new business was up 10% and we significantly improved our financial position. In addition, we moved from fourth to second place in market share in the industry.

As the needs of the market change, Royal Trust has moved to develop innovative services. In late 1985, the preferred share market was introduced to preferred shares where the dividend is set in a

monthly auction. Royal Trust, in addition to being an issuer itself, now handles 65% of all such auctions held in Canada.

Conversion of more than 800,000 accounts to our new on-line, real-time stock transfer enquiry proxy system, (STEPS), was completed in 1986. STEPS provides issuers with prompt and accurate analyses of stock ownership patterns and changes. These can be transmitted directly to clients' offices through on-line terminals and can be customized to individual needs. STEPS also has the capacity to service proposed requirements for dissemination of shareholder information to beneficial shareholders.

Administrative systems in Corporate Trust have improved significantly as the result of the introduction of performance standards for processing and administering clients' accounts. A constant monitor-



Administrative systems, equipment and trained personnel are in place to efficiently handle the more than eight million pieces of mail that pass through our national office each year.

● *Loan Syndication*

● *Investor Relations*

● *Real Estate Investments*

● *Foreign Exchange*

● *Money Market Investments*

● *Energy Direct Investments*

● *Asset Management*

ing and measurement system ensures maintenance and improvement of standards. Productivity has increased 15% and is expected to continue to improve in 1987.

The combination of these measures has positioned Corporate Trust to provide top quality service as one of the most efficient and productive groups in the industry in North America.



The syndication of a 50% interest in the Richmond-Adelaide Centre complex in Toronto during 1986 was an attractive investment for Royal Trust clients.

Pension and Custodial

Escalating accounting and pension reforms have made the provision of client information and disclosure much more complex. Royal Trust has met this need with an increased systems capability and advisory services.

Departmental reorganization and the encouragement of an aggressive client-oriented culture enabled our staff to anticipate client needs in developing the right products for today's evolving marketplace. As a result, Royal Trust's performance outstripped the industry in 1986. Volume within our core Master Trust business increased at twice the industry rate, setting the foundation for further volume gains in 1987. Assets under administration grew 21%, of which half represented new business.

Employee Benefit Services

The heightened focus on client service is supported by PERKS, our new Participant Record Keeping System introduced in 1986. PERKS is a highly flexible, state-of-the-art tool which allows our clients and their advisors to manage their pension funds. In addition, it can accommodate the wide variety of disclosures associated with the change from defined benefit to defined contribution plans.

Securities Administration

As the internationalization of security markets has increased, the demand for Royal Trust's Securities Administration services has also grown, particularly from European and Pacific Rim institutions.

Assets under administration increased by 25%, reflecting a combination of Royal Trust's international experience and the effectiveness of a special unit dedicated to serve this market.



Royal Trust is helping to finance Canadian grain exports through a multi-million dollar loan made to the Canadian Wheat Board in 1986, the largest single loan the Company has made to date.

1986 marked a breakthrough for Royal Trust in two important areas: using our international network to serve domestic clients and providing a wide range of advisory services in both asset and liability management. These developments will be continued in 1987 and beyond, and will be extended to new market segments. We have the offices in key world capital market centres, the peo-



Royal Trust has been providing financial services in the United Kingdom since 1929. The Company's international operations more than doubled during 1986 through the acquisition of the assets of Dow Financial Services.

ple and the technology to achieve this growth. While these services will be wide ranging, a few specific examples can be cited:

- In early 1987, a new investor relations service will be introduced to complement existing corporate trust activities. This addition recognizes the largely unfulfilled need of corporations to professionally manage and organize their shareholder relations.
- Our clients will have increased access to capital markets outside Canada, particularly in the United Kingdom and Switzerland.
- Prospective changes in Canadian withholding tax legislation and our stronger international presence are leading to the internationalization of treasury activity. In early 1987 Royal Trust will add foreign exchange trading in Toronto, complementing similar services already offered by Royal Trust offices outside Canada.

Privatization in the United Kingdom has provided Royal Trust with the opportunity to extend our capabilities as transfer agents for American Deposit Receipts on behalf of such major clients as British Telecom, British Oil, British Gas and British Airways. We anticipate that privatization in other countries will provide opportunities for further similar transfer work.

Royal Trust's 1986 business plan identified the need to expand our international network to widen the range of products and services available to our domestic and overseas customers. The purchase of the assets of Dow Financial Services in mid-1986 was an effective way to build on the expertise of our existing operations in the United Kingdom and elsewhere.

This acquisition gives Royal Trust a presence in seven major global centres outside Canada. The Company's 14

international offices employ 630 people and provide merchant and private banking services, asset management and administration and advisory services.

Two components, Arbuthnot Latham Bank Limited and Arbuthnot Latham Properties Limited, have been sold and negotiations are underway for the sale of Savory Milln Limited. This will complete the rationalization of our operations. The remaining businesses complement Royal Trust's existing market strengths and comprise:

- Royal Trust International Limited
- Royal Trust Bank (Switzerland)
- Royal Trust Asset Management Limited
- Royal Trust Merchant Bank Ltd., Singapore
- Dow MBf Limited, Hong Kong.

Integration of these new companies is now complete.



Royal Trust Bank – London

In November, Royal Trust in London changed its name to Royal Trust Bank. A new office was opened in Ipswich as part of a strategy to extend individual and commercial banking services beyond London. In addition, Royal Trust Bank purchased 75% of a real estate broker, Wakefields Limited, as a base for the further development of the mortgage synergy achieved with Royal LePage in Canada.

The solid performance in all divisions of the bank provided spectacular results as new business grew by 45% over 1985.

Royal Trust – Jersey

In the Channel Islands, our bank and trust company subsidiaries enjoyed a good year. A strong marketing effort increased asset management fee income significantly. Banking income was strong and the aggregate results of the two operations provided net profits 30% higher than in 1985.

Royal Trust – Japan

The opening of our representative office in Tokyo was an immediate success, building upon our already substantial book of corporate business with Japanese clients. Our new office enhances

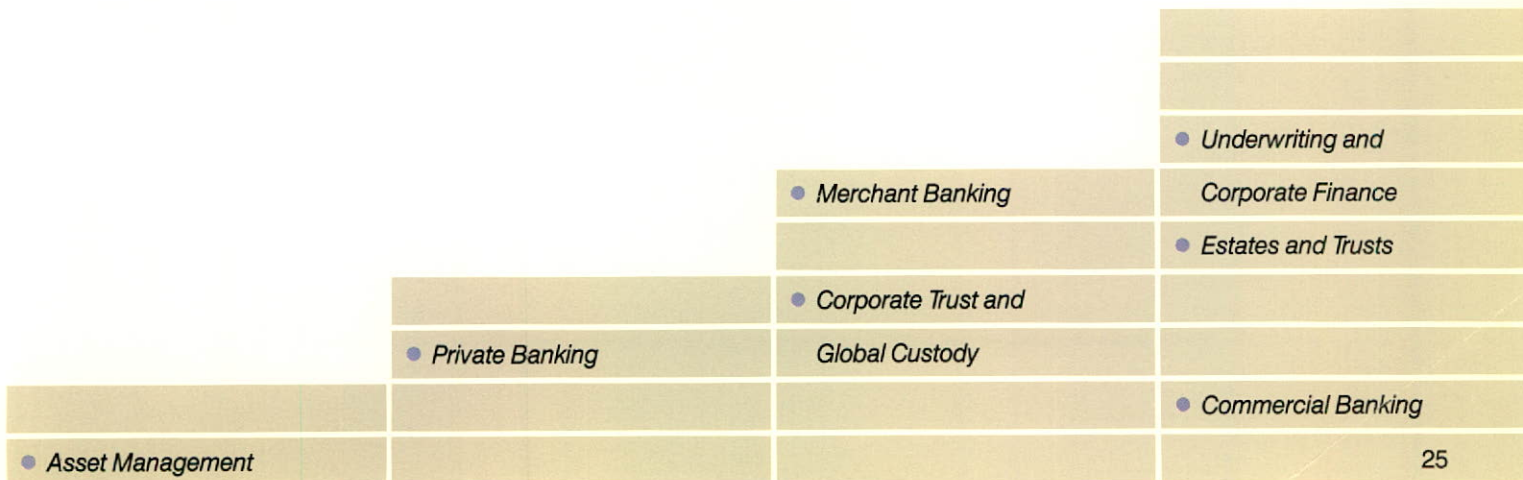
our presence with clients locally as well as increases our profile in one of the most dynamic financial markets of the world.

Future

The most likely result of the worldwide consolidation of financial institutions is that within a decade a handful of global entities will emerge, each offering a complete range of financial services. Royal Trust's approach will be to concentrate on market niches where the Company's experience and strengths can best be utilized for our clients' benefit. We will focus on providing truly global services in private banking, asset management, specialized banking and advisory and administrative services.

The Company is determined to avoid high risk exposures in areas of intense competition with major money centre banks. The emphasis will be on providing the highly specialized services in which we have great experience to clients anywhere in the world from the most appropriate part of the Royal Trust network.

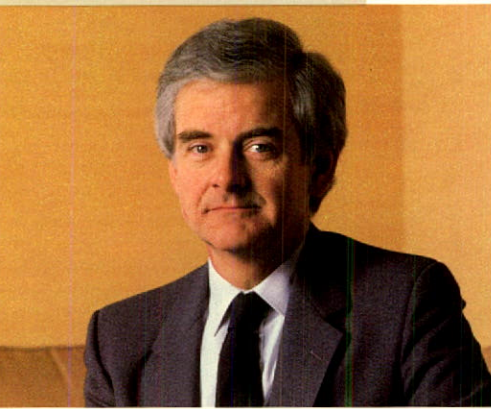
Royal Trust Bank (Switzerland) specializes in private banking and is headquartered in Zurich.



Personal

Financial

Services



William C. Harker
Executive Vice-President,
Personal Financial
Services

"We are going to make a million people wealthier every day."

This is the mission of 3,500 Personal Financial Services employees working together to make Royal Trust Canada's leading provider of lifetime financial advice and services. We intend to achieve this objective by anticipating the needs of our customers and then providing the desired services.

In spite of continued intense competition throughout the industry in 1986, Personal Financial Services added substantially to last year's successes. Emphasis was focused on new products and services, sales and client service training, cooperative programs with the Trilon group of companies, strategic expansion of branches and technological advances. These activities will ensure our customers have the widest range of choices and convenient access to service.

Operating objectives were surpassed, with net income increasing 15% over 1985. Demand deposits increased 22%, mortgage balances were up 57%, fee income rose 29% and the Gold MasterCard more than doubled its planned growth.

Central to our activities in 1986 was the priority given to enhancing our role as a financial advisor to our customers. The introduction of a number of new advisory products exemplifies this strategic thrust, which is based on building closer relationships with our clients. Employee training programs to develop superior sales, management and technical skills have improved our ability to deliver such service, and enriched our sales and service positions by adding a financial counseling dimension.

Products

Twelve new products were launched in 1986, adding to our extensive range of lifetime financial services. "The Advisor", introduced in November, is one example of a customized product to meet the needs of a specific market niche. A single investment account which combines savings, term deposits and a wide range of mutual funds, "The Advisor" is managed by a personal account manager and backed by a team of Royal Trust investment experts. It is designed for people who want a diversified, well-balanced portfolio without having to be involved in the often complicated, time-consuming and expensive process of managing it themselves.

A second example is our Personal Financial Planning service, which provides clients with in-depth analysis and objective advice covering their entire financial needs. Highly trained professionals serve as a single resource to advise clients on insurance, basic tax matters, investment planning and wills as well as other financial, trust and lending products. This service, offered for a one-time fee, has far exceeded its projected volume of business and attracted international acclaim.

A unique service called Market Link was also introduced. Market Link is an instantaneous stock transaction service for order processing and market quotation. It can reduce the cost of security transactions by as much as 85%.



Royal Trust's customers have access to more than 13,000 automated banking machines throughout North America. These include the Company's proprietary machines and those provided through partnerships with other members of the CIRCUIT and CIRRUS networks.

● Daily Interest Chequing

● T-Bill Savings

● Automated Banking

● Double Up Mortgage

● RT-HOSP

● Term Deposits/GICs

● Retirement Savings Plans

● Self Directed RSP

The benefits of this service are available to all Royal Trust Investment Management, Custodial Services, Estate and Trust Management and Self-Directed RRSP clients. Market Link is one example of how synergy among the Company's business units works to the advantage of customers.

The T-Bill Savings Account, launched early in 1986, is ideal for clients seeking the convenience and liquidity of a savings account. It also allows them to take advantage of fluctuating interest rates. Unlike many competing T-Bill savings accounts, Royal Trust's pays interest monthly on the average balance for the

month. Clients can also access funds in these accounts through our automated banking machines.

In the fall of 1986, an aggressive campaign supporting a range of newly-positioned Guaranteed Investment Certificate products was also successful in generating new business. Our customers benefited from a choice of seven GIC products tailored to their individual needs. A special interest bonus GIC was offered to clients aged 60 and over. A daily interest chequing account for business, featuring a four-tier interest rate structure with no minimum balance requirement, was also launched.



Royal Trust opened nine additional branches in 1986, all of which incorporate a new look design that promotes better customer service and efficiency.

Banking Services

Nine additional branches were opened in 1986, bringing the total in our nationwide network to 120. These new branches, along with our flagship Toronto branch which opened in the Royal Trust Tower early in 1987, incorporate a new look design introduced a year ago. This design emphasizes client service and permits the removal of many administrative activities from the branch. More than 80% of our branches are open on Saturdays, with many offering the added convenience of extended banking hours.

Automated banking services were substantially expanded in 1986. In partnership with the other members of the CIRCUIT and CIRRUS networks, we now serve our clients through more than 13,000 automated banking machines in Canada and the U.S.

A continuing success for Personal Financial Services is the Gold MasterCard. The only credit card in Canada to feature a 1% discount on purchases, it also offers one of the lowest interest rates available on outstanding balances.

Customer enthusiasm has remained high since this card was introduced in late 1985, with the number of new cardholders this year more than double our projections.

The development and application of advanced computer technology continues to be a key priority. During 1986, the installation of a new generation of terminals was completed in all branches. These terminals provide access to additional computer systems beyond banking, greatly enhancing our ability to provide fast and efficient customer service. The introduction of a new, computerized term deposit system has achieved similar results. It provides instantaneous client certificates at the point of sale along with customer cheques at the time of redemption, and also has an automatic rollover option.

A new computerized mortgage system allows us to offer additional features including weekly and bi-weekly mortgage payments. It will also provide improved access to information concerning client mortgages in all of our branches. In addition, the automation of our RSP sales entry procedures now enables us to provide customers with RSP tax receipts as part of the process. All of these measures served to improve productivity significantly during 1986.

Trust and Asset Management Services

In 1986, assets under administration in the trust and asset management areas recorded a 14% gain to total \$9.2 billion at year-end. Fee income increased by almost 17%, reflecting in part the growth achieved through our expanded line of advisory-related products and services.

The Investment Management service provides professional portfolio management tailored to meet the client's investment objectives, coupled with complete record keeping and administration. Product innovations introduced during the

year included "The Advisor", an investment management account designed specifically for clients with portfolios in the \$50,000 to \$200,000 range and an Investment Advisory Service, available at no cost to any Royal Trust client seeking assistance in identifying his or her personal investment needs.

Having successfully established these products, a key priority in 1987 will be the repositioning of services to meet the unique needs of clients with portfolios exceeding \$200,000.

Royal Trust has considerable experience and expertise in will planning and estate management. As executor and manager of an estate, Royal Trust ensures that the client's interests and investments are cared for. Wills and estates remain a cornerstone of our business. This is reflected in new marketing initiatives to heighten client awareness of our range of estate planning and administration services.



The only credit card in Canada to feature a 1% discount on purchases.

● *Personal Financial Planning*

● *Mutual Funds*

● *Royal LePage*

Home Purchase/Sale

● *Investment Administration/ Management*

● *Market Link*

● *Gold MasterCard*

● *Royal LePage Mortgage*

Retirement Savings Products

Retirement Savings Plan balances increased 13.8% in 1986 to produce a portfolio totalling almost \$3.4 billion. Mutual fund products were the primary growth segment, recording a 49% increase in sales over the previous year. Marketing efforts focused on the "Expect More" theme and were supported by extensive media advertising. Client reporting was enhanced through the introduction of improved quarterly statements, which are now accompanied by a customer newsletter highlighting developments in the RSP marketplace.

Mutual Funds

With combined net sales exceeding \$500 million in 1986, Royal Trust's Portfolio of Performance Mutual Funds has grown to more than \$1.3 billion. This makes it Canada's largest portfolio of no-load funds, meaning no commission or sales fees are charged on our funds. The range of investment options available to our clients comprises seven mutual funds, plus three combination funds called the Advantage Growth Fund, the Advantage Income Fund and the Advantage Balanced Fund. Each Advantage Fund is made up of a pool of individual Royal Trust funds that concentrate on the investment objectives of growth, income or a balance of the two. Clients decide which objective best fits their investment needs, and Royal Trust's Advantage Fund manager invests in the appropriate fund on their behalf.

Our most popular mutual fund product, the Mortgage Fund, invests primarily in high quality residential first mortgages.

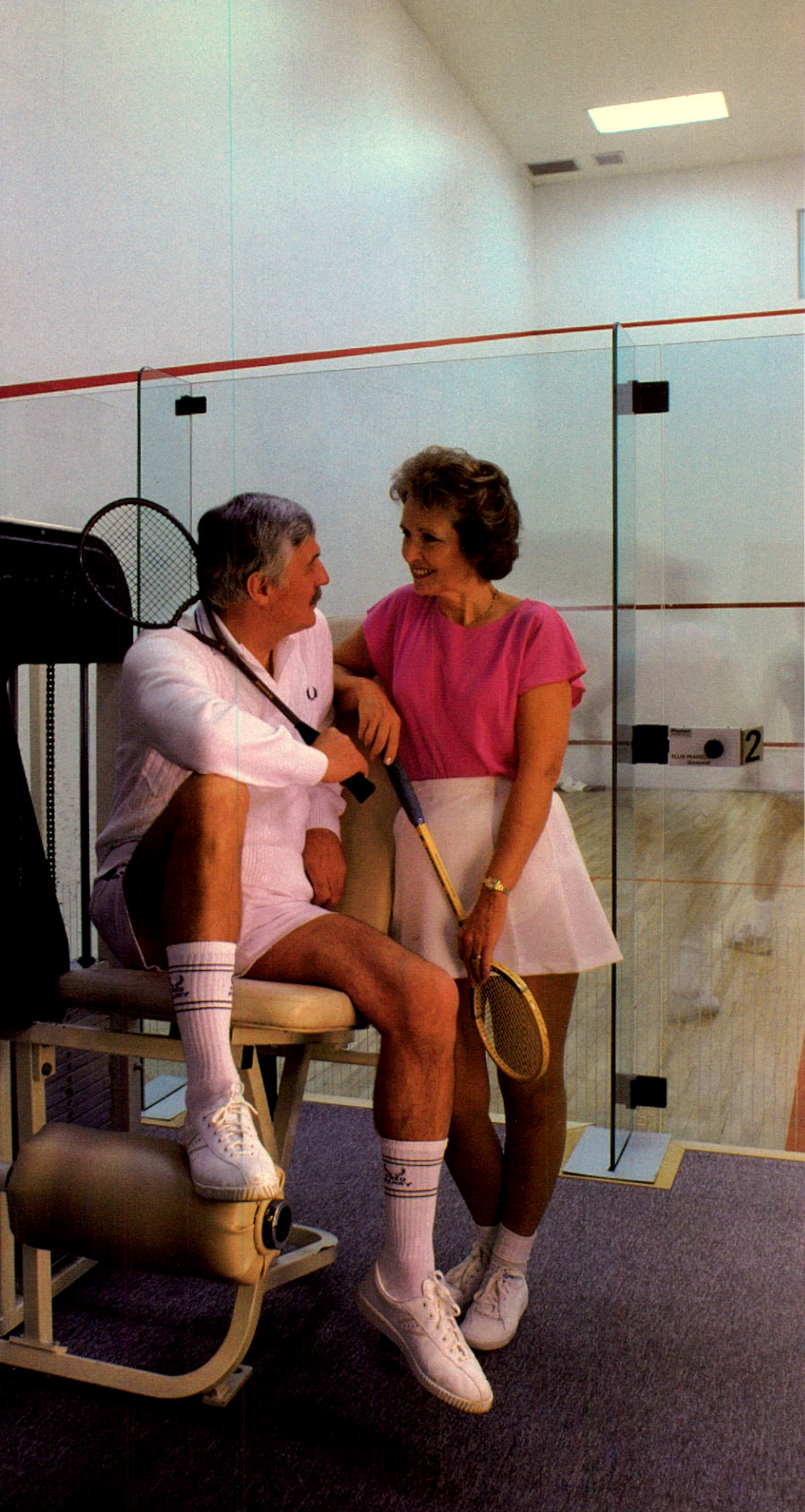
Designed for the conservative investor who wants high income return and low risk, this fund has achieved consistently high rates of return over the past ten years.

During 1986, extensive consumer research led to the introduction of new product brochures and merchandising materials. Advertising support and an intensive training program have enhanced our ability to market these funds.

Mortgages, Loans and Credit

Royal Trust increased its mortgage disbursements by 57% in 1986 despite keen competition throughout the residential mortgage market. An important factor influencing this growth was the continued success of the innovative Royal LePage Mortgage, introduced in 1985. This mortgage features pre-approval of borrowers and pre-approval of homes for mortgages by Royal LePage real estate managers. Representing more than one-third of our new mortgage business in 1986, the Royal LePage Mortgage has set the trend for the entire industry.

Royal Trust's personal line of credit is a continued strong performer in our product line, with 80% growth in 1986. Clients praise the convenience and flexibility of being able to "write their own loans."



The introduction of 12 new products in 1986 has enhanced Royal Trust's range of personal financial services. These include a wide assortment of RSP products for a financially-fit retirement.

● Income-Splitting Trusts

● "The Advisor"

● Fixed Term/Life Annuities

● Estate and Will Planning

● Estate and Trust Executor

● RT '60' Service

● Retirement Income Funds

ROYAL LePAGE LIMITED

Royal Trust has a 50.1% interest in Royal LePage Limited, Canada's largest diversified real estate services company. It employs approximately 9,600 people through its 350 residential and commercial offices in North America, and also has affiliate offices in the United Kingdom and Europe.

In terms of revenue and profit performance, 1986 was the most outstanding year in Royal LePage's history. Gross revenue totalled \$433 million (after payments to other brokers and real estate boards), representing a growth of more than 13%



INFOHOME, Royal LePage's residential computer listing network, is used to discuss house prices with clients.

over 1985. Net income increased three-fold.

Residential operations generated \$333 million of the 1986 gross revenue compared with \$299 million the previous year. Gross revenue from commercial brokerage and fee operations increased to \$81 million from \$69 million in 1985.

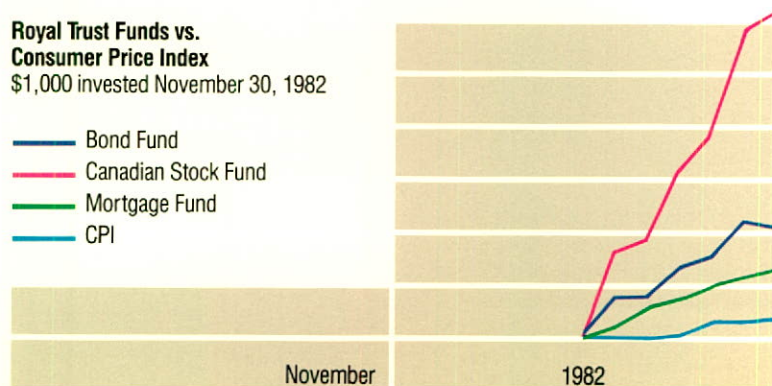
Real Estate Management Services, which is Canada's largest agency property manager, earned gross revenue of \$5.4 million compared with \$4.4 million the previous year. Capital Management Services, which manages a multi-million dollar portfolio for a variety of clients, had gross revenue of \$3.6 million. Revenue from other sources totalled \$10 million, double the previous year.

While Royal LePage's record financial performance reflects strong real estate markets, other factors also played a role. Significant economies were achieved through shared costs and facilities, as well as increased group purchasing power of common products and services within the Trilon group.

Capital expenditures on competitively superior computer systems highlighted the growing sophistication of the industry and the leadership role taken by Royal LePage. A residential computer listing network called INFOHOME was launched in 1986 to provide clients with a more efficient home-selling and purchase process. Through this system, clients gain access to a comprehensive listing of residential properties available through Royal LePage and the Multiple Listing

Royal Trust Funds vs. Consumer Price Index
\$1,000 invested November 30, 1982

— Bond Fund
— Canadian Stock Fund
— Mortgage Fund
— CPI



Service, while salespeople are able to obtain current, accurate market data and an impressive array of reports and client prospecting functions in minutes. All residential offices across Canada will have complete access to INFOHOME by the end of 1987.

Emphasis in Commercial operations was on the implementation of a custom-developed computerized marketing system incorporating virtually every aspect of the commercial real estate marketing process. Implementation in all specialty functions was well advanced by the end of 1986 and is expected to be completed in 1987.

Based on client demands for more skilled services, an ongoing priority for Royal LePage will be the provision of specialized training and staff development programs that result in a consistent, professional level of service.

Trilon Synergy

A major element of Royal Trust's operating strategy is to develop joint business opportunities with other members of the Trilon group of companies. The objective is to improve customer service and generate additional sales through innovative products that serve clients' needs at a particular time of their lives. The Royal LePage Mortgage is a prime example of Trilon synergy. Developed jointly by Royal

Trust and Royal LePage, this mortgage promotes value, service and convenience for customers in the key stages of a home-buying transaction. The decision to purchase is facilitated by the knowledge that the mortgage has been pre-approved.

Our association with the Trilon group enhances our ability to compete effectively with other financial institutions that are larger in size. Several pilot projects are currently under way to extend the opportunities made available through our partners in Trilon.

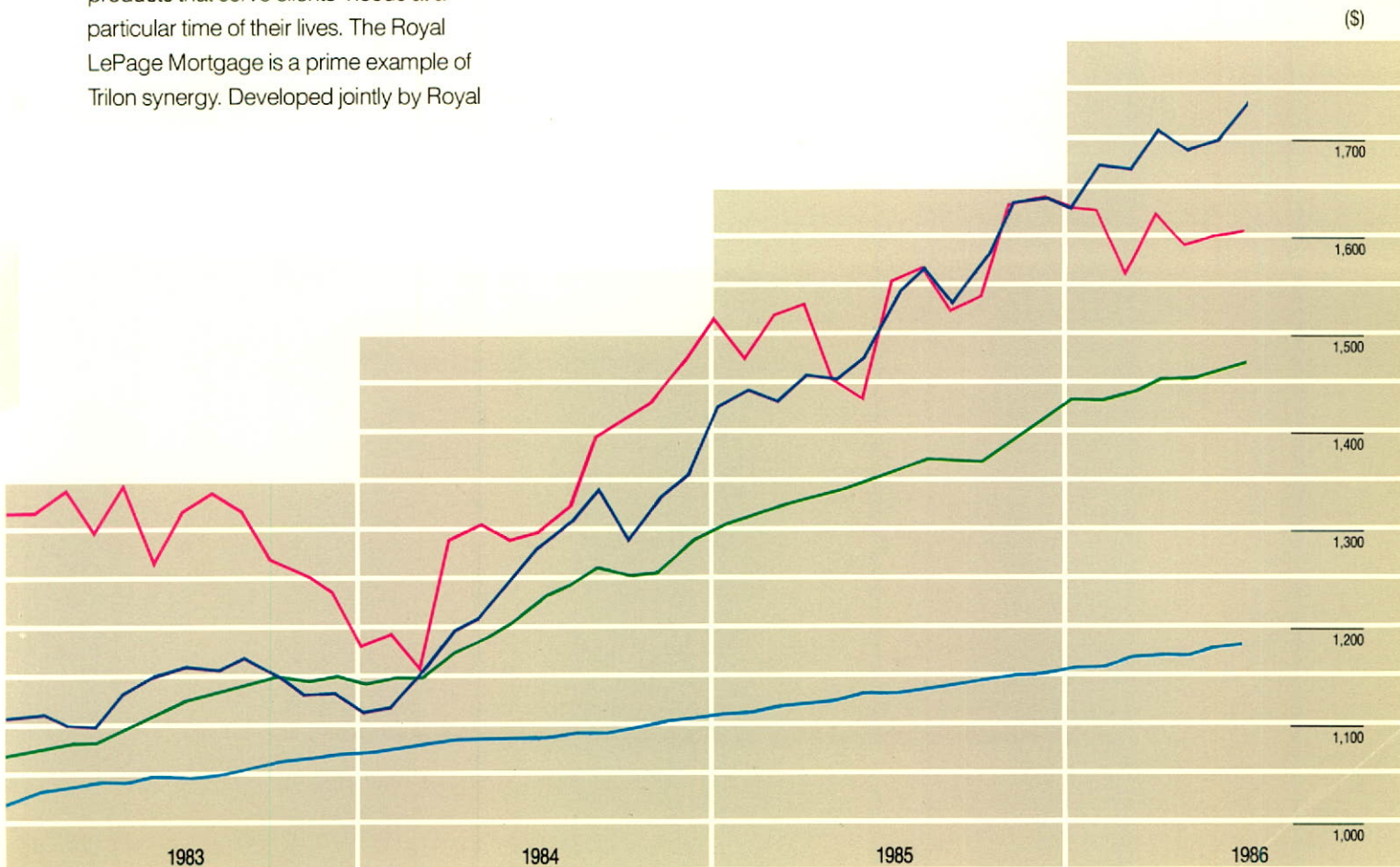


The Future

Personal Financial Services will adhere to its strategy of enhancing its role as a financial advisor to its customers. An

increasing percentage of income will therefore be based on fees. In developing new advisory-related products and services, extensive market research will be conducted to ensure we continue to meet the changing needs of our clients.

Additional international products will be introduced as we work closely with our expanded international operations to provide increasingly global financial services. These will be complemented domestically by creating new synergies among the Trilon group of companies. Employee training programs will emphasize the efficiencies involved in cross-selling Royal Trust products, both internally and within the Trilon group. Efforts will also be focused on combining financial products that fit together into specific planning packages to meet clients' requirements over a longer term. The continued advancement of systems technology will be a key priority in ensuring the delivery of superior products and services in the marketplace.



Royal

Trust

around

the

World

Canadian Offices

St. John's
Charlottetown
Halifax
Saint John
Montreal
Quebec City
Sherbrooke
Trois-Rivières
Ottawa
Kingston
Peterborough
Sault Ste. Marie
Toronto
Hamilton
London
Kitchener

St. Catharines
Windsor
Thunder Bay
Winnipeg
Regina
Saskatoon
Calgary
Edmonton
Lethbridge
Vancouver
Kelowna
Victoria

Caribbean Offices

Nassau
Cayman Islands
Barbados

European Offices

London
Brighton
Manchester
Ipswich
Jersey
Isle of Man
Zurich
Amsterdam



Pacific Rim Offices

Hong Kong

Singapore

Tokyo



Royal Trustco

Limited

Financial

Information

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Five Year Review (\$ millions)

Consolidated Balance Sheet

as at December 31	1986	1985	1984	1983	1982
Assets					
Cash and short term deposits	3,511	2,146	2,070	2,107	1,994
Securities	2,616	1,862	1,621	1,016	977
Mortgage loans	9,525	7,258	5,641	5,170	4,757
Other loans and investments	3,456	1,959	1,637	1,174	1,007
Other assets	435	228	188	167	165
	<u>19,543</u>	<u>13,453</u>	<u>11,157</u>	<u>9,634</u>	<u>8,900</u>
Liabilities and Shareholders' Equity					
Demand deposits	4,450	2,027	1,735	1,672	1,685
Term deposits and borrowings	13,177	9,983	8,398	7,376	6,693
Other liabilities	294	233	160	76	43
Deferred income taxes	45	62	66	73	72
	<u>17,966</u>	<u>12,305</u>	<u>10,359</u>	<u>9,197</u>	<u>8,493</u>
Capital:					
Minority interest	79	17	21	5	6
Subordinated capital debentures	207	—	—	—	—
Shareholders' equity	1,291	1,131	777	432	401
	<u>1,577</u>	<u>1,148</u>	<u>798</u>	<u>437</u>	<u>407</u>
	<u>19,543</u>	<u>13,453</u>	<u>11,157</u>	<u>9,634</u>	<u>8,900</u>

Consolidated Income Statement

Revenue					
Investment income	1,707	1,376	1,204	1,065	1,159
Taxable equivalent adjustment*	124	101	69	38	34
	<u>1,831</u>	<u>1,477</u>	<u>1,273</u>	<u>1,103</u>	<u>1,193</u>
Fees and commissions:					
Trust services	137	106	103	95	90
Real estate sales and services	528	460	160	157	129
	<u>665</u>	<u>566</u>	<u>263</u>	<u>252</u>	<u>219</u>
Total revenue	<u>2,496</u>	<u>2,043</u>	<u>1,536</u>	<u>1,355</u>	<u>1,412</u>
Expense					
Interest paid	1,351	1,108	987	866	1,011
Real estate commissions	309	268	102	101	84
Salaries and benefits	214	179	130	118	110
Other operating expense	297	256	134	135	116
Provision for loan losses	18	12	16	18	12
Total expense	<u>2,189</u>	<u>1,823</u>	<u>1,369</u>	<u>1,238</u>	<u>1,333</u>
Operating income	307	220	167	117	79
Income taxes and minority interest*	153	107	82	52	35
Net income	154	113	85	65	44
Net income to common shareholders	103	78	64	52	34
Earnings per share (\$)					
- basic	2.20	1.89	1.67	1.48	0.98
- fully diluted	2.16	1.86	1.60	1.37	0.94

*Certain investment income is received by the Company net of income tax with the proportion varying from year to year. The gross-up of this income to a taxable equivalent basis permits a uniform measurement and comparison of revenue.



Barry A. Henstock
Senior Vice-President
and Chief Financial Officer

Financial Objectives

In 1986, Royal Trust achieved its three principal financial objectives as follows:

- **To achieve a sustainable return of 15 to 20 per cent on common shareholders' equity.**
In 1986 the return on common shareholders' equity on a fully diluted basis was 18.4%. The decrease from 19.1% in 1985 was attributable to the \$104 million common equity issue in late 1985.
- **To achieve a 15 per cent annual growth rate in after tax net income per common share over time.**
In 1986 net income after tax per common share on a fully diluted basis increased 16.1%.

- **To emphasize stable earnings growth and maintain risk levels which are compatible with a high credit rating.**
The Company's credit rating on its debt has been maintained at the AA level in 1986 due to continued Balance Sheet strength and consistently high levels of profitability. In early 1987, Standard and Poor's assigned an AA rating for the Company's long term debt, which is equivalent to that of the major Canadian banks.

Financial Policies

Important initiatives in 1986 relative to key financial policies were:

- **Royal Trust values its common equity base and will avoid dilution except where appropriate. It will be used with the issuance of preferred shares to maintain financial strength and stability.**
In 1986 \$200 million perpetual preferred shares were arranged. These included \$100 million yielding 7.84% for approximately five years and 70% of prime thereafter, \$50 million yielding 70% of prime and \$50 million with dividends established monthly by auction which resulted in an average yield of 6.03% in 1986. In addition, the Company increased its total capital base to \$1.6 billion through the issue of U.S.\$150 million floating rate 99 year subordinated capital debentures.
- **Royal Trust will maintain conservative debt leverage ratios.**
In conjunction with the increases in the capital base, additional long term debt of \$413 million was issued. The ratio of deposits, borrowings and other liabilities to capital base has been maintained at 11 times, a more conservative ratio than any other major financial institution in Canada.
- **Royal Trust supports a stable consistent dividend policy and will increase dividends over time as earnings increase.**
The quarterly dividend paid on common shares was raised to 25 cents from 21½ cents in the third quarter of 1986, an increase of 16.3%. In 1986 and 1985, common dividends paid comprised 42% of earnings.
- **Royal Trust will invest both client and corporate funds in high quality investments within parameters approved by the Investment Committee of the Board of Directors.**
Actual loan losses, at 0.1% of the total portfolio, continue at the same low level as 1985.

- **Royal Trust will endeavour to match fixed rate term assets with similar term fixed rate liabilities. Unmatched positions will be managed within strict parameters approved by the Board of Directors.**

The unmatched excess of interest sensitive liabilities was \$1,127 million or less than 6% of total assets at December 31, 1986. This position remains well within Board approved levels and was established to take advantage of market conditions in the year.

- **Royal Trust will grow by internal growth and by the acquisition of companies in the financial services and complementary industries in Canada and elsewhere which meet strict investment criteria.**
Assets grew a net \$2.6 billion through the acquisition of the assets of Dow Financial Services with a further \$3.5 billion generated by internal growth.
- **Royal Trust will endeavour to match foreign currency positions and will manage investments with foreign exchange exposures within narrow limits.**

Euro debt issues of SFr 300 million and £30 million, with U.S. \$150 million subordinated capital debentures, all contributed to maintaining a fully hedged position following the investment during the year in foreign currency financial service operations. The Company has no significant foreign exchange exposure.

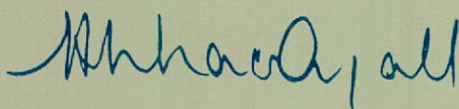
- **Royal Trust will constantly review expense items to ensure their continued relevance and necessity to achieve the Company's objectives, and that full value is received.**
Operating expenses other than interest and real estate commissions have increased to \$529 million from \$447 million. This increase of 18% compares with an increase of 29% in fees and commission other than real estate. It includes significant development costs for the Company's commitment to new computer systems, product development and staff training.

Consolidated Balance Sheet

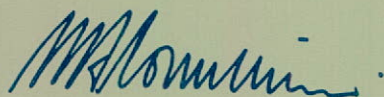
(\$ millions)

as at December 31	note	1986	1985
Assets			
Cash and short term deposits		3,511	2,146
Securities	10	2,616	1,862
Mortgage loans		9,525	7,258
Other loans and investments		3,456	1,959
Other assets		435	228
		<u>19,543</u>	<u>13,453</u>
Liabilities and Shareholders' Equity			
Demand deposits		4,450	2,027
Term deposits and borrowings		13,177	9,983
Other liabilities		294	233
Deferred income taxes		45	62
		<u>17,966</u>	<u>12,305</u>
Minority interest		79	17
Subordinated capital debentures	5	207	—
Shareholders' equity	6	1,291	1,131
		<u>19,543</u>	<u>13,453</u>

Approved by the Board:



Hartland M. MacDougall, C.M.
Director



Michael A. Cornelissen
Director

Financial Position

Asset growth in 1986 was \$6 billion, or 45%. \$2.6 billion of this increase occurred through the acquisition of the assets of Dow Financial Services.

The balance sheet continues to show strength with excellent liquidity. Cash, short term deposits and securities total \$6.1 billion and represent 31% of total assets. Mortgage loans of \$9.5 billion are 49% of total assets with 55% maturing within two years.

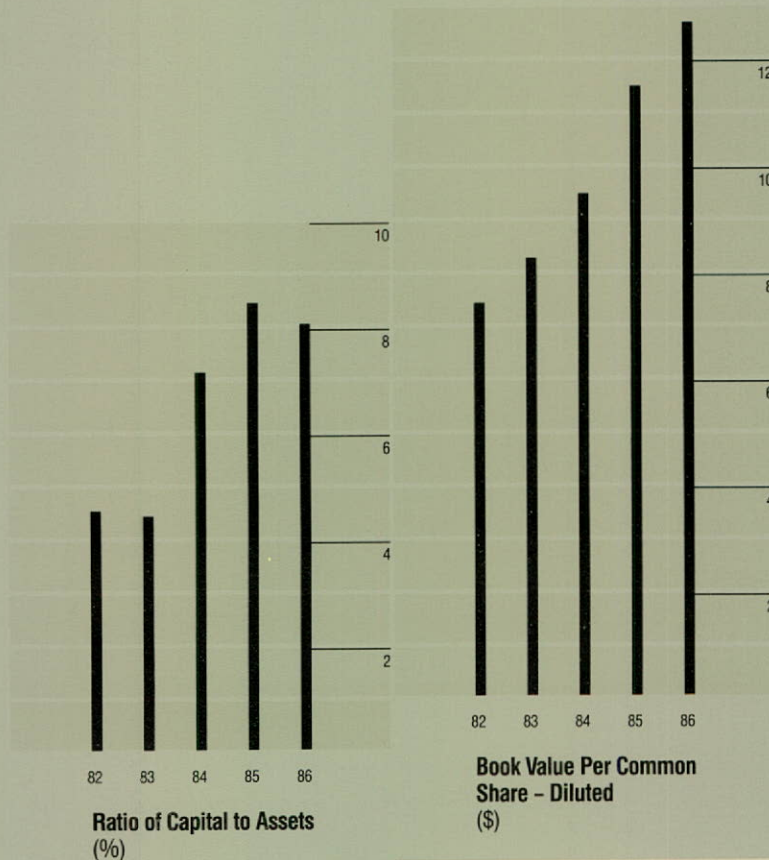
Asset quality also continues to be exceptionally strong with minimal non-performing loans and investments. Direct energy sector investments comprise \$268 million and are fully offset by provisions based on oil prices of U.S.\$12 per barrel. Oil prices at December 31, 1986 were in excess of U.S.\$18 per barrel.

Full provision continues to be made for potential mortgage loan losses on a case by case basis with loss experience continuing to show improvement from that of 1983 and 1984. There are no significant geographical areas where exposure is concentrated.

Information regarding maturity of assets and term of liabilities and capital, with an analysis of interest rate sensitivity, is included on pages 50 and 51 of this report.

The level of deposits and other liabilities to capital, a multiple of 11.4 times, continues to be the lowest of any major financial institution in Canada. For this comparison, capital includes equity provided by minority shareholders of subsidiaries as well as equity provided by the Company's shareholders together with subordinated capital debentures. The latter are considered to be capital because of their long 99 year term, their subordinate status and the Company's ability to issue common shares in satisfaction of its interest obligations under certain circumstances.

Despite strong asset growth, return on assets was maintained at a superior level of 0.94% compared to 0.93% in 1985.



Consolidated Statement of Income

(\$ millions)

for the year ended December 31,	note	1986	1985
Revenue			
Investment income		<u>1,707</u>	<u>1,376</u>
Fees and commissions:			
Trust services		137	106
Real estate sales and services		<u>528</u>	<u>460</u>
		<u>665</u>	<u>566</u>
Total revenue		<u>2,372</u>	<u>1,942</u>
Expense			
Interest		1,351	1,108
Real estate commissions		309	268
Salaries and benefits		214	179
Other operating expense		297	256
Provision for loan losses		<u>18</u>	<u>12</u>
Total expense		<u>2,189</u>	<u>1,823</u>
Operating income		183	119
Income taxes	11	18	5
Minority interest		<u>11</u>	<u>1</u>
Net income		<u>154</u>	<u>113</u>
Earnings per share			
– basic	7	\$2.20	\$1.89
– fully diluted	7	\$2.16	\$1.86

Operating Results

Net income for the year was \$154 million in 1986 compared to \$113 million in 1985. Fully diluted earnings per share were \$2.16 compared to \$1.86 in 1985, an increase of 16%.

Earnings per share:

	1986	1985	% Increase
1st quarter	\$0.52	\$0.46	13
2nd quarter	0.61	0.53	15
3rd quarter	0.53	0.46	15
4th quarter	0.50	0.41	22
	\$2.16	\$1.86	16

Revenue has increased in all major areas of business.

Revenue:

(\$ millions)	1986	1985	% Increase
Financial	1,707	1,376	24
Trust	137	106	29
Real estate	528	460	15
	2,372	1,942	22

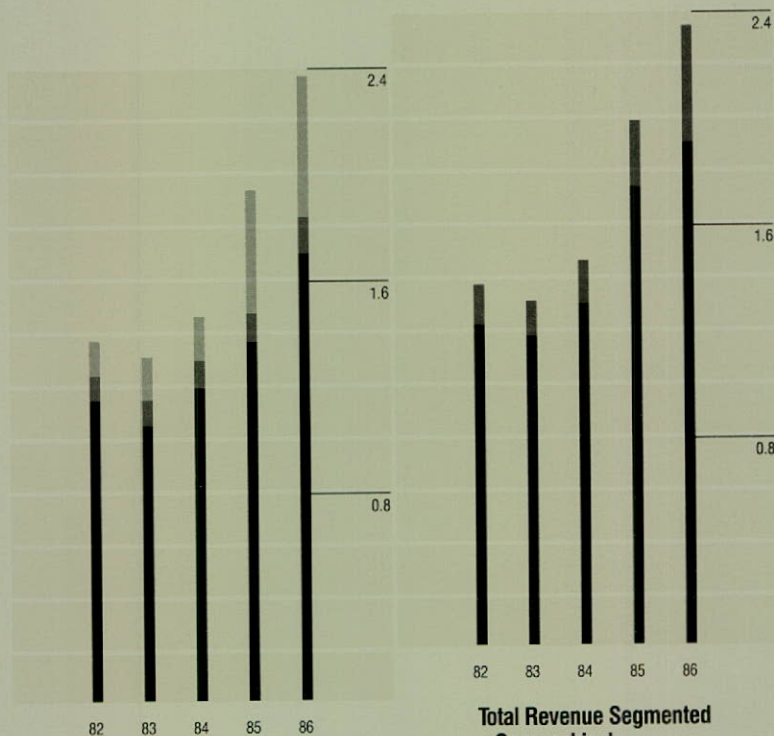
Excluding revenue contributed by the assets acquired mid-year from Dow Financial Services, total revenue in 1986 increased 17% over 1985. Net income has also increased from all major segments. The increase in net financial income resulting from strong asset growth, particularly in mortgages, more than offset spreads which were lower than in 1985.

The following table of average rates of return and costs (adjusted to a taxable equivalent basis) shows the overall changes in investment margin over the last three years:

Investment yields:	1986	1985	1984
Cash and short term deposits	11.29%	11.12%	11.97%
Securities	13.55	15.43	13.52
Mortgage loans	11.33	12.51	12.07
Other loans and investments	8.22	10.30	10.35
Total investment yield	11.09	12.35	12.24
Deposit and borrowing costs	9.04	10.09	10.14
Investment margin	2.05%	2.26%	2.10%

Trust services' operating income has shown good improvement with an increase of 80% over 1985. This growth is attributable directly to aggressive marketing effort combined with improved computer systems and some increased service fees. Significant increases arose in services to both personal and corporate clients.

Real estate activity at Royal LePage has shown good growth both in revenue and operating income. Sales, which increased 15%, have been supported by stable interest rates throughout the year and the highly successful Royal LePage mortgage program. Operating income more than doubled over 1985, mainly due to the elimination of the loss-making U.S. commercial brokerage operations in late 1985.



Total Revenue Segmented - Activities (\$ billions)

- Real Estate
- Trust
- Financial

Total Revenue Segmented - Geographical (\$ billions)

- International
- Canada

Consolidated Statement of Retained Income

(\$ millions)			
for the year ended December 31,	note	1986	1985
Retained income – beginning of year		230	192
Net income		154	113
Dividends:			
– preferred		51	35
– common		46	36
Share issue expenses	6	1	3
Deferred foreign exchange	6	5	1
		<u>51</u>	<u>38</u>
Retained income – end of year		<u>281</u>	<u>230</u>

Consolidated Statement of Source and Use of Funds

for the year ended December 31,	note	1986	1985
Source of funds			
Net income		154	113
Add non-cash charges		32	26
		<u>186</u>	<u>139</u>
Common shares		1	104
Preferred shares		99	198
Subordinated capital debentures		208	—
Deposits and borrowings		3,296	1,877
		<u>3,790</u>	<u>2,318</u>
Use of funds			
Cash and short term deposits		597	76
Securities		180	208
Mortgage loans		2,261	1,615
Other loans and investments		419	326
Net investment in assets of Dow Financial Services	9	175	—
Investment in Canada Systems Group		—	9
Cash dividends		93	65
Other		65	19
		<u>3,790</u>	<u>2,318</u>

Changes in 1986

During 1986, \$731 million was raised in public International and Canadian debt and equity markets. Client deposits increased by \$2.9 billion. Investments included the acquisition of the assets of Dow Financial Services for a net \$175 million. The mortgage portfolio increased by \$2.3 billion over 1985.

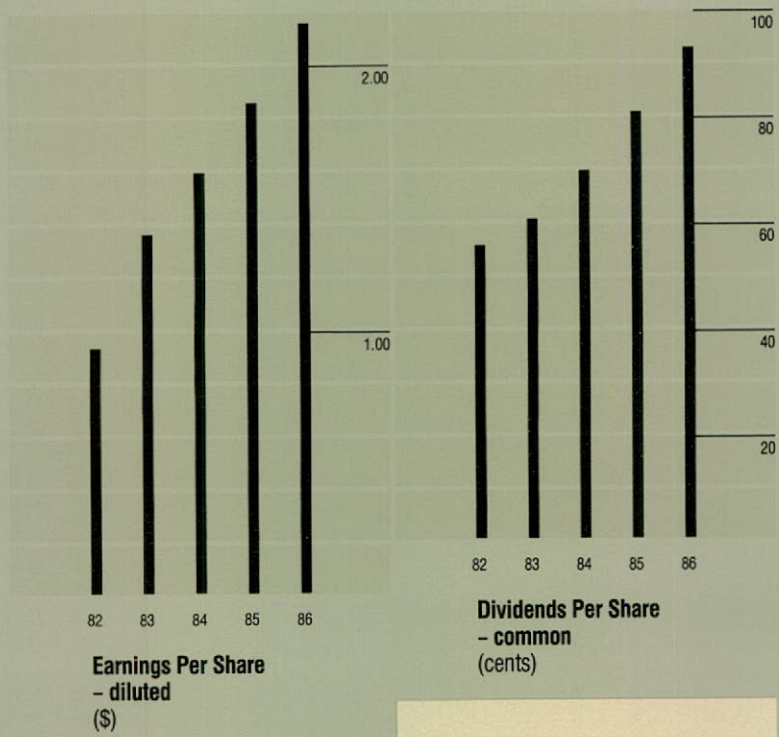
Public financings completed in 1986 included \$100 million perpetual preferred shares issued in Canada and a further \$100 million which was completed January 8, 1987. The latter issue, Series M, yields dividends at an annual rate of 7.84% until November 1990, after which dividends will be 70% of prime. Debt issues, all completed in International markets, included £30 million 9³/₈% bonds due 1991, \$100 million 9³/₄% debentures due 1991, US\$150 million floating rate subordinated capital debentures due 2085, SFr200 million 5¹/₄% bonds due 2006 and SFr100 million 4³/₄% notes due 1993.

Cash from operations included a \$3.3 billion increase in deposits and borrowings of which \$2.9 billion represents increased deposits by clients. Deposits in Canada represent approximately 70% of total deposits and borrowings.

These funds have been applied in meeting strong demand for residential mortgages, particularly through the real estate activities of Royal LePage in Canada. Commercial and other loans and investments increased \$0.5 billion or 28% over 1985.

As reported during the year, the Company acquired the assets of Dow Financial Services. These included a 77% interest in Dow Banking Corporation, Zurich, now Royal Trust Bank (Switzerland), a 72% interest in Arbutnot Latham Bank Limited, London, England, since disposed of, banking operations in Singapore and Hong Kong and a 72% interest in Savory Milln Limited, London, England, a stockbroking company with offices in New York and Singapore. The Savory Milln Limited investment was later increased to 100% and discussions are taking place which may result in its sale.

In August, the Company increased the dividend paid to shareholders of Class A and Class B common shares to 25 cents from 21¹/₂ cents, an increase of 16.3%.



Notes to the Consolidated Financial Statements

1. CORPORATE ORGANIZATION

Royal Trustco Limited, incorporated under the Canada Business Corporations Act, is the parent of the Royal Trust group of companies. The group includes the following principal subsidiaries which are wholly-owned except as noted:

Canada –	International –
Royal Trust Corporation of Canada	Royal Trust Bank (U.K.)
The Royal Trust Company	Royal Trust Asset Management Limited
The Royal Trust Company Mortgage Corporation	Royal Trust Bank (Jersey) Limited
Royal LePage Limited (50.1% owned)	The Royal Trust Company of Canada (C.I.) Ltd. (Jersey)
Builders Capital Limited	Royal Trust Bank (Switzerland) (77.5% owned)
Royal Trust Energy Corporation	Royal Trust International Limited
Corporate Investment Associates (RT) Inc.	Royal Trust Merchant Bank Ltd. (Singapore)
	Dow MBf Limited (Hong Kong) (57.0% owned)

2. ACCOUNTING POLICIES

(i) Principles of consolidation

All subsidiary companies except Savory Milln Limited, which is a subsidiary of Royal Trust International Limited, are included in the consolidated financial statements. The net investment in Savory Milln is included at cost (refer note 9). Investments in non-subsidiaries over which the Company exercises significant influence are included on the equity basis of accounting.

(ii) Translation of foreign currencies

Assets and liabilities of foreign operations, all of which are operationally self-sustaining, are translated into Canadian dollars at the rate of exchange prevailing at year end. Revenue and expense are translated monthly at average rates. Gains and losses resulting from translation are deferred and included in Shareholders' Equity.

Net investments in foreign operations are hedged through foreign currency borrowings and are translated at year end rates.

(iii) Depreciation and amortization policies

Premises and equipment, including leasehold improvements, real estate investments and intangible assets are recorded at cost and depreciated or amortized on the straight line method over their estimated useful lives, as follows:

Premises and real estate investments – up to 75 years.
Equipment and other assets – over approximately 5 years.
Leasehold improvements – over 5 years.
Intangible assets – up to 40 years.

(iv) Recognition of revenue and expenses

Estate administration fees and commissions are taken into income when collected. Real Estate commission revenues are recognized at the time a firm agreement of purchase and sale or lease is signed. Other fees are accrued as work is completed. Income from dividends and interest is accrued on a daily basis except dividends on common shares which are recognized as declared.

(v) Mortgages and other loans

Mortgages and other loans are recorded at cost including applicable accrued interest, less provision for losses.

(vi) Securities

Securities are recorded at cost or amortized cost including applicable accrued interest and dividends, less provision for losses.

Gains and losses on securities are recorded in investment income upon sale of such securities. When there is an other than temporary decline in value a provision for estimated losses is recorded.

(vii) Trust funds

Trust assets under administration are maintained separately from the Company's assets and are excluded from the Consolidated Balance Sheet.

3. SEGMENTED INFORMATION

The directors of the Company have determined that the major classes of business comprise personal and corporate financial, trust and real estate activities.

Financial activities include deposit and borrowing operations with related investment and lending activities. Fees and commissions from related services are also included.

Trust activities include estate, personal, pension and corporate fiduciary services, including custodial, trustee and management capacities.

Real estate activities include the selling of residential, industrial and commercial real estate together with property management, appraisal and real estate investment services.

(\$ millions)	1986		1985	
	Revenue	Operating income	Revenue	Operating income
Activities				
Financial	1,707	135	1,376	95
Trust	137	18	106	10
Real estate	528	30	460	14
	<u>2,372</u>	<u>183</u>	<u>1,942</u>	<u>119</u>
Geographical distribution:				
Canada	1,931	142	1,748	102
Europe and elsewhere	441	41	194	17
	<u>2,372</u>	<u>183</u>	<u>1,942</u>	<u>119</u>

Note: National office and administration expenses have been fully allocated.

Geographical distribution of assets employed:

Canada	13,512	11,303
Europe and elsewhere	6,031	2,150
	<u>19,543</u>	<u>13,453</u>

4. COMMITMENTS AND CONTINGENCIES

(i) Outstanding commitments as at December 31, 1986 for future advances to be secured by mortgages were \$626 million of which \$63 million is on behalf of trust clients whose accounts are administered by the Company.

(ii) Operating lease obligations at December 31, 1986 are \$281 million of which \$164 million is due within 5 years.

5. SUBORDINATED CAPITAL DEBENTURES

In 1986, U.S. \$150 million subordinated capital debentures were issued in international public markets.

Floating rate interest is payable at an annual rate of 0.15% plus the average London inter-bank rate for six month U.S. dollar deposits. Should the rate of regular dividends on the Company's common shares be reduced, the rate of interest on the debentures will be reduced and common shares to a value equal to the reduction issued by way of compensation for the interest reduction.

The debentures mature in 2085 but are redeemable at the Company's option in September 1991 and semi-annually thereafter.

The debentures are shown separately in recognition of their term, subordinate status and the Company's ability to issue, under the aforementioned circumstances, common shares in satisfaction of its interest obligations.

6. SHAREHOLDERS' EQUITY

(\$ millions)	1986	1985
Capital stock	1,010	901
Retained income	281	230
	<u>1,291</u>	<u>1,131</u>

(I) Capital stock

	note ref.	Authorized Number	Issued Number	\$ millions
Class A & B Common				
- shares	(i)	unlimited	47,029,809	296
- warrants	(ii)	2,956,667	2,956,667	—
Senior preferred	(iii)	890,429	590,429	59
Preferred	(iv)	unlimited		
- Series A	(v)		76,061	2
- Series B	(vi)		1,900	—
- Series C	(vii)		1,000,000	25
- Series D	(viii)		800,000	28
- Series F	(ix)		1,497,450	150
- Series G	(x)		4,000,000	100
- Series J	(xi)		2,000,000	50
- Series K	(xii)		300	150
- Series L	(xiii)		6,000,000	150
Balance December 31, 1986				<u>1,010</u>

(i) Class A and Class B common shares are interconvertible at the holder's option. Each class has identical rights, privileges and conditions except that dividends on Class B common shares are stock dividends of Class B common shares in amounts substantially equivalent in value to cash dividends on Class A common shares. During 1986, 35,044 Class B common shares were issued as stock dividends on Series B preferred shares and Class B common shares for a value of \$983,000 and 103,421 Class A and B common shares were issued on conversion of 36,289 Series A and B preferred shares.

Under share purchase, option and thrift plans, the Company has reserved for issue to employees a number of shares equal to 10% of issued and outstanding Class A common shares. Shares reserved at December 31, 1986 totalled 4,677,981 shares of which 2,365,977 shares are unallocated. Options, at prices of \$13.25 to \$32.625 per share, which were outstanding at December 31, 1986 total 549,755 shares of

which 17,700 expire in 1987, 146,150 expire in 1989, 200,800 expire in 1990 and 185,105 expire in 1991. In 1986 options to purchase 427,150 shares were issued under these plans at prices of \$22.75 to \$32.625 per share for a value of \$11,775,000.

The Company has undertaken to issue Class A common shares to holders of its subordinated capital debentures under the circumstances described in note 5.

The statutory common share stated capital account is \$366 million.

(ii) The warrants are transferable and until expiry on December 21, 1989, permit the holders to purchase one Class A common share by tendering one warrant and \$18.50 cash.

(iii) The Senior preferred shares carry an annual cumulative dividend of \$8 per share and are redeemable at \$100 on August 1, 1990.

(iv) Preferred shares

Preferred shares are issuable in series, the terms of which are noted below. All dividends are cumulative.

	Series	Issue price	Annual dividend	Redeemable	Other
(v)	A	\$25	\$1.875 payable quarterly.	At \$26 until August 14, 1987, reducing thereafter by \$0.25 annually to \$25 on August 14, 1990.	Shares were issued on August 6, 1980. Convertible into Class A common shares at 2.85 common shares for each preferred share. Interchangeable with Series B except by non-resident holders.
(vi)	B	\$25	Dividends are stock dividends substantially equivalent in value to cash dividends on Series A.	Same as Series A.	Shares were available after September 2, 1980. Convertible into Class B common shares at 2.85 common shares for each preferred share. Interchangeable with Series A except by non-resident holders.
(vii)	C	\$25	\$2.9375 payable quarterly.	At \$26 after January 3, 1988, reducing thereafter by \$0.20 annually to \$25 on January 4, 1993.	Shares were issued on October 21, 1982. Retractable at the option of the holder on January 3, 1989 at \$25. The Company is required to make reasonable efforts to purchase for cancellation 2% per annum of the originally issued shares at a price not exceeding the issue price up to and including 1988, and thereafter 4% per annum of the shares outstanding on January 4, 1989. This obligation is non-cumulative. No purchases were made in 1986.
(viii)	D	U.S. \$25	U.S. \$2.6875 payable quarterly. Shareholders may elect to receive dividends in the Canadian dollar equivalent.	Same as Series C except in U.S. dollars.	Same as Series C except in U.S. dollars.
(ix)	F	\$100	Floating rate, payable monthly at an annual rate equal to 63% of the average bank prime rate on a specified date in the month preceding the month for which the dividend is payable.	At \$100 on January 1, 1987 and quarterly thereafter.	Shares were issued on November 20, 1984. Retractable at the option of the holder at \$100 on January 1, 1987 and quarterly thereafter.
(x)	G	\$25	Payable quarterly at 8.5% until November 13, 1990 and at 70% of the average bank prime rate for specified three month periods thereafter.	At \$25 on 30 days notice on and after October 10, 1990.	Shares were issued on September 24, 1985.
(xi)	J	\$25	Floating rate, payable quarterly at an annual rate equal to 70% of the average bank prime rate for the previous quarter.	At \$25 after March 3, 1991.	Shares were issued on February 25, 1986.
(xii)	K	\$500,000	Dividend rates are established monthly by auction to a maximum of the bankers' acceptance rate plus 0.4%.	At \$500,000, on 10 days notice prior to any auction.	Shares were issued on September 16, 1986. \$100 million was used to redeem 200 shares of Series H which were cancelled.
(xiii)	L	\$25	Same as Series J.	Same as Series J.	Shares were issued on a 4 for 1 basis in exchange for Series E shares on November 14, 1986. 1,500,000 Series E shares were cancelled. It is proposed that Series L shares will be reclassified as Series J in March 1987.

(xiv) Great Lakes Group Inc. considered as a related party for purposes of note 8 has agreed with the Company to ensure the successful issue of additional preferred and common share capital under all market conditions to a combined maximum of \$1 billion over a five year period. Under the terms of the agreement, shares may be pur-

chased or placed by Great Lakes Group Inc. directly or through underwriters. The Company has agreed to pay an annual standby fee of \$1.65 million which together with transaction fees will not exceed in total \$12 million over the life of the agreement. The Company may terminate the agreement on two months' notice.

(II) Retained income

(i) Retained income at December 31, 1986 includes accumulated deferred losses of \$7 million arising from foreign exchange translation (\$2 million in 1985).

(ii) Share issue expenses relate to the issue of Series J, K and L preferred shares and are net of income taxes of \$1 million (\$3 million in 1985).

7. EARNINGS PER SHARE (thousands)	1986	1985
Basic weighted monthly average number of shares outstanding	46,837	41,641
Additional shares issuable on:		
- Conversion of preferred shares	260	376
- Exercise of options and warrants	3,488	3,438
Fully diluted Class A and Class B common shares	<u>50,585</u>	<u>45,455</u>
Basic and fully diluted net income are calculated as follows:		
(\$ millions)	1986	1985
Net income	154	113
Dividends on preferred shares	51	35
Basic net income	103	78
Imputed income, net of income tax, on cash which would be received on the exercise of options and warrants	6	6
Fully diluted net income	<u>109</u>	<u>84</u>

8. RELATED PARTY TRANSACTIONS

Transactions with related parties are on terms that are equivalent to those with unrelated parties. The effect of these transactions on net income and financial position is not significant.

9. ACQUISITION OF SUBSIDIARIES

On June 27, 1986, the Company acquired certain assets of Dow Financial Services Corporation for a net cash consideration of \$239 million. The assets included a 77% interest in Dow Banking Corporation, a Swiss bank (name changed subsequently to Royal Trust Bank (Switzerland)), and 72% interests in Savory Milln Limited, a London-based stockbroker, and Arbuthnot Latham Bank Limited, a London merchant bank.

Subsequently, the Company sold its interest in Arbuthnot Latham Bank Limited in exchange for the 28% minority interest in Savory Milln Limited and \$58 million in cash and in another subsidiary for \$12 million cash.

Discussions are taking place which may result in the sale of Savory Milln Limited. The net proceeds of sale are expected to approximate book value.

These transactions have been recorded as follows:

(\$ millions)	Values assigned on net purchase
Assets	2,632
Liabilities	2,486
Minority interest	53
Net tangible assets acquired	93
Excess of cost of investment over net tangible assets acquired, being amortized over 40 years	82
Total net consideration	<u>175</u>

10. OTHER INFORMATION

(i) Depreciation of real estate investments, premises and equipment and amortization of leasehold improvements and intangible assets charged to operations amounted to \$15 million in 1986 (\$10 million in 1985).

(ii) The excess of market value over cost of securities at December 31, 1986 was \$16 million (\$78 million in 1985).

11. INCOME TAXES	(\$ millions)	1986	1985
Income taxes provided:			
Current		25	6
Deferred		(7)	(1)
		<u>18</u>	<u>5</u>
		%	%
Effective rate as a percentage of income before income taxes is:			
Statutory federal and provincial tax rate		48.5	49.1
Tax exempt investment income		(36.1)	(43.0)
Other		(2.7)	(1.7)
		<u>9.7</u>	<u>4.4</u>

12. SUBSEQUENT EVENT

Series M preferred shares

On January 8, 1987 the Company completed the issue of \$100 million cumulative redeemable preferred shares Series M. Shares were issued at \$25 with dividends payable quarterly at 7.84%

until November 14, 1990 and at 70% of the average bank prime rate for specified three month periods thereafter. Shares are redeemable at \$25 after March 14, 1991.

Auditors' Report

To the Shareholders of Royal Trustco Limited:
We have examined the consolidated balance sheet of Royal Trustco Limited as at December 31, 1986 and the consolidated statements of income, retained income and source and use of funds 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 consolidated financial statements (appearing on pages 38, 40, 42 and 44 to 49 of this Annual Report) present fairly the financial position of the Company as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon

Chartered Accountants

Toronto, Canada,
January 28, 1987

Management's Responsibility for Financial Reporting

All information and the consolidated financial statements in this Annual Report of Royal Trustco Limited are the responsibility of management and have been approved by the Directors. Financial information presented throughout this Report is consistent with the data presented in the financial statements which are prepared in accordance with accounting principles generally accepted in Canada.

The Board of Directors carries out its responsibilities for the financial statements primarily

through its Audit Committee which comprises seven Directors of whom the majority are not associated with major shareholders and none are members of management. The Audit Committee meets regularly with management, internal auditors and the independent auditor, all of whom have full and free access to the Committee.

The independent auditor is responsible for examining the financial statements and giving an opinion thereon.

Maturity of assets					
December 31				1986	1985
(\$ millions)	Cash and Securities	Mortgages & Other Loans	Other Assets	Total	Total
Within 1 year	3,668	5,213	176	9,057	5,958
1 to 5 years	1,300	6,449	38	7,787	5,242
Beyond 5 years and no term	1,159	1,319	221	2,699	2,253
	<u>6,127</u>	<u>12,981</u>	<u>435</u>	<u>19,543</u>	<u>13,453</u>

Term of liabilities and capital					
December 31				1986	1985
(\$ millions)	Demand Deposits	Term Borrowings	Other Liabilities & Capital	Total	Total
Within 1 year	4,450	7,077	416	11,943	8,186
1 to 5 years	—	5,398	131	5,529	4,178
Beyond 5 years and no term	—	702	1,369	2,071	1,089
	<u>4,450</u>	<u>13,177</u>	<u>1,916</u>	<u>19,543</u>	<u>13,453</u>

Interest Rate Sensitivity

On December 31, 1986 the excess of interest sensitive liabilities amounted to \$1,127 million compared to \$423 million at December 31, 1985. This increase continues to be within the strict parameters established by the Board of

Directors. These parameters permit the Company to take advantage of interest rate cycles within acceptable risk limits.

Royal Trust's investments, deposits and borrowings and non-convertible preferred shares are grouped by interest rate sensitivity as follows:

As at December 31, 1986

(\$ millions)	Floating Rate	Fixed Rate Under 1 year	Total Under 1 year	Fixed Rate Over 1 year	Total
Investments					
Cash and marketable securities	902	3,452	4,354	1,652	6,006
Other loans and investments	2,132	4,572	6,704	6,172	12,876
Accrued dividends and interest	—	226	226	—	226
	<u>3,034</u>	<u>8,250</u>	<u>11,284</u>	<u>7,824</u>	<u>19,108</u>
Deposits and Borrowings					
Demand deposits	2,763	1,627	4,390	—	4,390
Term borrowings	392	6,557	6,949	5,909	12,858
Accrued interest	—	379	379	—	379
	<u>3,155</u>	<u>8,563</u>	<u>11,718</u>	<u>5,909</u>	<u>17,627</u>
Non-convertible preferred shares and subordinated capital debentures	693	—	693	225	918
	<u>3,848</u>	<u>8,563</u>	<u>12,411</u>	<u>6,134</u>	<u>18,545</u>
Interest rate sensitivity	<u>814</u>	<u>313</u>	<u>1,127</u>		

As at December 31, 1985

(\$ millions)	Floating Rate	Fixed Rate Under 1 year	Total Under 1 year	Fixed Rate Over 1 year	Total
Investments					
Cash and marketable securities	511	2,283	2,794	1,171	3,965
Other loans and investments	1,317	3,493	4,810	4,315	9,125
Accrued dividends and interest	—	135	135	—	135
	<u>1,828</u>	<u>5,911</u>	<u>7,739</u>	<u>5,486</u>	<u>13,225</u>
Deposits and Borrowings					
Demand deposits	1,938	65	2,003	—	2,003
Term borrowings	482	4,970	5,452	4,248	9,700
Accrued interest	—	307	307	—	307
	<u>2,420</u>	<u>5,342</u>	<u>7,762</u>	<u>4,248</u>	<u>12,010</u>
Non-convertible preferred shares	400	—	400	215	615
	<u>2,820</u>	<u>5,342</u>	<u>8,162</u>	<u>4,463</u>	<u>12,625</u>
Interest rate sensitivity	<u>992</u>	<u>(569)</u>	<u>423</u>		



**Royal Trust's Annual
General Meeting is held
at Roy Thomson Hall in
Toronto**

Investment Facts

Royal Trustco's Class A common closing share price was \$29⁵/₈ as at December 31, 1986, representing an increase of 26% over the previous year. The high and low trading prices for the year on The Toronto Stock Exchange were \$35⁷/₈ and \$21¹/₂. The average daily trading volume of Class A common shares on The Toronto Stock Exchange in 1986 was 42,328 shares.

In July, the dividend rate on Class A common shares was increased to 25 cents per share, with an equivalent increase in the rate of dividend on the Class B common. This increase was consistent with the Company's dividend policy set by the Board of Directors referred to on page 37 of this report. The dividend payout rate in 1986 was 42% of earnings.

The accompanying charts illustrate our five-year share price growth, dividend and earnings growth and price/earnings comparisons. The charts also reflect how these figures compare to those of the chartered banks, other trust companies and the TSE 300 Index maintained by The Toronto Stock Exchange.

At December 31, 1986, Royal Trustco had 6,553 common shareholders of record. The major shareholder is Trilon Financial Corporation which held approximately 50% of the common shares directly or indirectly as at that date. More than 96% of common shareholders have registered addresses in Canada.

The Share Trading Summary on pages 54 and 55 contains a complete review of stock trading and other statistics.

Stock Exchange Listings

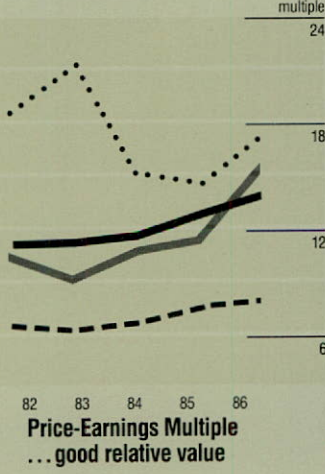
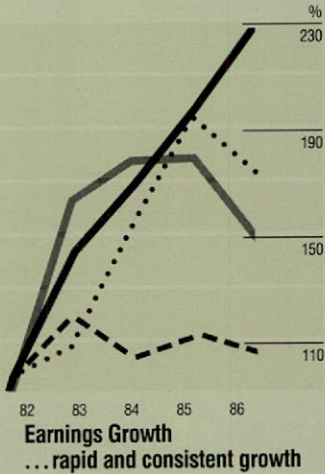
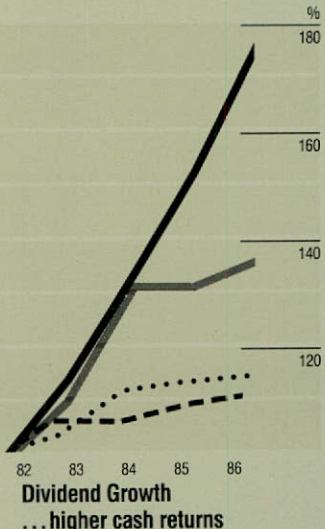
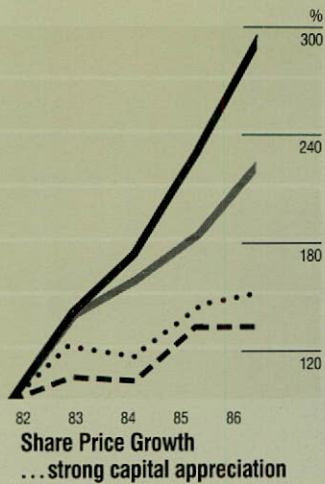
Royal Trustco's Class A and Class B common shares, preferred shares Series A, B, C, D, F, G, J, L and M, and warrants to purchase Class A common shares are listed on the Toronto, Montreal, Alberta and Vancouver Stock Exchanges (the Series J and L preferreds are intra-listed). In addition, the Class A common shares were listed for trading on the Tokyo Stock Exchange on December 19, 1986. The trading symbols for the various classes of shares and the warrants are shown in the Share Trading Summary on page 54. Subject to shareholder approval, the Series J and L shares will be combined in 1987 and designated as Series J.

Auction Preferred Shares Series K

Royal Trustco's Series K preferred shares offer institutional and major investors the opportunity to acquire money market preferred shares. The Company's Series K preferred share dividend is set monthly by auction. The monthly auction is managed by Royal Trust's Corporate Trust Division, which has developed a sophisticated service also used by other client corporations that are auction preferred issuers.

Mailings

Interim reports on the quarterly operations of the Company are mailed to shareholders approximately 30 days after the end of the first, second and third quarters. The annual report, notice of annual meeting of shareholders, management proxy circular and form of proxy (if applicable) are mailed to all registered shareholders and are also available free of charge to beneficial shareholders of Royal Trustco who may hold their shares through a broker or other financial advisor. Royal Trustco maintains, through its transfer agent, a special mailing list for such shareholders. Shareholders on the list will have reports mailed directly to them rather than distributed through third parties.



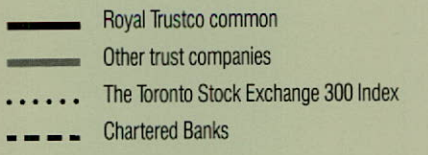
Dividend Reinvestment (Stock Dividends)

Stock Dividends are available on the common and Series A and B preferred shares. This is a convenient way of accumulating Royal Trustco common shares in a cost-effective manner. Shareholders can take advantage of it by converting Class A common shares to Class B common. In order to be eligible the conversion must take place before the close of business on the record date for which dividends have been declared. A similar stock dividend facility is available for Series A preferred shareholders. In both cases the stock dividend consists of Class B common shares having an equivalent value to Class A common shares. Stock dividends are held by Royal Trust as Trustee but shareholders can request the shares at any time if required, and may also vote them at our Annual Meeting of Shareholders. (This service is not available to shareholders who purchase their shares on the Tokyo Stock Exchange).

Dividends

Holders of Class A common, Series A, C, G, J, L or M preferred can arrange to have cash dividends deposited directly to any Daily Interest Chequing Account at Royal Trust (or other deposit-taking institutions in Canada). This enables shareholders to start earning interest on their funds immediately, and eliminates dependence on mail service.

Series D preferred shares pay cash dividends in U.S. funds, but holders may elect to receive the funds in Canadian currency. If Canadian funds are elected the Direct Dividend Deposit service described above can be used to collect dividends. Royal Trust can also arrange to have dividends in U.S. funds deposited directly to a Royal Trust U.S. Dollar Savings Account anywhere in Canada.



For more detailed information about dividend services, contact Corporate Trust Share Enquiry Services, Royal Trust, 10th Floor, Royal Trust Tower, Toronto; telephone (416) 864-6500.

Executive and Registered Office:

Suite 3900
 Royal Trust Tower
 Toronto, Ontario
 M5W 1P9
 (416) 864-7000

Transfer Agents and Registrars:

Royal Trust Corporation of Canada
 Halifax, Toronto, Winnipeg, Regina,
 Calgary, Vancouver

The Royal Trust Company
 Montreal

The Sumitomo Trust & Banking Co., Ltd.
 Tokyo and Osaka
 (Japanese shareholder service agent)

Member:

- The Trust Companies Association of Canada
- Trust Companies Institute
- Canadian Depository for Securities
- Canadian Payments Association
- Canadian Institute of Public Real Estate Companies
- Canada Deposit Insurance Corporation
- Quebec Deposit Insurance Board

Version française:

Le vice-président, conseil général et secrétaire se fera un plaisir de faire parvenir un exemplaire de ce rapport en français aux personnes qui en feront la demande.

本報告書の日本語版も用意してありますので、住友信託銀行の東京・大阪店若しくはロイヤル・トラスト社のトロント本店に御請求下さい。

Share

Trading

Summary

Existing Royal Trustco shareholders may require different investment choices. If portfolio diversification is required, shareholders should consider other classes of Royal Trustco shares. Royal Trustco's common and preferred shares provide a wide range of options to suit investment needs. Royal Trust is prepared to assist with any matters concerning Royal Trustco common or preferred shares.

Administrative matters pertaining to shareholdings should be directed to Corporate Trust Shareholder Enquiry Services at (416) 864-6500. Securities analysts, investment professionals and shareholders should direct their business-related questions to Sheila Robb, Vice-President, Public Affairs at (416) 864-6655.



The average daily trading volume of Class A common shares on The Toronto Stock Exchange in 1986 was 42,328 shares.

	Stock Symbol	1986	1985	1984	1983	1982
Common:	Class A RYL. A R. トラスト					
	Class B RYL. B					
Number of shareholders at December 31		6,553	6,170	6,497	6,512	7,009
Average number of shares outstanding		46,837,000	41,641,000	38,450,000	35,028,000	34,798,000
Shares traded		10,709,000	9,219,000	8,058,000	7,978,000	1,266,000
Price – high		\$357⁷/₈	\$23 ³ / ₄	\$18 ¹ / ₂	\$14 ³ / ₄	\$10 ¹ / ₄
– low		\$21¹/₂	\$16 ³ / ₄	\$11 ⁷ / ₈	\$ 9 ¹ / ₂	\$ 5 ⁷ / ₈
– close		\$29⁵/₈	\$23 ¹ / ₂	\$18	\$14 ³ / ₄	\$ 9 ⁷ / ₈
Net income per share		\$2.20	\$1.89	\$1.67	\$1.48	\$0.98
Dividends per share		\$0.93	\$0.81	\$0.70	\$0.61	\$0.56

Note: "V-Day" valuation price of common shares for Canadian capital gains tax purposes established as at December 22, 1971 is \$14.06.

Cumulative Redeemable Convertible Preferred

Series A & B – A: RYL. PR. C; B: RYL. PR. D	1986	1985	1984	1983	1982
Number of shareholders at December 31	236	341	544	927	1,149
Average number of shares outstanding	93,000	146,000	994,000	1,860,000	1,914,000
Shares traded	15,000	24,000	159,000	184,000	152,000
Price – high	\$100	\$66	\$52	\$41 ¹ / ₂	\$29
– low	\$ 61	\$48	\$33	\$26 ³ / ₄	\$16 ³ / ₄
– close	\$ 85	\$65	\$52	\$40 ¹ / ₄	\$27 ⁷ / ₈
Number of shares converted to common	36,289	63,980	1,632,472	99,198	8,520

Cumulative Redeemable Preferred Shares

Series C – RYL. PR. E	1986	1985	1984	1983
Number of shareholders at December 31	1,457	1,676	1,794	1,814
Average number of shares outstanding	1,000,000	1,000,000	1,000,000	1,000,000
Shares traded	116,000	454,000	138,000	229,000
Price – high	\$29¹/₄	\$30	\$31 ¹ / ₄	\$31 ¹ / ₂
– low	\$27¹/₄	\$27	\$27 ¹ / ₄	\$26
– close	\$27³/₄	\$28 ³ / ₄	\$28 ¹ / ₂	\$30

Cumulative Redeemable Preferred Shares

Series D – RYL. PR. U	1986	1985	1984	1983
Number of shareholders at December 31	831	890	983	982
Average number of shares outstanding	800,000	800,000	800,000	800,000
Shares traded	145,000	163,000	184,000	216,000
Price – high	U.S. \$29⁷/₈	U.S. \$30	U.S. \$30	U.S. \$30 ¹ / ₄
– low	U.S. \$27	U.S. \$27 ¹ / ₄	U.S. \$26 ¹ / ₄	U.S. \$26
– close	U.S. \$27³/₈	U.S. \$29	U.S. \$28 ¹ / ₂	U.S. \$28 ³ / ₄

Floating Rate Cumulative Redeemable Retractable Preferred Shares

Series F – RYL. PR. F	1986	1985	1984
Number of shareholders at December 31	155	185	105
Average number of shares outstanding	1,499,000	1,500,000	1,500,000
Shares traded	510,000	793,000	—
Price – high	\$101¹/₄	\$101 ¹ / ₂	—
– low	\$ 99¹/₂	\$ 99 ¹ / ₂	—
– close	\$100	\$101	—

Cumulative Redeemable Preferred Shares

Series G – RYL. PR. G	1986	1985
Number of shareholders at December 31	2,669	2,430
Average number of shares outstanding	4,000,000	4,000,000
Shares traded	981,000	222,000
Price – high	\$26³/₈	\$26 ¹ / ₂
– low	\$23¹/₂	\$25 ¹ / ₂
– close	\$25⁷/₈	\$26 ¹ / ₈

Cumulative Redeemable Preferred Shares

Series J & L* – RYL. PR. J	1986
Number of shareholders at December 31	405
Average number of shares outstanding	8,000,000
Shares traded	272,000
Price – high	\$25¹/₄
– low	\$23³/₄
– close	\$24⁵/₈

*Series J & L are intra-listed.

**Board
of
Directors**

Committees

Hartland M. MacDougall,
C.M. ● ● ● ●
Chairman of the Board
Toronto, Ontario
Age: 56
Elected to Board: 1984

Michael A. Cornelissen ● ● ● ●
*President and
Chief Executive Officer*
Toronto, Ontario
Age: 43
Elected to Board: 1981

The Hon. R. James Balfour,
Q.C. ●
Senator
Partner
Balfour, Moss, Milliken,
Laschuk & Kyle
Regina, Saskatchewan
Age: 58
Elected to Board: 1969

Jean A. Béliveau, O.C. ● ●
*Senior Vice-President and
Director, Corporate Affairs*
Club de Hockey Canadien Inc.
Montreal, Quebec
Age: 55
Elected to Board: 1984

Thomas R. Bell ● ● ● ●
*Chairman, President and
Chief Executive Officer*
Dominion Textile Inc.
Montreal, Quebec
Age: 63
Elected to Board: 1984

Robert G. Bentall ● ●
*President and
Chief Executive Officer*
The Bentall Group Limited
Vancouver, British Columbia
Age: 64
Elected to Board: 1977

G. Drummond Birks ● ●
*President and
Chief Executive Officer*
Henry Birks & Sons Ltd.
Montreal, Quebec
Age: 67
Elected to Board: 1968

Donald N. Byers, Q.C. ● ● ● ●
Consultant
Byers Casgrain
Montreal, Quebec
Age: 74
Elected to Board: 1968

James M. Cameron ● ●
Executive Vice-President
TransCanada PipeLines Ltd.
Toronto, Ontario
Age: 58
Resigned: 1987

Charles J. Clark, Q.C. ● ● ● ● ● ●
Senior Partner
McTague, Clark
Windsor, Ontario
Age: 66
Elected to Board: 1977

Henry Collingwood ● ● ● ●
*Chairman and
Chief Executive Officer*
Baine, Johnston & Co. Ltd.
St. John's, Newfoundland
Age: 68
Elected to Board: 1968

Gordon R. Cunningham
*Executive Vice-President and
Chief Operating Officer*
Trilon Financial Corporation
Toronto, Ontario
Age: 42
Elected to Board: 1984

J. Trevor Eyton, O.C., Q.C. ● ● ● ● ● ●
*President and
Chief Executive Officer*
Brascan Limited
Deputy Chairman
Royal Trustco Limited
Toronto, Ontario
Age: 52
Elected to Board: 1983

Fraser M. Fell, Q.C. ● ● ● ● ● ●
*Chairman and
Chief Executive Officer*
Dome Mines Limited
Toronto, Ontario
Age: 58
Elected to Board: 1969

Jean Fournier, C.D. ● ● ● ●
*Former Foreign Service
Officer, Government of Canada*
Montreal, Quebec
Age: 72
Elected to Board: 1984

Conrad F. Harrington,
C.M., C.D. ● ● ● ● ● ●
Former Chairman and President
The Royal Trust Company
Montreal, Quebec
Age: 74
Elected to Board: 1960

● **Audit Committee**

The Audit Committee consists of a majority of Directors who are independent of a major shareholder or its affiliates. This committee, in addition to dealing with matters stipulated in the Canada Business Corporations Act, reviews the scope and examination of the external audit; the independent Auditor's fees; and the performance of the Internal Audit Department.

● **Executive Committee**

The Executive Committee deals with unexpected and urgent matters at short notice, but is not empowered to take actions reserved to the Board under the Canada Business Corporations Act.

Members

C.J. Clark, M.A. Cornelissen,
J.T. Eyton, F.M. Fell,
C.F. Harrington, M.M. Hawkrigg,*
A.T. Lambert,
H.M. MacDougall, E.H. Orser,
A. Reichmann, D.G. Waldon

Members

T.R. Bell, J.M. Cameron,
F.M. Fell, G.I. Newman,
E.H. Orser, M.M. Williams,
W.G. Wilson*

Melvin M. Hawkrigg ● ● ●
*President and
 Chief Executive Officer*
 Trilon Financial Corporation
 Toronto, Ontario
 Age: 56
 Elected to Board: 1982

Egerton W. King ●
*Former President and
 Chief Executive Officer*
 Canadian Utilities Limited
 Edmonton, Alberta
 Age: 67
 Elected to Board: 1978

Allen T. Lambert, O.C. ● ●
Chairman of the Board
 Trilon Financial Corporation
 Toronto, Ontario
 Age: 75
 Elected to Board: 1983

Gilbert I. Newman ● ●
Executive Vice-President
 Olympia & York Developments
 Limited
 Toronto, Ontario
 Age: 65
 Elected to Board: 1981

Earl H. Orser ● ●
*President and
 Chief Executive Officer*
 London Life Insurance
 Company
 London, Ontario
 Age: 58
 Elected to Board: 1982

Roger Phillips
*President and
 Chief Executive Officer*
 IPSCO Inc.
 Regina, Saskatchewan
 Age: 47
 Elected to Board: 1986

● **Business Conduct Review
 Committee**
 The Business Conduct Review
 Committee, comprised only of
 independent Directors, monitors
 all significant business
 transactions exhibiting the
 potential for a material conflict of
 interest.

Members
 Hon. R.J. Balfour, T.R. Bell,
 D.N. Byers,* C.J. Clark,
 C.F. Harrington, Hon. M. Riel,
 P. Taschereau

Albert Reichmann ●
President
 Olympia & York Developments
 Limited
 Toronto, Ontario
 Age: 58
 Elected to Board: 1981

The Hon. Maurice Riel,
 P.C., Q.C. ●
 Senator
Counsel and Partner
 Stikeman, Elliott
 Montreal, Quebec
 Age: 64
 Elected to Board: 1971

Nigel J. Robson
Chairman
 Alexander Howden &
 Beck Limited
 London, England
 Age: 60
 Elected to Board: 1985

Margaret E. Southern ●
President and General Manager
 Spruce Meadows Farms Limited
 Calgary, Alberta
 Age: 55
 Elected to Board: 1985

Pierre Taschereau, Q.C. ●
Former Chairman
 Air Canada
 Montreal, Quebec
 Age: 67
 Elected to Board: 1984

● **Directors' Nominating
 Committee**
 The Directors' Nominating
 Committee considers nominees
 for election to the Board of
 Directors and makes such
 recommendations to the Board.

Members
 J.A. Béliveau, R.G. Bentall,
 H. Collingwood, J.T. Eyton,*
 F.M. Fell, H.M. MacDougall,
 J.M. Tory

James M. Tory, Q.C. ● ●
Partner
 Tory, Tory, DesLauriers &
 Binnington
 Toronto, Ontario
 Age: 56
 Elected to Board: 1981

Jean C. Wadds, O.C. ●
*Former High Commissioner to
 the United Kingdom, former
 Commissioner, Royal
 Commission on the Economic
 Union and Development
 Prospects for Canada*
 Prescott, Ontario
 Age: 66
 Elected to Board: 1985

David G. Waldon ● ●
*Former Chairman and
 Chief Executive Officer*
 Interprovincial Pipe Line Limited
 Toronto, Ontario
 Age: 70
 Elected to Board: 1974

Marshall M. Williams ● ●
*Chairman and
 Chief Executive Officer*
 TransAlta Utilities Corporation
 Calgary, Alberta
 Age: 63
 Elected to Board: 1975

William G. Wilson ●
Executive Vice-President
 Nova, An Alberta Corporation
 Calgary, Alberta
 Age: 51
 Elected to Board: 1982

HONORARY DIRECTORS

Alistair M. Campbell
Keith Campbell
George F.S. Clarke
Charles P. Fell
Harold Husband
John F. McDougall

● **Investment Committee**

The Investment Committee
 reviews investment policies and
 decisions for both own and trust
 funds; reviews or approves all
 investments between \$10
 million and \$50 million; and
 recommends investments
 exceeding the latter amount to
 the Board. No member of this
 committee may vote on any
 proposed investment involving
 a substantial shareholder with
 which he or she is affiliated.

Members

M.A. Cornelissen,
 M.M. Hawkrigg, E.W. King,
 A.T. Lambert,*
 H.M. MacDougall, J.M. Tory,
 J.C. Wadds, D.G. Waldon,
 M.M. Williams

● **Human Resources and
 Compensation Committee**

The Human Resources and
 Compensation Committee
 reviews the performance,
 development, compensation
 and succession plans of senior
 management.

Members

G.D. Birks, C.J. Clark,
 J.T. Eyton,* J. Fournier,
 M.M. Hawkrigg, G.I. Newman,
 M.E. Southern

*Chairman



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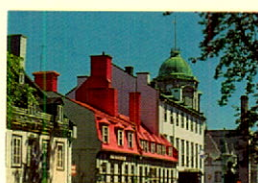
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Corporate Financial Services

André Monette

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Montreal Branch

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J.W. Miller

Manager

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MID-WESTERN REGION

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Region, Personal Financial
Services and Manager,
Winnipeg Branch

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Augustus S. Leach, Jr.
The Hon. Pearl McGonigal
J. Derek Riley
D. Donald Ross
Stewart A. Searle, Jr.

Ontario

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John W. Corbishley

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James A. Crooks
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Saskatchewan

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Wayne M. Pritchard

District Manager, Saskatchewan

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The Hon. Dr. E. William
Barootes
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R. John Rushford, Q.C.
Jack J. Sharp

Saskatoon

Midtown Plaza
S7K 1J9
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Leonard C. Armstrong

Manager

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ALBERTA REGION

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Saskatchewan and Manitoba
Region, Corporate Financial
Services

David S. Mellor

Vice-President, Alberta Region,
Personal Financial Services and
Manager, Calgary Branch

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Alastair H. Ross
Margaret E. Southern
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R. Perry Lund

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Walter R. Ross, C.M.
Logan Tait
Ralph A. Thrall, Jr.

PACIFIC REGION

Vancouver

Royal Trust Tower
Bentall Centre
505 Burrard Street
V7X 1R5
(604) 662-2222

Douglas J. Dersch

Vice-President, Pacific Region,
Corporate Financial Services

John A. Burleton

Vice-President, Pacific Region,
Personal Financial Services and
Manager, Vancouver Branch

Advisory Board:

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A. John Ellis, O.C.
Ian F. Greenwood
Mark H. Gunther
The Hon. John L. Nichol, O.C.

Kelowna

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Don A. McIntosh

Manager

Advisory Board:

Rendina Hamilton, Q.C.
Dr. Harold R. Henderson
John D. Hindle
J. Bruce Smith
Richard Stewart

Victoria

1205 Government Street
V8W 1Y5
(604) 388-4311

Alan G. Aldous

Manager

Advisory Board:

David Angus
S. Joseph Cunliffe, C.M.
Harold Husband
Hector C. Stone

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 Fraser M. Fell, Q.C.
 Conrad F. Harrington, C.M., C.D.
 Melvin M. Hawkrigg
 Allen T. Lambert, O.C.
 Gilbert T. Newman
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The Royal Trust Company

Maison Trust Royal
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 Montreal, Quebec H3B 1S6
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 Fax: (514) 876-7604
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The Royal Trust Company Mortgage Corporation

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Directors
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Directors
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 Jurat Geoffrey H. Hamon
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 Francis Peree
 Nigel J. Robson
 D. Murray Wallace

The Royal Trust Company of Canada (C.I.) Limited

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 The Right Honourable
 The Earl of Cromer, K.G.,
 G.C.M.G., M.B.E., PC.

Managing Director

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Directors
 Douglas J.E. Clothier
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 Henri L. Dubras
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 Jurat Geoffrey H. Hamon
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