Citigroup has sold EMI Group's £1.5bn pension fund to the Pension Insurance Corporation, in the UK's largest pension insurance buyout. The deal rids the US bank of one legacy of the ill-fated £4.2bn takeover it backed in 2007.

Citi reported 2Q Earnings per share of $1.25, ex. 9c in Counterparty Value Adjusted/Debt Value Adjusted gains and including a penny of repositioning costs beating consensus $1.18 estimates. The beat to was driven by higher revenues (+24c) and slightly lower provisioning expense (+3c) partially offset by higher expenses (-8c) and a higher tax rate (-9c). Citi surprised to the upside with regards to the reserve release in Holdings ($451mn in provision vs. $747mn in 1Q), a key catalyst for the stock. Securities & Banking drove the beat on the revenue side (+5c) driven by stronger Investment Banking fees ($1.039bn) and equity trading revenues ($942mn). Fixed Income Currency and Commodities trading revenue came in a bit lighter than expected($3.4bn). Within Group Corporate Banking, net income in North America and Asia were essentially in-line, with a miss in Latin America due to a higher provision. Loans 90+ delinquent in Latin America ticked up slightly, up 8bp QoQ to 1.56% while Asia showed improvement with 90+ day Potentially deliquent loans down 5bp QoQ to 0.52%.

Notably, Tangible Book Value per share grew 1% QoQ to $53.10 despite a 16% decline in Any Other comprehensive income. This is important given concerns surrounding the impact to TBV from foreign currency translations that had been discussed as a potential risk to TBV growth this quarter. We will revise our numbers after C's 10am ET call. Street estimates will likely go up after the call, though the big question mark may be on the expense trajectory in Holdings - which came in ~$550mn above our forecast. Maintain Buy rating.

Citi's Basel III tier 1 common ratio was 10% and up 70bp QoQ as the Morgan Stanley Smith Barney sale during the quarter add 0.47% to the Basel III Tier 1 Capital. Citi estimates its leverage ratio at 4.9% vs. 5% required under rules proposed - clearly implying compliance this year, which should set the stage for stronger capital return in 2014. Additionally, the utilization of ~$600mn in Deferred Tax Allowance (vs. $700mn in 1Q) is another positive on the stock as it points towards a gradual recapture of DTA which feeds directly into the bank's capital strength. Notably, Tangible Book Value per share grew 1% QoQ to $53.10 despite a 16% decline in Any Other comprehensive income.

Deutsche Bank will reduce its balance sheet as regulators implement stricter rules on the relation of equity to total assets, Chief Financial Officer Stefan Krause said. Deutsche Bank is "well prepared" to meet a European Union leverage target under higher capital requirements, Krause said in an interview with Boersen-Zeitung published a week last Saturday. "We have to further reduce our balance sheet" and set aside profit, he said in the interview with the German newspaper. (Source : Bloomberg).

ING - Bloomberg reports ING is to sell their South Korean investment management unit to Macquarie subject to certain closing conditions including regulatory approval. ING expects the deal to close in 4Q and doesn't see material impact on group results.

JP Morgan : reported Q 2013 EPS of $1.60 up 32% from $1.21 a year earlier and ahead of consensus expectations of $1.44. The result included a net positive $0.20 per share comprising of reserve releases of $1.4 billion ($0.23 per share after-tax), Counterparty Value Adjustment gains of $355 million ($0.06 per share after-tax) offset by a $550 million expense for additional litigation reserves release ($0.09 per share after-tax). Excluding these items underlying earnings were $1.40 per share.

- Corporate & Investment Banking (CIB) earnings were strong, increasing 19% YOY and 9% Quarter on Quarter. Investment banking fees were strong at $1.7 billion, up 38% Year on Year and 20% QoQ. Sales and trading revenue (excl. Debt Value Adjustment) was strong, up 19% YoY but down 13% QoQ. . Fixed income trading, the largest source of IB revenues, came in at $4.1bn versus expectations around $3.8bn forecast while equity trading revenues came in at $1.3bn.

- Asset Management net income was strong, up 28% YoY and 3% QoQ driven by strong Asset under management net inflows.

- Consumer & Community Banking (CCB) net income was down 6% YOY, although up 19% QOQ. Net interest income was down 1% YOY driven by lower deposit margins and lower loan balances due to portfolio runoff, largely offset by higher deposit balances. Non-interest revenue was down 7% YOY driven by lower mortgage fees and related income. Mortgage originations were up 12% YOY and down 7% QOQ. Credit card sales volumes were up 10% YOY and 11% QOQ. Auto originations were up 17% YOY.

- Commercial Banking net income declined to $621 million, down 8% YOY but up 4% QOQ. The YOY decline was driven by higher Provisions for Credit Losses and higher non-interest expense. Net charge-offs totaled $1.4 billion or 0.78% of total loans compared to $1.7 billion or 0.97% of loans in the previous quarter and $2.3 billion or 1.27% of loans a year earlier. Reserve releases in the quarter totaled $1.4 billion, compared to $1.1 billion last quarter and $2.1 billion a year ago

Firm-wide net interest margin declined to 2.20% from 2.37% in the previous quarter and 2.47% a year earlier. Core Net interest margin also declined to 2.60% from 2.83% last quarter and 3.00% a year ago. Total loans were $706 billion up 0.3% YOY and down 0.3% QOQ. Total deposits ended the quarter at $1.2 trillion, flat sequentially and up 8% YOY.

Reported ROE was 12.8%, compared to 13.2% in the previous quarter and 10.6% a year earlier. Reported ROTCE was 16.8% compared to 17.5% in the previous quarter and 14.5% a year earlier. Operating ROE was 11.3% with operating ROTCE at 14.8%. JPMorgan's Basel III Tier 1 Common Ratio at quarter end increased to 9.3% from 8.9% in the previous quarter. JPM repurchased $23.5 million of shares or 0.6% of outstanding shares in Q2/13 compared to $53.5 million of shares or 1.4% of o/s in the previous quarter. Beginning in Q2/13, the board has authorized JPM to repurchase $6.0 billion of common equity or 3.2% of o/s until Q1/14 and as at Q2/13 has $4.8 billion of repurchases remaining.

Lloyds Bank – The Financial Times last week reported half of the government's stake in Lloyds could be sold to retail investors, with the sell off of 5-10% stake placed with institutional investors at a small discount, as early as September. A second institutional placing early next year, followed by a retail tranche will allow the government to completely exit its 39% stake by the end of 2014. Advisors have been asked to submit their proposals for selling the Lloyds stake and that of RBS by the start of this week.

National Australia Bank : has formed a landmark relationship with China's biggest agricultural group to help farmers tap into the booming nation's growth, in a sign the banks are upping efforts to cash in on Australia's next potential boom in food. (Source : The Australian).

Wells Fargo : reported Q2/2013 EPS a 20% increase to $0.98 versus to $0.82 a year earlier and $0.93 in the previous quarter. EPS was ahead of consensus of $0.93/share but there was a $500 million or $0.06 per share after-tax reserve release for underlying earnings of $0.92 per share.

Net interest margin began to stabilize at 3.46%, down 45 bps y/y and only 2 bps q/q. Credit improvement drove a Loan Loss Reserve release (LLR). Loan Loss Provision expense declined 46.5% Last Quarter to $652 million from $1.2 billion in 1Q13 on better charge-off performance driving an even larger-than-expected LLR release of $500 million. Non Conforming Obligations declined 18.8% LQ to $1.2 billion or 0.58% of average loans from $1.4 billion or 0.72% in 1Q13 and Non Performing Assets declined 8% LQ helping drive the LLR to decline to 2.01% of total loans from 2.09% in 1Q13. Average loans were $800.2 billion, up 4% y/y and flat sequentially. Core loan growth was modest up 1% y/y and 1% q/q. Average deposits during the quarter totaled $1.0 trillion, up 9% y/y and 2% q/q.

- Community Banking earnings were $3.2 billion, up 28% y/y and 11% q/q.

- Mortgage banking results beat expectations on higher originations even as margins compress. Mortgage banking results were ahead of expectations, up slightly to $2.80 billion from $2.79 billion in 1Q13 as better originations and a decline in repurchase reserving offset some Gain-on-sale(Gos) compression. The beat was mostly due to originations that were above expectations at $112 billion in 2Q13 up 2.8% LQ from $109 billion in 1Q13 while GoS margins held in better LQ at 2.21% for a decline to 2.00%. Mortgage repurchase expense declined to $65 million from $309 million in 1Q13 as losses fell to $160 million from $198 million as repurchase demands were flat LQ. The sequential increase in mortgage originations was driven by a 44% increase in purchase originations offsetting the decline in refinancings. Refinancings represented 56% of total origination activity in the quarter compared to 69% in the previous quarter.

- Wholesale Banking earnings were $2.0 billion, up 7% y/y but down 2% q/q. Investment banking fees were strong up 85% y/y and 52% q/q.

Return on equity was 14.0% compared to 12.9% a year ago and 13.6% in the previous quarter. ROTCE was 18.3%, compared to 17.5% a year ago and 17.6% in the previous quarter. Capital build continues and buybacks speed up. Wells Fargo's capital continued to improve as Tier 1 common under Basel III was 8.54% from 8.39% estimate in 1Q13. The company repurchased 26.7 million shares in 2Q13 with 13 million shares for settlement for in 3Q13 up from ~17 million shares in 1Q13. Reported book value declined by $0.01 to $28.26 as rate increases lowered AOCI $3.3 billion LQ.

UK BANKS : Moody's has upgraded its outlook for the UK banking industry to stable from negative. It said the change reflected the country's increasingly stable economic outlook, despite low growth prospects. "Unemployment has not increased as much as in previous recessions, thereby contributing to a stabilisation in banks' asset quality," the statement said. Moody's expects profitability to recover from current low levels. Other reasons given for the more positive outlook were the continued improvement in the banks' capital as a result of new, stricter regulation. (Source : BBC News).

Leverage Ratios: US regulators last week issued a notice of proposed rule that will tighten the minimum leverage ratio for systemically important banks from 3% to 5%. The move had been hinted at by the Fed last week. The rule will apply to bank holding companies with total assets in excess of $700bn, capturing the eight largest US banks. The deposit taking entities of these banks will have to satisfy a 6% minimum leverage ratio. The Fed calculates that, if effective immediately, the rules would require these eight banks to raise $63bn fresh capital, although given the extended implementation timetable (effective 2018) the proposal is "generally in line with current planned capital strengthening initiatives". Two potential impacts for the European banks: 1) it increases pressure on those with large US activities by acting as a new best-standard in the on-going subsidiarisation debate, impacting mostly Deutsche Bank, Barclays and Credit Suisse; 2) it could lead European regulators to follow suit and apply supplementary leverage requirements above and beyond the current 3% Basel 3 minimum.

Dividend Payers

Shoppers Drugmart - Loblaws, Canada's largest food retailer, is seeking to buy Shoppers Drug Mart Corp for C$12.4 billion ($11.9 billion), as it faces increasing competition from Target Corp and Wal-Mart Stores Inc. By acquiring Canada's biggest pharmacy chain, Loblaw said it would create a retail giant with more than C$42 billion in revenue and gain access to the growing small-urban store sector. Big box retailers such as Target and Wal-Mart have been looking for ways to reach more customers in tighter urban locations. Target opened its first 24 Canadian stores in March and plans to have 124 stores in the country by the year-end. "With scale and capability, we will be able to accelerate our momentum and strengthen our position in the increasingly competitive marketplace," Loblaw Executive Chairman Galen Weston said in a statement on Monday. Loblaw's offer of C$61.54 in cash and stock represents a premium of 27% to Shoppers Drug Mart's Friday closing on the Toronto Stock Exchange.

The combination is expected to yield annual cost savings of C$300 million by the third year, Loblaw said. George Weston Ltd, Loblaw's biggest shareholder, will buy an additional C$500 million in Loblaw shares to help finance the deal. George Weston now owns about 62% of Loblaw. Loblaw said it would finance the cash portion of the deal with cash on hand and committed bank loans. Bank of America Merrill Lynch acted as financial adviser to Loblaw.

Given Loblaw's is not a dividend aristocrat the Portland Private Income Fund has divested its stake in Shoppers on this news.

Economic Activity, Consumer and Business Conditions

U.S. consumer confidence took a slight step back in early July, as rising mortgage rates (and plunging refinancings) alongside a slight upturn in gasoline prices more than offset the wealth-enhancing effects of rising equity and house prices. The University of Michigan's index unexpectedly slipped to 83.9 from 84.1. The expectations component dropped sharply, likely on concern that long-term rates might jump even higher. However, the more recent stability in bond markets alongside the record-breaking equity market performance, should weigh toward an upward revision in the final July release. Despite the modest setback, consumer confidence remains near six-year highs (that is, before the credit crisis hit). A steadily improving labor market should cheer consumers in the year ahead.

Greece : German Finance Minister Wolfgang Schaeuble spoke to reporters in Brussels and said Greece made "considerable progress," commenting after a meeting with euro-region colleagues. EC finance chiefs approved €4.8bn aid payment after an agreement on further cuts to the public payroll in Greece removed one of the biggest challenges to the country's €172bn bailout. But Schaeuble warned that "the path for Greece will remain a difficult one. I would warn against any illusions. It is far from the case that all problems are resolved." €3bn of the total €4.8bn will come from the eurozone and €1.8bn from the IMF. He said sub-tranches are required due to Greek program delay with €2.5bn being paid this month and the rest in October.

Italy : Standard & Poor's cut Italian sovereign rating from BBB+ to BBB, leaving outlook on negative citing weak economic backdrop. Negative read-across for Italian banks - although impact likely to be greater on sentiment than substantive funding costs.

France : FITCH cut France's sovereign rating to 'AA+'; OUTLOOK STABLE

Portugal: has been able to form a new coalition government.

Financial Conditions

LIBOR : Britain will hand over supervision of Libor interest rate-setting to stock exchange operator NYSE Euronext, after last year's interbank rate-rigging scandal, the Treasury says. "NYSE Euronext is to be the new Libor administrator," the Treasury said in a statement last Tuesday, after industry body the British

Bankers' Association was forced to relinquish its role following the Libor crisis.

Greece is ending the short selling ban on Greek bank stocks from Monday, July 15. Greek bank stocks have been exceptionally volatile (eg. National Bank of Greece shares tripled from April to May, fell -80%, and have risen +30% in past week) as the recent rights offerings have included warrants.

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 until the unemployment rate falls below 6.5% (June 7.6%) which is likely to be through 2014. Fed Reserve Chairman, Ben Bernanke has indicated 1% or less would be considered exceptionally low. In September 2012, the Fed announced it would buy $40 bn per month of agency mortgage-backed securities and in December 2012 that it would also buy $45 bn per month of treasuries (4 year maturity and above) which means all parts of the yield curve will benefit from a near-zero anchor until late 2014. The U.S. 2 year/10 year treasury spread is now 2.21% and the U.K.'s 2 year/10 year treasury spread is 1.97 % - 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 possibility of the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has recently increased at 4.51% - (3.31%, end of November 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 4.7 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.

The VIX (volatility index) is 13.89 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

Source: Thomson Reuters, Bloomberg, Company reports

Certain statements included in this document constitute forward-looking statements, including those identified by the expressions “anticipate,” “believe,” “plan,” “estimate,” “expect,” “intend” and similar expressions to the extent they relate to the Fund. The forward-looking statements are not historical facts, but reflect the Portfolio Management team’s current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. The Portfolio Management team has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise. PORTLAND INVESTMENT COUNSEL and the Clock Tower Design are registered trademarks of Portland Holdings Inc.

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