Market Commentary

PORTLAND INVESTMENT COUNSEL™

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With the deliberately stringent stress tests conducted in the U.S.A. and U.K. now in the rearview mirror and with government injected capital ('TARP' in the case of U.S. banks) in the process of being withdrawn, we thought it would be helpful to compare how several banks which populate our closed-end Funds have weathered the global recession and resultant credit losses to date and have further strengthened their levels of capital adequacy beyond those levels which were achieved during the earlier part of the year, when capital raisings were being mandated. Pre the credit crisis, regulators required the Tier 1 ratio to be at least 4% (Tier 1 capital excludes goodwill).

Core Tier 1 ratio by comparison to Tier 1, excludes preferred shares (reflecting the fact that common equity is the first element of the capital structure to absorb losses offering protection to more senior parts of the capital structure) with the denominator being the bank's risk weighted assets. The U.S. stress tests require the Tier 1 ratio to be at least 6% and the Core Tier 1 ratio at least 4%... however following the G-20 meeting we believe regulators across the world will be looking for the Tier 1 ratio to be at least around 8%-9%.

As you can see from the table below we believe the banks listed now have Tier 1 capital ratios considerably stronger than currently required and are already well placed to meet the anticipated 8%-9% threshold. During the last 6 months, all of the banks listed below have made progress in weaning away from government support; save for 3 banks: Wells Fargo is still receiving TARP funding as it remains doggedly determined to date to earn out sufficient profits over the next 6-12 months to avoid a dilutive capital raising – with its progress to date testimony to its earnings power. Lloyds

Holdings	1Q09 Tier 1	1Q09 Estimated Core Tier 1	3Q09 Tier 1	3Q09 Estimated Core Tier 1
ANZ	9.1%	6.0%	10.6%	N/A
Banco Santander S.A.	8.9%	7.3%	9.8%	8.3%
Bank of New York Mellon	9.3%	8.0%	11.3%	9.8%
Barclays PLC	10.3%	7.2%	11.8%	8.9%
BBVA	7.8%	6.4%	9.4%	8.0%
BNP Paribas S.A.	8.8%	6.8%	10.0%	7.8%
Credit Agricole S.A.	9.1%	8.0%	9.7%	9.1%
Credit Suisse Group	14.1%	8.4%	15.5%	9.4%
Deutsche Bank	10.2%	7.1%	11.6%	8.0%
HSBC Holdings PLC	9.9%	8.6%	10.3%	9.0%
JPMorgan Chase & Co.	9.3%	7.3%	10.2%	8.2%
Lloyds Banking Group PLC	18.7%	14.5%	10.9%	8.6%
National Australia Bank Limited	7.3%	5.6%	9.0%	N/A
Nordea	10.8%	10.0%	10.5%	9.4%
Northern Trust	9.8%	9.3%	13.2%	12.7%
Royal Bank of Canada	11.4%	7.9%	12.9%	9.1%
Royal Bank of Scotland Group PLC	15.4%*	12.2%*	14.5%	11.1%
Standard Chartered PLC	10.3%	8.0%	10.5%	7.6%
State Street	16.0%	14.0%	15.6%	13.6%
Toronto Dominion Bank	10.9%	8.2%	11.2%	8.4%
UBS AG	10.5%	7.8%	13.7%	10.6%
Unicredito S.p.A.	7.3%	6.4%	9.2%**	8.4%**
Wells Fargo & Company	8.7%	4.0%	10.6%	5.2%

**includes participation in Government Asset Protection Scheme*

***post 1Q10 Rights*

Bank has been able to avoid the U.K. Government's Asset Protection Scheme via a forthcoming rights issue and so contain Government ownership to 43% whereas the Royal Bank of Scotland has not.

From their position of increasing relative strength several of the listed banks have initiated acquisitions or we think are preparing to do so as regulators' actions are requiring businesses of other banks and insurance companies (like ING, Dexia, AIG, Citibank, Bank of America, Royal Bank of Scotland and Lloyds) to be divested over the next few years. The number of small U.S. banks failing continues to grow (123 year-to-date) but their franchises are being acquired/absorbed as convergence of the financial services industry accelerates – favouring we believe the stronger, better managed banks. Finally another sign of management confidence/strength is that as promised Barclays has returned to paying a dividend.

The amended Federal Reserve Stats for large domestically chartered commercial banks in the US shows that the quantum of net unrealized losses on available for sale securities peaked in December at -$87.4 billion … improving to -$21.7 billion by end September and as at November 4 was reported as -$8.9 billion – the pricing of these securities will in our view become increasingly volatile as liquidity now drives more normalized prices but the positive trend is much welcomed. The writing back up of these assets feeds through to the book value and endorses the strategy of many large financial services companies to hold rather than trade such assets.

The VIX (volatility index) is 23.4, below the levels experienced last August/September (and well off the highs of 70-80 witnessed late September/October) and while, by its characteristics, it will remain volatile, it is we believe further evidence of markets reacclimatizing to risk – typically we believe a VIX level below 25 augurs well for quality equities. And credit default swaps across most leading financial companies are trading in a gradually improving range of 1%-2% (compared to 5%-7% late September/early October).

We believe the largest impediment to a sustainable rally remains government intervention, not the global economy. We believe that as signs of stabilization gain traction the market will become more discerning, favouring quality franchises rather than the apparent recovery of weaker franchises. Quality is likely to embrace those franchises with attractive market footprints, stabilizing returns on equity and credit, efficient operating platforms and robust net margins based on solid core franchises.

Spreads on the closed-end funds are narrowing but remain wide and so in our view are very attractively priced to purchase.

At the close of business on Fridays and at the end of each month we publish the Net Asset Values of our funds onto our Portland website at http://www.portlandinvestmentcounsel.com/Funds/WeeklyPricing.aspx.

The details published last Friday are replicated here below from which you can see we also highlight whether the funds share prices are trading at a premium or discount to their respective Net Asset Value.

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