News Highlights on Current Holdings

Financial Services Companies

Barclays Bank has agreed to buy ING Direct UK, taking on its £10.9bn deposits and £5.6bn mortgage book. The deal will involve the transfer of 750 ING Direct staff and 1.5 million customers to Barclays. Barclays said it would eventually integrate the ING customers into its existing UK retail business. The ING mortgage book is reported to have a 50% loan to value ratio and will help reduce Barclays' loan to deposit ratio to 104%. Moody's Investors Service said in its latest Credit Outlook that Barclays purchase of deposits and mortgages from ING Direct UK is credit positive. Moody's says it will increase Barclays' deposit base and reduce reliance on wholesale funding. The deal will strengthen Barclays' U.K. retail deposit-taking and mortgage franchises.

Barclays Bank Australia has appointed prominent business figure Peter Young to the newly created role of chairman to improve its relationships with corporate Australia. Mr Young said he was pleased to be brought onboard. "I'll be working closely with the management team here to assist them in their discussions with various existing clients." (Source AFR).

Citigroup today reported 3Q 202 EPS of $1.06 excluding Counterparty Value/Debt Value Adjustments(CVA/DVA) , loss on MSSB and a tax benefit. Consensus was $0.96. The beat was driven by stronger than expected revenues, up 3% sequentially to $19.4bn on back of better than expected capital markets revenues. GAAP EPS was $0.15 and included a $4.7bn ($2.9bn after-tax; $0.94) charge from its previously announced sale of a 14% interest and 'Other than temporary income' of the carrying value of its remaining 35% interest in the Morgan Stanley Smith Barney JV; a $776mn ($0.16) hit from CVA/DVA resulting from the improvement in its credit spreads; and an unexpected $582mn ($0.19) tax benefit related to the resolution of certain tax audit items. Results also included $529mn of legal and related costs and $95mn in repositioning charges. Its mortgage repurchase expense was just $200mn. Citigroup revenues totaled $19.4bn, excluding CVA/DVA and the loss on MSSB, increased 3% on both a y-o-y and sequential quarter basis. Expenses declined 2% y-o-y and rose 1% from 2Q12. Citi in total had positive operating leverage, while for the 3rd straight quarter it had positive operating leverage in each of its 3 core businesses. Results appeared to benefit from ongoing expense control and reengineering initiatives. Net interest income rose 3%. Average earning assets were relatively stable though loans were up 1% and securities increased 4%. Its net interest margin expanded 5bps to 2.86% aided by a 17bp decline in its cost of long-term debt. Deposits gained 3% from 2Q12.

Securities & Banking revenues (ex. CVA/DVA) rose 15% y-o-y and gained 7% from 2Q12. Fixed Income Currency and Commodities trading jumped 31% from the prior quarter to $3.7bn with strength in all major products, while equity trading declined 7% to $510mn due to lower market volumes. Investment banking fees increased 8% to $926mn as an increase in debt underwriting (+21%) was enough to compensate for declines in equity underwriting (-15%) and advisory (-3%). Core lending revenues were $445mn down 2%, while it recorded $252mn of hedge losses compared to a $156mn gain in the prior quarter.

Non-accrual assets rose 11% to $12.7bn predominantly reflecting the new OCC guidance (See comments in JP Morgan and Wells Fargo below) . Excluding this $1.5bn impact, its estimated non-accrual assets declined 3%. Loans losses increased 11% to $4.0bn. Excluding the OCC impact, they declined 6%. Its cost of credit was $2.7bn, down from $2.8bn in 2Q12. Loan loss reserve releases totaled $1.5bn. Reserve releases in Citicorp were $696mn predominantly reflecting lower releases in North America Global Commercial Banking. Citi's consolidated reserves came in at $25.9bn, lower than our $26.8bn estimate - taking consolidated reserves down to 4.0% of loans. That said, we think there remains plenty of room from credit leverage on a go-forward basis. Excluding the impact of a $600mn reserve release related to new OCC guidance on the treatment of mortgage loans where the borrower has gone through Chapter 7, reserve release in Holdings was $213mn vs. $269mn quarter ago. Given strengthening US housing trends and consistent improvement in C's delinquency ratios, we believe further releases should be expected.

Finally, Citi's Basel III Tier 1 common capital ratio was an improved 8.6%, up from 7.9% in 2Q 2012, while tangible book increased 2% to $52.70 (so trading at about 0.7x). The stronger-than-expected capital build significantly supports our assertion to C could begin to return capital more meaningfully next year, post the 2013 stress test.

ING - announced the sale of their Malaysian insurance operations to AIA. ING is expected to receive a total consideration of approximately €1.3bn which is about 16.9x 2011 P/E and 2.2x 1st Half 2012 book value of c€600m. ING expects the sale to deliver a net gain of approximately €780m and is expected to complete in the first quarter of 2013. The details represents more progress in meeting the EC restructuring deadline.

JPMorgan CEO Jamie Dimon said he did the US a favor by buying Bear Stearns in 2008 and he might not go through with it again because of how much the deal ultimately cost. "Would I have done Bear Stearns again knowing what I know today?" Dimon asked. "It's really close. Knowing what I know today, if they called me again to do something again like that, I couldn't do it." (Source: Bloomberg)

JPMoprgan reported 3Q 2012 EPS of $1.40, a record. Consensus was $1.21. Core EPS was around $1.34. JPM exceeded consensus for the 17th time in the past 18 quarters (4Q11 the exception) aided by strength in Investment Banking (favorable Fixed Income Markets results despite modest CIO-related loss and higher Investment Banking fees) and mortgage (higher originations and margins), while core asset quality continued to improve. Lower loan balances and net interest margin contraction restrained further improvement. During 3Q, the CIO effectively closed out the index credit derivative positions that were retained following the transfer of the synthetic credit portfolio to the Investment Bank on July 2. Principal transactions in CIO included $449mn of losses on this portfolio reflecting credit spread tightening during the quarter. This was essentially offset by $459mn of AFS securities gains.

Basel I Tier 1 common was $135bn or 10.4%, up 0.5% from 2Q12. Its estimated Basel III Tier 1 common ratio was 8.4%, up from 7.9%. It believes the impact of run-off and mitigates through 2014% will add roughly 1%. It posted a 16% Return on tangible common equity.

Revenues rose 6% y-o-y and increased 13% from 2Q12. Net interest income declined 2% from 2Q12 as average earning assets decreased 1%. Its net interest margin declined 4bps to 2.43%. Its core NIM decreased 8bps to 2.92% due to faster mortgage prepayments; limited reinvestment opportunities; lower rates impacting floating rate assets, with partial offset in deposit costs; and increase in deposits with central banks. Expenses increased 3%, with compensation expense up 1%.

Its Investment Bank (excluding Debt Value Adjustment) Fixed Income and Equity Markets combined revenue was $4.8bn, up 24% y-o-y, driven by solid client revenue and broad-based strength across the Fixed Income businesses. Mortgage production revenue (ex. repurchase costs) rose 14% to a record $1.8bn. These results reflected wider margins, driven by favorable market conditions, and higher volumes due to historically low interest rates and the HARP. Non Performing Assets were $12.5bn, up from $11.4bn in 2Q12. Before the impact of reporting changes, NPAs would have been $9.5bn, down from $9.9bn. The current quarter included $1.7bn of loans which were reported as nonaccrual in accordance with the regulatory guidance requiring loans discharged under Chapter 7 bankruptcy and not reaffirmed by the borrower to be charged off to their collateral value and to be considered nonaccrual, regardless of their delinquency status. Nonaccrual loans also reflected the effect of regulatory guidance implemented in 1Q12 when it began reporting performing junior liens that are subordinate to senior liens that are 90 days or more past due, as nonaccrual loans. Such junior liens were $1.3bn in the current quarter and $1.5bn in the prior quarter. It reserve/loan ratio declined 13bps to 2.61% with consumer down 22bps to 3.57% and wholesale stable at 1.46%.

Prudential plc - Are set to keep their headquarters in London following the EU decision to delay Solvency II legislation until 2016 according to the Sunday Telegraph. Prudential had undertaken a domicile review and as recently as August had suggested moving their HQ to

Hong Kong.

Royal Bank of Canada announced its intention last week to repurchase up to 30 million of its common shares, representing 2.1% of shares outstanding. Purchases may commence on November 1, 2012 and may continue until October 31, 2013. The repurchases are subject to the approval of OSFI and the Toronto Stock Exchange

Royal Bank of Scotland (RBS) – in believed to have agreed to sell two buildings in Frankfurt and Berlin to Axa Investment Managers in the biggest German commercial real estate transaction this year. The buildings are valued at about €790m.

RBS/Santander - Banco Santander pulled out of an agreement to buy 316 branches from RBS, valued at about £1.7bn. RBS will seek a new way to dispose of the outlets, a step that was required following the lender's taxpayer-funded bailout, CEO Stephen Hester said in a statement. Virgin Money and private equity fund JC Flowers are set to go head to head for the branches according to Bloomberg. Santander, said in a statement that it withdrew from the transaction after delays in its completion. Santander will save ~30bps of Core Tier 1 capital in 2013 from the cancellation of the £1.65bn acquisition of the RBS 318 branch network, but on the other hand will lose the net earnings contribution from the acquisition. Also, RBS Chairman Philip Hampton said yesterday in Tokyo over the week-end that the climate for state aid is "a lot more flexible" now and may allow the Scottish bank to hold on to the branches. (Source : Bloomberg).

Santander - last week confirmed the final conversion on Oct 4th of 200.3 million shares from the €2.6bn remaining of the 2007 Mandatory Convertible Note (MCN). The shares were converted at €12.96/share as expected and will be listed in Oct 11th and start trading in Oct 12th. These new shares add 2% to the share count and its expected there will be limited flow back, considering that there have already been 4 monthly voluntary conversion windows so those investors willing to get cash selling the shares have already had the opportunity to do so. This hopefully ends the sad story of the €7bn 2007 MCN that ended up converted at ~€13/share with the stock price at ~€6/share or ~€8.6/share if we capitalised paid coupons. The bank still faces a few law suits in the courts but the individual cases are immaterial and there is no class action going on.

Wells Fargo : reported 3Q 2012 EPS of $0.88, a record. Consensus was $0.87. Operating revenues rose 11% y-o-y and were relatively stable with 2Q12. It posted an Return on Equity of 13.38% (+0.52%). It repurchased 17mn shares in 3Q12 and an additional 9mn shares through a forward repurchase transaction expected to settle in 4Q12. Tier 1 common equity under Basel I increased $4.1bn to $105.8bn, with Tier 1 common equity ratio of 10.06% (10.08% in 2Q). Its estimated Tier 1 common equity ratio under Basel III was 8.02% (vs.7.78%). Net unrealized securities gains were $12.4bn (+$2.9bn). Net interest income dropped 4% from 2Q12. Average earning assets rose 2%. Its core portfolio rose 2% with commercial flat and consumer up 4% aided by mortgage. Average core deposits rose 2%. Its non-strategic/liquidating portfolios declined by $4.5bn. Its net interest margin dropped 0.25% from 2Q12 to 3.66%. It had guided to roughly a 0.17% decline at its mid-September conference and this miss probably reflects the market's disappointment to its results announcement last Friday. The decline driven by its cautious stance on securities portfolio growth in the current low rate environment and deposit growth of $23bn which caused cash and short term investments to increase, thereby diluting the margin and the impact of lower rates, both in terms of run-off and new activity (but 10.4% sequential annualized deposit growth is ultimately a positive which we'd expect the market to appreciate in due course). Fee income was relatively stable. Operating expenses were stable from 2Q12. It posted a 57.1% efficiency ratio, in the middle of its 57-59% target. Mortgage banking fee income was $2.8bn, down $86mn from 2Q12. During the quarter, it retained on balance sheet 1-4 family conforming first mortgage loans, forgoing $200mn of fee revenue. Its mortgage repurchase provision was $462mn (-$207mn from 2Q). Net MSRs results were $142mn. Its MSR ratio was a record low 0.63%. Its unclosed pipeline at 3Q12 was $97bn, down 5%. Reported credit metrics were affected by the implementation in third quarter of the

OCC guidance, which affected consumer loans where the borrower's obligation has been discharged in bankruptcy and the borrower has not reaffirmed the debt. Non Performing Loans were therefore higher, ending the quarter at $25.3bn, compared with $24.9bn in 2Q12. Its loan loss provision was $767mn due to $567mn increase in Non Conforming Obligations from the implementation of the OCC guidance (fully covered by loan loss reserves) and $200mn reserve release due to continued strong underlying credit performance (vs. $400mn in 2Q). Its reserve/loan ratio therefore declined 14bps to 2.27%.

UK Banks - The Financial Times reported last week that capital and liquidity rules for the biggest UK banks have been quietly relaxed in an effort to stimulate lending, a move that puts Britain at the forefront of a global experiment to use bank regulation to moderate the economic cycle. The Financial Services Authority (FSA) recently informed banks that they will not be required to hold any extra capital against new UK loans they make that qualify for a "funding for lending" scheme. The FSA are also thought to have told the UK banks that they will relax the timetable to achieve a 10% Core Tier 1 ratio by the end of next year - instead of explicitly meeting the 10% ratio individual banks are to be set a numerical capital target. The absolute number would mean banks cannot meet the regulatory targets by cutting lending & in theory the flexibility on the ratio means more room to expand as demand grows.

Dividend Payers

Chemring – Carlyle Group which had expressed a highly preliminary interest in acquiring Chemring on August 17th, received a second extension of its 'put up or shut up' deadline by the UK Takeover Panel. Carlyle now has until November 9th to either bid for Chemring or walk away. During the negotiations, Chemring issued a profit warning, citing errors in a new resource planning system, which delayed the talks as Carlyle considered the new numbers. Although it is taking longer than expected, we see the new extension as an indication that the two parties are interested in completing the deal.

Roche – Genentech, a division of Roche, announced that the US Food and Drug Administration (FDA) expanded the approved indication for Acterma (tocilizumab) for the treatment of adults with moderately to severely active rheumatoid arthritis. Acterma is seen as having the potential to become a major treatment option for patients with rheumatoid arthritis.

Toyota – said it would recall more than 7.4 million vehicles worldwide, including some 2.47 in US, to fix a faulty power window switch that is a potential fire hazard. The recall will include some Yaris and Corolla models, with repairs taking about 40 minutes, which analysts estimate would amount to around ¥10Bn ($128mm) at the group level. No accidents, injuries or deaths have been reported as a result of the problem, though there is a possibility the malfunctioning switches could emit smoke. The recall, though relatively expensive, should not, in our view, have a meaningful reputational impact.

Vivendi – Le Figaro reported on Saturday that SFR, a wholly owned telecom division of Vivendi, is in talks with unlisted company Numericable over a possible tie-up. According to the same source, Vivendi had hired BHP Paribas and Goldman Sachs, while Numericable was being advised by Morgan Stanley and JPMorgan. SFR has around 20 million mobile subscribers and around 5 million ADSL internet subscribers, while Numericable has around 500,000 users of its ultra high-speed internet cable. Le Figaro estimated SFR is worth around €15Bn versus just over €3Bn for Numericable. A merger with Numericable could also have the possible advantage of €1Bn of synergies and a chance to offer triple play services to consumers.

Economic Activity, Consumer and Business Conditions

US – the US consumer sector continues to show signs of life, albeit on the back of the wealth effect of slightly improved housing economics and an increase in consumer credit, as real wage growth continues to disappoint. The consumer sentiment, as measured by the University of Michigan, reached 83.1 index points in October, improving to levels not seen since late 2007, with both the 'current conditions' and 'expectations' components contributing to the positive result. The retail sales numbers for September also featured stronger growth than expected, up 1.1% both at the headline level and for the core reading (which excludes the impact of auto sales). The growth was broad based with most retail categories benefiting in the month, led by sales of electronics (eg iPhone 5).

The US foreign trade deficit widened in August, slightly more than expected, to $44.2Bn, as exports fell more than imports during the month.

US Housing : Jamie Dimon said the US housing market had "turned the corner" as JPMorgan and Wells Fargo, the two biggest US banks by market value, kicked off Wall Street's earnings season last Friday with record profits boosted by a surge in mortgage demand. JPMorgan's CEO made the comments as he revealed a 34% rise in third-quarter net income to US$5.7bn. He said the improving economy meant that interest rates would "probably" rise "sometime in 2013" even though the Fed has indicated it will keep rates near zero for three years.

Canada – Canada's visible goods trade balance improved to a $1.32Bn deficit in August, better than the expected $1.90Bn negative balance as imports fell more than exports this time. The decline in exports is due to a reduction of exports to countries other than US.

The New Housing Price Index for August was up by 0.2%, as expected, on top of July's 0.1% increase, showing that the recent housing market cool-off, more evident in the sales of existing homes, has not yet reached the new homes market.

The IMF cut its global growth forecasts as the euro area's debt crisis intensifies and warned of even slower expansion unless officials in the U.S. and Europe address threats to their economies. The world economy will grow 3.3 % this year, the slowest since the 2009 recession, and 3.6 % next year, compared with July predictions of 3.5 % in 2012 and 3.9 % in 2013. The IMF now sees "alarmingly high" risks of a steeper slowdown, with a one-in-six chance of growth slipping below 2 %. (Source: Reuters)

Spain - S&P last week downgraded Spain two notches to BBB- from BBB+ citing mounting economic and political risks as the government considers a second bailout. This puts Spain at the lowest level of 'investment grade' status. The long-term rating has been given a negative outlook which "reflects our view of the significant risks to Spain's economic growth and budgetary performance, and the lack of a clear direction in euro-zone policy," S&P said. "The deepening economic recession is limiting the Spanish government's policy options." The downgrade is in line with Moody's earlier downgrade.

Financial Conditions

US – UK: US Federal Reserve policymakers remain determined to flatten the yield curve as much as possible, having indicated they expect 'exceptionally low levels of interest rates through 2015 which is still an "exceptionally low level" in the grand scheme of things. Fed Reserve Chairman Ben Bernanke has indicated 1% or less would be considered exceptionally low. The extension of the US 'twist' (whereby the Federal Reserve is selling 3 year and less maturities to buy 6 years and longer) means all parts of the yield curve will benefit from a near-zero anchor until mid to late 2014. The U.S. 2 year/10 year treasury spread is now 1.42% and the U.K.'s 2 year/10 year treasury spread is 1.53% - meaning investment banks can no longer profit from a steep yield curve and instead are seeking operational efficiencies, including job cuts and lower compensation, to maintain acceptable levels of profit, i.e. above their costs of capital. It seems the top tier 8-10 investment banks will continue to command their market and possibly increase their share – as barriers to entry for newcomers have in our view been raised.

Influenced by the US 'twist', the U.S. 30 year mortgage market remains very low at 3.39% - (3.36% early October the lowest rate since the Federal Reserve began tracking rates in 1971), as the Federal Reserve effectively continues to give priority to incentivising home ownership. Existing U.S. housing inventory is at 6.1 months supply of existing houses. So the combined effects of record low mortgage rates, near record high affordability, a more promising economic recovery, job creation, and low prices are finally supporting the housing market with housing inventory well off its peak of 9.4 months and we believe now in a more normal range of 4-7 months. While we still believe it remains premature to consider a recovery in house prices prospects of a measure of stability are likely to increases as a result of the Fed actions – which is welcomed….particularly for those financial services companies holding such assets in their portfolios.

A concern which remains is the extent to which mortgage foreclosures have been properly documented, thereby enabling mortgages to be “put back” to the originating bank and whether bank’s have mis-represented the quality of those assets sold to Freddie Mac and Fannie Mae. Such legal debates are likely to drag on for years but from recent bank investor relations presentations it does seem the rate of “put backs” are now beginning to decline and that litigation reserves have been increased suggesting overall current levels of total provisions should suffice, enabling banks to continue to post increasing earnings per share (as credit improves) over the next 2 years by when we expect more normalized earnings power to have returned. For the larger franchises the quantum of proactive provisioning continues to act as a differentiator of quality which we believe has still to be fully appreciated.

As concerns have swung from commercial real estate and unsecured consumer loans/credit card loans to European sovereign debts the number of small U.S. banks failing continues to grow, albeit at a more moderate pace with 43 in 2012 (compared to 95 in 2011 and 157 in 2010 which was the highest annual tally since 1992). Franchises are being acquired/absorbed as convergence of the financial services industry accelerates – favouring we believe the stronger, better managed banks. Typically banks acquiring collapsed bank franchises from the Federal Deposit Insurance Corporation (FDIC) are paying little or no premium for deposits, assets are purchased at a discount and are covered by loss sharing agreements – so that such deals can be expected to be immediately accretive to earnings per share.

The VIX (volatility index) is 16.14 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

Closed-End Funds

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

The Portland Investment Counsel Inc. 2009 Closed End Annual Reports are now available on the web site. Below you can find the link to access the closed end annual report.

http://www.portlandic.com/Info.aspx?disp=Financial_Reports

At the close of business on Fridays and at the end of each month we publish the Net Asset Values (NAV) of our funds onto our Portland website at http://www.portlandic.com/Funds/WeeklyPricing.aspx. The NAV for the AIC Global Financial Split Corp. can be found on the AIC/Manulife website at http://www.aic.com/EN/PricePerformance/AICClosedEndFunds/Pages/Price.aspx and the Copernican World Financial Infrastructure Trust, Copernican World Banks Split Inc. and the Copernican International Financial Split Corp. can be found on the Copernican website at http://www.copernicancapital.com/Funds/WeeklyPricing.aspx.

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